What happens when it all goes wrong? A study into the impacts of personal financial shocks

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Declaration

I certify that this thesis is entirely my own work. All sources used in the preparation of this thesis have been acknowledged in the usual manner.

Signed ....

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Plans fail for lack of counsel, but with many advisers they succeed. Proverbs 15:22

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I lift up my eyes to the mountains – where does my help come from?
My help comes from the LORD, the maker of heaven and earth.
Psalm 121

Abstract

This thesis examines the impact on individuals who suffer from significant financial loss. It also highlights broader environmental issues relating to financial provision for individuals, particularly in retirement. Such issues include regulation, financial literacy, the significant choice available, and the need for professional financial advice. These are particularly significant in the Australian context where financial self-sufficiency is promoted as a desired option in retirement.

The collapse of Queensland-based Storm Financial is used as a case study to investigate these matters. A qualitative approach was taken with elements of grounded theory and narrative inquiry utilised when engaging with the available data. Available data from a 2009 Parliamentary Inquiry includes 823 pages of public hearing transcripts and 2879 pages of written submissions. Interviews with 15 different parties were also carried out, giving rise to 33 hours of recorded conversation. To mitigate issues of researcher and participant bias and a reliance on qualitative interpretation as the primary tool of analysis, various procedures including triangulation and member checking were adopted.

It is apparent that sudden and significant financial loss is devastating. An individual's emotional wellbeing is a primary casualty, and one's mental health is also vulnerable. An individual's social world is also impacted, including relationships with family and friends, how one engages in community activities, and the ability to partake in familial and cultural roles. Financial victims also perceive a sense of judgement from society at large about their losses.

A loss of trust may be the epitome of financial loss. Any financial promise requires trust in institutions, professional service providers, government via licensing and regulation, and others including oneself. Trust in all of these entities is impacted when loss occurs, and is highly dependent on not just the size but also the circumstances of those losses. The loss of trust and the loss of financial means leads in turn to a lack of control over one's life. Many

of these impacts are reflected in other traumatic circumstances, and some are seen to be particularly exacerbated in the specific case of Storm.

These impacts demonstrate that vulnerability exists when encouraging self-sufficiency in retirement. Greater individualisation in financial provision introduces risks that current regulation may not be equipped to mitigate, particularly in the areas of licensing and disclosure. Information asymmetry between informed and non-informed participants exacerbates these risks. This highlights the importance of ethical disposition when dealing with financial affairs.

The current retirement 'pillars' of the age pension, superannuation and other savings describe 'mechanisms' of income, but an alternative pillared system of government, other institutions, and oneself is offered to highlight the underlying sources of trust.

Storm's collapse highlights that money matters but not for its own sake – it is the subsequent loss of control and options that is tangibly impacted. Significant financial loss is therefore anything but trivial, and a strong dependence of overall wellbeing on financial wellbeing is highlighted. Any system which allows unnecessary risks upon the attainment of such financial wellbeing for individuals should therefore be subjected to critical scrutiny.

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Chapter 1: Introduction

1.1 Overview

Academic interest in personal financial planning and the financial services industry is a growing but relatively understudied field. Significant gaps that exist include the incorporation of actual decision making abilities and actions of individuals in the financial realm, examining how risk can be presented and understood in real rather than hypothetical settings, and in particular, studies into the costs of mistakes and significant losses at an individual level. Events in recent years such as significant volatility in investment markets, and a growing push for self-sufficiency in financial provision in the Australian context (and beyond), suggests that the costs of major financial losses at an individual level are not understood well enough.

As such, in the following subsections we outline our motivation for this thesis and the resulting key research goals. We then present an overview of the overall approach in terms of data and methodology, an overview of the findings, and an overview of the structure of this thesis.

1.1.1 Motivation

It is not a new observation that various financial and economic models do not yet capture (or are perhaps not even capable of capturing) the actual decision making abilities and actions of individuals, nor the impact in real terms of choices made at that individual level. For example, in the context of drawing an income in retirement, a significant gap exists between real-life behaviour and that implied by economic models, with a notable lack of psychological or behavioural biases being part of any economics model in this area (MacDonald et al. 2011)[1]. Others further claim that consumer finance itself is a 'vastly understudied' field (for example, Morrison 2009).

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[1] MacDonald et al. (2011) add that this is a "well acknowledged" weakness among researchers in this area.

In particular, an unresolved issue within household financial behaviour is the cost of mistakes, with few studies in this area (Poterba 2008). This is possibly due to academic and media preferences to cover corporate collapses at the level of the corporate entity, with some attention given to the impact on high profile persons associated with any collapse but little to the significant financial hardship suffered by many others (Morrison 2009). Some studies have considered the impact of wealth shocks on health, by looking at quantifiable and 'high frequency' health measures such as changes in sleep patterns and blood pressure (highlighted by Banks 2010). However, these generally only consider the impact of small wealth shocks, and do not generally consider costs other than the more obvious health and financial stresses, nor the more involved nuances between such impacts. It is sufficient to say here that research specifically looking at those who suffer from major investment company related collapses is, at this stage, minimal (Morrison 2009).

1.1.2 Research Questions

As such, we are motivated to consider what the impacts of significant financial shocks are on those who suffer them. In particular, a broad question shapes this investigation:

- What are the impacts on people when they experience a significant financial shock?

We postulate that such an investigation might also yield insights about the wider role of government, the financial services industry, and even societal structures at large, that provide for the wellbeing of individuals (financial or otherwise). A secondary goal is therefore to be able to provide informed and evidential commentary on the nature of the Australian system of financial provision for individuals, particularly in the context of provision in retirement.

1.2 Overview of approach

Storm Financial was a Queensland-based financial planning business which collapsed suddenly in late 2008. Unfortunately for investors with Storm, their circumstances provide an informative case study for insights into the main research question. This offers a point of difference with most existing literature on many aspects of the financial services industry, which circle around issues of financial provision in comparatively benign contexts[2]. As such, a case study approach within a qualitative framework offers the opportunity to discover useful insights about the complexities associated with significant financial losses.

As each qualitative study is unique, this necessitates the need for an approach which although systematic and orderly, is necessarily also unique. The approach adopted utilises elements of grounded theory and narrative inquiry, which we find of particular value given the volume and variety of data available. These approaches do not start from an explicit theoretical viewpoint, but rather they allow us to observe and build on themes as they emerge over the course of the research.

1.2.1 Data

A wealth of qualitative data and information exists in the public domain with respect to Storm's collapse, including extensive industry and media commentary, and data associated with a Parliamentary Inquiry into Storm and other similar collapses. The main publicly available data consists of 823 pages of written transcripts, arising from nine public hearings involving Inquiry members and 106 separate individuals (representing 40 distinct entities such as banks, financial planning businesses, government entities, professional associations and individuals including investors), and 2879 pages of written submissions from 356 non-confidential submissions to the Inquiry (including 168 from Storm investors).

Also arising from Storm was the formation of a collective group of impacted investors called the Storm Investors Consumer Action Group (SICAG), and this group was contacted to source ex-Storm investors for interviews. As a result, fifteen different participants (a 'participant' is either an individual or a couple) were interviewed including thirteen ex-investors and two ex-Storm advisers. Three of the fifteen participated in one interview, and twelve participated in two interviews some 12-15 months apart, giving rise to 27 interviews and 33 hours of recorded conversation altogether.

[2] To name but a few phrases, many studies relating to the financial services industry and the services it provides are couched in terms of 'retirement planning', 'insurance needs', 'wealth creation', 'utility maximisation', 'savings choices', 'investment preferences', 'the value of advice', and so on. Furthermore, most surveys/studies of financial 'wellbeing' are not based on circumstances involving traumatic episodes.

A variety of what we term 'other correspondence' has also been received in the course of this research, and this provides a further and highly insightful data source. Additionally, the consulting firm AEC Group Ltd conducted surveys of Storm investors soon after its collapse, and this together with our own observations adds to the breadth and volume of data. A summary of the major data sources and what each source covers in terms of an investor's experience with Storm over time, is given below.

Table 1: Summary of data sources

Data Source	Time period that data source can relate to			
	Investing with Storm	Time of Storm's collapse	Up to six months following collapse	3-4 years after collapse
Submissions to Inquiry	✓	✓	✓	
Hearings of Inquiry	✓	✓	✓	
Interviews	✓	✓	✓	✓
Observations				✓
Other correspondence	✓	✓	✓	✓

1.2.2 Methodology

Findings from interviews are generally used as the basis for describing the major themes and issues that emerge. This is because interviews can be particularly illuminative, given the ability to explore people's experiences and perspectives in depth, the ability to be flexible and adapt the approach within the interview itself, the open-ended opportunity for participants to describe their views, and the ability to clarify ambiguous responses.

However, a first consideration of possible themes and issues arose from reading a selection of submissions, which then helped shape the approach to interviews. Findings from interviews then allowed other data sources to be examined in a manner that allowed maximum utility to be gleaned from each, allowing a discussion and significance of arising themes to be examined in more depth than otherwise. Data sources were revisited repeatedly in an iterative manner to ensure that as the themes developed into more involved statements and descriptions, the supporting points were accurate in the context in which they were made. We also applied a simple coding process to the 356 available public submissions to indicate and summarise additional evidence relating to relevant major points.

Unavoidably the overall analysis relied on our own sense of interpretation and intuition about the important aspects within the data, as well as the interpretation of research participants themselves. We suggest several ways in which this interpretative dependence is made clear and transparent (importantly, by being grounded in the data itself), as well as how the biases of ourselves as researchers and of the research participants themselves are mitigated.

1.2.3 Presentation of results

The overall intent is to present evidence which demonstrates an adherence to the underlying data, and which arises from a systematic approach. A challenge in this regard concerns the large volume of data, the variety of experiences represented, the variety in methods of portraying those experiences, differences in the brevity, clarity, accuracy and recollection of individual experiences, the emotion and pain associated with real loss and grief having been experienced, and the paucity of any existing theoretical or even procedural frameworks and guidelines to refer to within the context of significant and sudden financial loss. On a positive note, this allowed us a certain freedom and flexibility to pursue an approach which best leverages the particular circumstances of this case.

As such, evidence presented in this thesis is highly descriptive (in line with much qualitative research). However, the substantial data from other sources is used to either support, modify, further contextualise or suggest alternatives to what the interviews give rise to.

In the main body of results (in chapters six and seven), 554 separate verbatim excerpts are referred to as evidence directly from the underlying data. A breakdown of these excerpts by source and by contributor is as follows:

Table 2: Breakdown of data excerpts used in chapters six and seven

	Interviews	Public submissions	Public hearings	Other correspondence	**Total**
Investors	258	87	45	13	**403**
Storm employees and advisers	30	2	8	1	**41**
Financial planners	0	17	9	7	**43**
Others	0	26	47	4	**77**
Total	**288**	**132**	**109**	**25**	**554**

Despite the breadth and depth of data indicated above, there is no single process or procedure to ensure whether the findings arising from a qualitative study are credible in themselves. However many procedures which do provide some assurance are given in the qualitative literature, and several have been adopted in this thesis. In particular, we adopt the use of triangulation and member checking in several ways, and acknowledge that although no procedure ensures validation in itself, a combination can support assertions that the overall findings are credible. The detail of our approaches to this are discussed in detail in chapter five, and highlighted again in chapter eight.

1.3 Overview of Findings

The findings arising in this thesis relate firstly to the impacts on individuals of significant financial shocks, and then to the insights on the overall system of financial provision in Australia.

1.3.1 Impacts of a significant financial shock

The impact of sudden and significant financial loss is devastating for those involved. The areas of impact that emerged from the data relate firstly to an individual's personal world in terms of emotional and health impacts; secondly to an individual's social world in terms of relationships with partners, family and friends, as well as with local communities; and thirdly to an individual's level of trust and engagement with the wider world around them, particularly as it pertains to participants in providing professional and financial provision. The net effect of all these areas of impact is seen to be a loss of control in one's life choices and options.

1.3.1.1 Impacts on the personal world

A first and immediate area of impact concerns an individual's emotional state. Given the sudden demise of Storm, a sense of shock was felt by investors, which was often associated with feelings of numbness and disbelief which were predominantly, but not exclusively, short term reactions.

A deep sense of real and protracted anger at various parties was also felt, and still resides some years on for many investors. This has been exacerbated not only by the collapse of Storm, but also by events and revelations since that time. A related emotional outlet has been fear, which also exists for a variety of investors as they contemplate a future with limited financial means. Where the investment with Storm was to provide for dependents, a feeling of angst and fear of one's situation now is especially apparent. Aspects of frustration, regret and guilt predominate for many investors as they reflect on their own decisions over time, the actions of others, and where it leaves them today.

In terms of the impact on health, it is in the realm of mental wellbeing that the impacts of significant financial loss appear to be particularly pronounced. Examples of stress, anxiety, depression and a need for a variety of medication did and still abound amongst investors. Other evidence indicates that the incidence of such conditions appears to be well above estimates for the general population. Elements of self-harm were also frequently mentioned, and feature as an especially severe impact for many.

Mental wellbeing is not independent of physical wellbeing however, and many examples exist of adverse physical impacts as well.

1.3.1.2 Impacts on the social world

A second area of impact concerns the social world of an individual's life. Marriages and close relationships have been impacted, and where this has fallen short of a formal divorce, separation or break-up, the impact has nevertheless been real and very personal. Relationships with friends and family have been another casualty, with a range of negative impacts resulting from either very direct judgements and criticisms being made, or more subtle changes that have arisen. In other cases, responses of others have been favourable, with tangible help and emotional support being offered. It may be the case that the status of a relationship prior to such losses is an indication of how it will be after such losses, though this is not a conclusive insight – for some, formerly close friends are now no longer that, whereas for others, friendships have become closer through such adverse circumstances.

Another aspect of one's social world to have been impacted is the ability to be involved in wider cultural, familial and community roles. It has been particularly galling for investors who were grandparents, who now perceive a loss of means and ability to fulfil that familial role in the manner they were anticipating. Other impacts concern the diminished ability (and for some, no ability) to be involved in sporting, charitable and other community pursuits, due to the lack of financial means to do so. For others, an increased sense of social isolation relates more to the emotional bankruptcy now being felt.

An especially debilitating response relates to the perception of judgement upon financial disaster victims from the community at large. This can lead to further withdrawal from society. Overall social impacts are also exacerbated by the 'network' effect, arising from the concentration of investors in family groups and concentrated geographical areas. This can result in support networks not being as available or helpful as they otherwise would be.

1.3.1.3 A loss of trust

A third area of impact involves a loss of trust. This trust relates to a range of parties that would otherwise be relied upon for financial and overall wellbeing. The most obvious target for impacted trust is in the strategy offered by Storm and many of the personnel involved, albeit mitigated by the fact that Storm no longer exists as an company. The wider financial planning profession is another party in who distrust now predominates. The manner in which some compensation and settlements have occurred since Storm's collapse has also resulted in anger and distrust towards some legal firms. The role of the government is also seen with some suspicion by many, particularly through the role of the government regulator ASIC[3] but also through the regulatory settings in place, services provided by Centrelink[4], and post-collapse responses. A loss of trust in oneself has also eventuated for many investors, arising from the aforementioned emotional impacts of frustration, guilt and regret.

Perhaps the epitome of Storm's collapse in terms of trust is the disenchantment, anger and adverse perceptions of the banks and credit providers involved. Importantly and especially in the case of Storm, this lack of trust has arisen as much from events post-collapse as it has from events pre- and during the collapse. It is evident that this severe loss of trust in what should otherwise be a cornerstone institution in one's financial affairs, is a particularly damaging outcome of Storm's collapse.

1.3.1.4 A loss of control

Such widespread distrust in aspects of government, other institutions, related professions, and oneself, is not a positive outcome for any participant in Australian society. What this can lead to, amongst other things, is a lack of control in one's life.

From interview findings in particular it is apparent that a major challenge for investors was a need to feel they have some say in their life. With diminished financial means, a low likelihood of recovery for many within any reasonable timeframe, and the legacy of the emotional, social and trust-related impacts, there is a heightened sense of vulnerability to adverse life events. These events can relate to changes in some or all of housing, health, vocational and family circumstances.

1.3.2 The system of financial provision

The findings from Storm suggest issues and challenges exist with the Australian system of financial provision. The system currently in vogue consists of the age pension, superannuation savings, and other savings: a 'three-pillar' framework. Although this

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[3] ASIC is the Australian Securities and Investments Commission, one of two major government regulators of the financial services industry. The role of ASIC is discussed in more detail in chapter two.

[4] Centrelink is the primary governmental agency responsible for the assessment and payment of a range of social security benefits.

framework is not 'wrong' in the context of the ends to which it is promoted, an alternative framework better reflects the true sources of reliance in financial affairs. In this alternative, each 'pillar' is a source of trust rather than a mechanism of income, with the pillars being government, non-government institutions, and oneself. Given that these three sources were major casualties in terms of impacted trust, this highlights the real sources of vulnerability that exist for individuals in their goal and perceived duty to seek financial self-sufficiency.

Trends towards greater individualisation of financial provision have occurred in conjunction with other risks increasing as well, including increased longevity and complexity. With financial literacy relatively low and information asymmetry apparent, this raises questions about the effectiveness of a regime which relies heavily on licensing and disclosure. This places a greater onus on a more intangible factor - the ethical disposition of all participants in the financial system.

Storm's collapse highlights that money does indeed matter, but not for its own sake – it is the subsequent loss of control and options that is tangibly impacted. Significant financial loss is therefore anything but trivial, and where trust and control is lost, this highlights the strong dependence of overall wellbeing on financial wellbeing. Any system which places excessive risks upon the attainment of such financial wellbeing should naturally be subjected to critical scrutiny.

1.4 Structure of thesis

Chapter two discusses the landscape of the financial services and advice environment in Australia. Such an environment is shaped by regulatory settings, the encouragement for individuals to be self-sufficient, a general lack of financial literacy in areas that are needed for such self-sufficiency, and a variety of behavioural factors and biases, all of which expose individuals to certain risks in navigating through such an environment. The need for many to have professional financial advice is highlighted, together with a discussion of reasons why such advice is not often sought.

Chapter three presents an overview of the collapse of Storm Financial. This overview describes perceptions of the circumstances and impact of the collapse from general sources such as the media, Storm's administrators, and from the few professional and academic papers that have given it attention to date. This sets the scene for a more considered, involved and detailed examination of impacts at the individual level later in the thesis.

Chapter four gives a (necessarily) broad overview of a range of events and circumstances that can impact an individual's wellbeing. This includes traumatic events such as those leading to post-traumatic stress syndrome, the impacts of natural disasters, personal addictions, and health issues. It also includes events leading more directly to substantial financial loss or stress, such as job loss. This overview is not exhaustive or comprehensive, but illustrates the variety of impacts that can occur. This too sets the scene for the later and more detailed investigations into the impacts on individuals associated with Storm.

Chapter five details the overall methodological approach taken. It also describes the source, treatment and fidelity of data used, and highlights the approach to managing key risks with the qualitative nature of the data. This includes issues of confidentiality and the possibility of inadvertent harm to participants.

Chapter six presents the main findings of this thesis. It is structured around the main research question: what are the impacts on people when they experience a significant financial shock? Although findings from interviews generally form the basis of description for the major themes and issues that emerge, the other data sources also contribute significantly to the overall discussion. In order to provide as much context as possible when describing what are challenging and inter-related issues, a feature of the presentation of results is the heavy use of raw data excerpts – 479 in all – with 379 of these specifically pertaining to the views of investors.

Chapter seven presents what can be inferred more widely from Storm regarding issues and challenges with the Australian system of financial provision. As such, the focus is less on the explicit views and perceptions of investors with only 24 of the 75 data excerpts explicitly representative of their views, and a greater focus is on the views of others.

Chapter eight provides a summary of the thesis. It outlines the methodological approach taken, summarises the key findings, and provides some concluding remarks.

Chapter 2: The Landscape of Financial Services and Advice

2.1 Introduction

Individuals face a number of financial and non-financial risks over their lifetime, especially around implications of longevity and adverse health. These risks are discussed in this chapter, in the context of the major trend that has significant implications for the financial wellbeing of individuals: the shift away from government- and employer- provided support in retirement, to a greater individualisation or self-provision of financial wellbeing.

The complexity of the financial landscape is highlighted as a critical factor within such moves to greater individualisation, and the need for greater involvement of individuals in their own financial wellbeing demands greater levels of financial literacy than appear to be the case at present. Individuals and institutions also need to appreciate the swathe of behavioural factors involved in decision making, these are also summarised in this chapter.

Given the possibility that individual savings may be inadequate for the requirements of individuals in retirement, there is an apparent need for many to seek professional financial advice. This need as well as associated issues of trust and the difficulty of assessing value in such advice, are discussed in this chapter. We then conclude with a discussion of the overarching regulatory environment that individuals, professionals and institutions must work within, in order to deliver satisfactory financial provision for all.

2.2 Overview of the Australian System

2.2.1 A System of three pillars

Financial security in Australia, in the context of savings and provision over a lifetime and particularly for retirement, is essentially built on a system of 'pillars'. The first of these is an age pension. This is not an automatic entitlement for those who reach the age of eligibility, but is subject to two means tests – one based on assets, the other based on income. The pension payment is at the rate which is the lower that results from each of these two tests, with the full age pension rate generally accepted to be close to a rate that could provide for a modest lifestyle (RWA 2012).

A second pillar is a mandatory retirement savings scheme, which is paid for via employer contributions that must be a minimum of 9% of salary (to rise incrementally to 12% by 2020). These contributions are the 'superannuation guarantee' (SG) and this superannuation component is managed by the private sector, rather than government.

Pillar three consists of voluntary and private savings, with any contributions at the discretion of individuals, and/or employers. Via the use of advantageous tax breaks, there is strong encouragement for these extra savings to be allocated into superannuation accounts (Taylor and Wagland 2011).

2.2.2 Superannuation

2.2.2.1 Recent history and growth

There was an extended political lead-in to the establishment of superannuation in Australia (see, for example, Durie 2009; RWA 2012), and the introduction of the compulsory SG in 1992 meant that superannuation coverage became virtually universal for wage and salary earners[5]. Minimum employer contributions began at 3% of wages in 1992, increased over time to the current level of 9%, and will increase again to 12% by 2020. The growth in the overall level of superannuation has been rapid and significant, with total funds under management equal to $1.4 trillion as at 30 June 2012, and annual contributions to superannuation funds totalling $118 billion in the year to June 2012 (APRA 2013).

A major economic catalyst for the introduction of the SG was the significant ageing of the population, which would lead to a significant taxpayer burden through resultant age

[5] SG payments must be paid by an employer for anyone who earns $450 or more per month. The self-employed and the unemployed are not covered by the SG.

pension payments (Taylor and Wagland 2011). It could also improve the economy by increasing long term savings (Sherry 2012), thereby generating available capital for further investment. This was (and is), however, effectively involuntary deferred pay, introduced in lieu of immediate pay increases (RWA 2012). Equity across workers was also an important consideration, with the SG now allowing those formerly without superannuation and its associated taxation advantages, some access to those benefits (Sherry 2012; Smith 2009)[6].

Although the rationale to alleviate future pension costs was influential, the introduction of the SG was not intended to provide for an adequate retirement income of its own accord, nor was it intended as a means to retire early (Kelly and Harding 2004). The SG's relatively low initial contributions and a lengthy phase in of higher contributions meant that, according to government, it was intended as a supplement to rather than replacement of the age pension (Sherry 2012)[7]. Nevertheless, as the age pension potentially provides something close to a modest lifestyle, then individuals must rely on their superannuation (and other savings) in order to provide something more than that. Furthermore, as an individual on a lifetime of higher superannuation contributions will likely have their age pension reduced due to the associated means tests, then there effectively is a shift from age pension provision to encouragement of providing a retirement income through private means (RWA 2012)[8]. This can also be viewed as a substitution of taxpayer-funded age pension payments with taxpayer-funded superannuation tax advantages.

2.2.2.2 The decline in Defined Benefits Schemes

Mirroring the growth of superannuation savings arising from the SG has been the decline in employer-sponsored defined benefit (DB) schemes. A DB scheme effectively specifies a payment amount for an individual in terms of a pensionable income, which is generally

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[6] Namely, those with lower/middle income such as blue collar, service sector, and part-time/casual workers, women, and others amongst the 60% of the workforce who had no superannuation at that time (Sherry 2012), or as Smith (2009) puts it, more people "than the salaried executives who were the main beneficiaries of schemes prior to that reform" (p.519).

[7] Sherry (2012) states that "compulsory super was not and cannot replace the age pension despite the misleading claims by some and the resulting widely held belief in the community that 'the government wants us to be self funded and there will be no age pension in the future'".

[8] A point also partially acknowledged by Sherry (2012) in that superannuation savings will, "due to the pension means test, increasingly, reduce the number of retired persons receiving the age pension in part or whole".

based on years of service and the salary level(s) an individual has had. Investment decisions and the sufficiency of accumulated contributions to meet that pensionable income are the responsibility of the employer (sponsor) rather than that of the individual. In contrast, the SG is based on a defined contribution (DC) system, which specifies the level of contributions being made into an individual's superannuation fund(s). In this system, choices about investment decisions reside with the individual and with no pensionable income being specified, 'sufficiency' is not an aspect that sponsors are responsible for.

Although the shift from DB to DC schemes is a relatively recent phenomenon (MacDonald et al. 2011), the decline in DB schemes in Australia has been pronounced, with most public and private DB schemes now closed to new members. This reflects similar trends in other parts of the world (Black et al. 2002; Gallery et al. 2011; Iannicola and Parker 2011; Lusardi and Mitchell 2011; Warren 2006). Some advantages exist with this trend, such as DC plans being more flexible than conventional DB plans, allowing greater mobility of the labour force (Lusardi and Mitchell 2011).

2.2.3 A fourth pillar?

Some industry experts also describe home ownership as a fourth pillar of the Australian system (Knox 2010). As well as being the most sizable purchase that most people will make in their lifetime, the value of home ownership is important in many other dimensions,

When viewed as an investment an owned home can be an important contributor to financial security. If a house is owned by the time an individual retires, this confers the important economic benefit of eliminating future housing rental costs[9]. As well as this, through the mechanism of a reverse mortgage, an individual can lock in an additional income stream for life (MacDonald et al. 2011; Merton 2008)[10].

[9] Assuming no future changes in housing needs, and of course ignoring the additional costs associated with home ownership such as insurance, rates, and maintenance.

[10] Although there are doubts as to how many Australians will utilise equity in their home for this purpose (Kelly and Harding 2004), the market has been steadily growing in recent years. As at 31 December 2011 there were 42,000 reverse mortgages in Australia, totalling loans of approximately $3.3bn (SEQUAL/Deloitte 2012). Given the growing interest, the Australian Securities and Investments Commission (ASIC) also has an on-line calculator specific to reverse mortgages, at https://www.moneysmart.gov.au/tools-and-resources/calculators-and-tools/reverse-mortgage-calculator.

Additional benefits of home ownership include it being a security against which additional borrowing can be enabled at times of need (Campbell 2006). Thus, borrowing against or selling the home can act as a possible hedge against significant and unexpected costs such as those associated with medical care. However, housing is a relatively illiquid asset (Campbell 2006), and selling at depressed prices when quick access to its equity is required is a real risk (Siegel 2011).

Less tangible in a direct financial sense, but essential to overall wellbeing, are factors such as the emotive attachment that homeowners may have to their house. Where such ownership spans several years, decades, or generations, the house is then a 'home' and its associated memories and history undoubtedly shape part of overall mental wellbeing. It also provides physical security, contributes to an individual's sense of identity, and it is likely to be in a geographic area where the resident's social circles and sense of community is located. Indeed, important social implications of home ownership include having a stable base for involvement in community and civic duties, a signalling of social standing, and a demonstration of financial worth and "economic certification" that one can embark on what is likely the most significant asset that most will ever purchase (Warren 2003b).

2.3 Features of the System

2.3.1 Complexity and Volume of Choice

The Australian financial system is now very complex, due to many factors. For example, differing and complex taxation regimes for differing entities and individuals; restrictions (and changing levels) on both contributions and access to superannuation; a plethora of insurance options and platforms[11]; choice from a large range of superannuation funds and investment options; a variety of approaches to utilise debt but which differ significantly from each other[12]; different ways to structure these debt arrangements in terms of interest rate offers, guarantees and balancing exposure to fixed and variable rates; and aged care provision which depends on factor such as assets, income, and the required standard of care

[11] The primary options in terms of personal coverage concern life, total and permanent disablement, trauma, income protection cover, health and general insurances, with some life insurances available within as well as outside of superannuation.
[12] This includes house, car, investment, and personal loans, credit cards, and other consumer purchase arrangements such as hire purchase.

(McKee 2010). These and other areas that add to the complexity for individuals are also prevalent in other countries, and is given much attention by various commentators (for example, Bodie et al. 2008; MacDonald et al. 2011; Warren 2006).

This complexity has been accentuated in the Australian context by a push toward self-funded retirement, particularly in the rules and regulations concerning superannuation and its interaction with the other pillars (Chardon 2011; McKee 2010; RWA 2012). The fact that various aspects of these pillars and their interaction have changed over time and/or have been signalled that they may change in the future complicates the picture further[13]. Of particular interest is the requirement for individuals to be actively involved in making a range of choices for their financial wellbeing. With the prevalence of DC schemes and encouragement toward self-sufficiency, choices must be actively made concerning fund and investment allocations whilst saving, as well as how to manage and utilise these savings whilst in retirement (Beshears et al. 2011; Bodie et al. 2008; Gallery et al. 2011; MacDonald et al. 2011).

Taylor and Wagland (2011) go as far as saying that the financial landscape has completely changed in recent years, with numerous products now on offer, which themselves are increasing in sophistication (Gerrans and Hershey 2012) and variety (Smith 2009)[14]. Not only do individuals face the challenge of understanding various products as separate entities, they also need to understand the products in combination (Black et al. 2002) and relate them to their individual needs.

2.3.2 Individualisation of Risk

The availability of choice for individuals had been described as a heavy burden, whereby such choice is only effective if individuals appreciate and can make appropriate investment decisions (Bateman et al. 2010; 2011a). Investment risk (the risk that an individual's investment will not yield the returns required to provide an adequate income in retirement) can eventuate in various ways: for example, through capital losses on investments, the

[13] For example, the age of eligibility for the Age Pension is to increase to 67 progressively from 2017, and this itself will be reviewed again in 2023 (RWA 2012).

[14] The array of products and opportunities has been described as "bewildering" (Worthington 2006, p.59, cited in Chardon 2011, p.54).

subsequent realisation of investments at depressed values, and also through balancing a need to take enough risk whilst accumulating savings, in order to provide for inflation protection throughout retirement (RWA 2010a).

In addition to investment risk in the phase of accumulating savings for retirement, this risk also applies in the retirement phase. Given that the needs of individuals are unlikely to be constant throughout retirement (Mills and Young 2004; RWA 2010b), much attention also has to be given to decisions about strategies to draw down funds from accumulated savings, with sufficient planning to balance the competing requirements of growth and liquidity (MacDonald et al. 2011). Thus, much more risk now has to be absorbed at an individual rather than collective level (Warren 2006), with major risks now residing with each individual rather than collectively across others and across time, as it would with DB and other less individualistic schemes (Smith 2009).

Investment risk, however, is just one of a number of risks and uncertainties faced by individuals. Also relevant is uncertainty due to inflation, changing home care expenses, lifestyle related costs such as changes in accommodation arrangements, transport costs, expenses associated with unplanned events such as divorce or unanticipated needs of family members, and how taxes and government benefits might change in the future (MacDonald et al. 2011; RWA 2010b). In particular, two major risks concern health and longevity. These and other important aspects of greater risk residing with individuals are discussed in more detail below.

2.3.2.1 Longevity Risk

Longevity risk arises from uncertainty around the length of one's future lifetime - giving rise to the possibility that an individual's savings may be inadequate to sustain them over their remaining lifetime. This risk is further exacerbated by trends of decreasing mortality (increasing life expectancy) over time. Indeed, the life expectancy for a 65 year old male in Australia is now approximately 86, an improvement of 10 years over the past century, and for a 65 year old female it is now approximately 87, an improvement of 12 years over that same time period (RWA 2012)[15].

This risk is also complicated by other factors. These include the tendency of individuals to underestimate their life expectancy (Banks et al. 2004; O'Brien et al. 2005), or simply being unaware of the longevity risk they face. The latter is understandable when compared to, for example, investment risk, in that investment risk can be personally experienced in the short term. In contrast, the issue of longevity is not a specific event that provides tangible motivation here and now, but by definition it unfolds over time.

Thus, the risk that an individual could outlive their savings for the reason of longevity is seen as very real in Australia and elsewhere (Ameriks et al. 2001; Iannicola and Parker 2011; Lusardi and Mitchell 2011; Poterba et al. 2008; RWA 2010a). Furthermore, if life expectancy continues to rise, then the likely outcome is that the retirement period will also rise, significantly so if mortality improvements are greater than expected (MacDonald et al. 2011). Thus, for a given level of savings, consumption would have to decrease more than that anticipated (Ameriks et al. 2001; RWA 2010a).

2.3.2.2 Health Risks

Expenses and risks associated with health issues can differ significantly from expenses and risks arising from other causes, for many reasons. Firstly, in contrast to anticipated needs such as education, recreation and food, the onset of a poor health is often unexpected and as such, any resultant expenses can be unpredictable. These expenses can be manifest through the direct costs of health such as medication, but also through secondary effects such as the refitting of a home, relocation due to a disability or impairment, or a loss in the ability to live independently, which can also lead to a need for long-term support (MacDonald et al. 2011).

[15] RWA (2012) add further that further improvements of "1 to 2 years are expected every decade" (p.4). Furthermore, "the estimation of life expectancy has also been on the low-side for some time, as longevity improvements have outpaced predictions in most developed countries" (MacDonald et al. 2011).

Secondly, the associated expenses may be very high relative to other causes, particularly in contexts where healthcare cover is not comprehensive (notably the US, but also in the mixed system of private and public provision in Australia which leaves gaps in the funding of overall care which individuals have to cover themselves). Furthermore, the expenses associated with healthcare have continued to rise over time (Iannicola and Parker 2011).

Another factor is that the incidence of health issues and associated expenses tends to increase with age. So whilst someone early in retirement might not anticipate significant health expenses in the near future, with longevity improvements they are more likely to live to an advanced age which itself brings a higher probability of a deterioration in health (MacDonald et al. 2011). Thus, as education, recreation, food and possibly housing needs (if living in an unencumbered home) might be expected to decrease with age, an increase in health expenses with age is likely.

These factors pose particular risks to individuals and family groups. So much so, that the concern with health care costs, together with the associated issue of long term care, was the number one concern amongst a survey of US retirees (Greenwald et al. 2006, cited in MacDonald et al. 2011)[16]. An additional complication is whether there is sufficient commitment from various social institutions to continue to provide health-related services in the foreseeable future (Lucas 2008; Sinclair and Smetters 2004, cited in MacDonald et al. 2011). This could be government related institutions, or other institutions such as private-public partnerships, volunteer based groups, or other entities that provide for the general health and wellbeing of individuals within society.

2.3.2.3 Institutional Risk

Naturally, government is expected to continue to play a major role in all aspects of individuals' lives, including the provision of financial support, particularly with regards to retirement. This expectation is highlighted by an Australian qualitative study which found

[16] In contrast, a 2010 survey of Australian Seniors indicted that the risk of inflation was the highest concern of that cohort. However, it was not determined in detail how much of this concern was implicitly related to rising costs of healthcare as well, and/or it may also show a greater confidence in the level of public health provision in Australian when compared to the US (Higgins and Roberts 2012).

that baby boomers from low socioeconomic backgrounds had a strong belief that direct responsibility for their future welfare should continue to reside with the government (Quine et al. 2006). Others see that ongoing governmental support may have more indirect mechanisms to support self-provision as well, such as the recent legislative increases to the SG, continuing encouragement of additional private contributions, changes to tax incentives and levels, and so on (Kelly and Harding 2004).

What is possible is a relatively lower influence of direct social security payments in the future. This may come about in several ways. For example, through direct reductions in government provided retirement benefits (not likely in Australia, but possible elsewhere (Iannicola and Parker 2011)), through the raising of eligibility ages, or through people needing to work longer for financial security and thereby deferring any entitlement(s) to older ages. A decrease in relative importance of social security payments will also occur as private and superannuation savings levels increase. These factors together with anticipated greater fiscal pressures on government in the future will mean that at the very least, in all likelihood, the relative importance of social security will not increase in relative terms (Kelly and Harding 2004).

2.4 Implications for Individuals

2.4.1 Possibility of Inadequate Savings

The individualisation of risk and its associated features can lead to inadequate savings in retirement, which is the most obvious detrimental financial outcome for an individual. The possibility that insufficient savings may be prevalent is a real risk in Australia as well as other developed countries (DiCenzo et al. 2011; Kelly and Harding 2004; Ntalianis and Wise 2011). This can arise from insufficient levels of SG contributions, SG contributions paid over too short a time period, low levels of voluntary savings, and/or poor investment returns.

Particular attention has been given to this problem for older cohorts of workers and those just entering retirement. Part of the problem for those in this cohort - effectively but not exclusively the baby boomer generation - is that many have simply not put aside enough money over their working lives to save for retirement (Kelly and Harding 2004). As well as any applicable behavioural reasons for this state of affairs, this may reflect factors such as lower real wages over their lifetime than later generations, corrosive impacts of inflation earlier in their working lives such as with the oil shocks of the 1970's, extremely high interest rates in the earlier days of home purchase through to the mid to late 1980's, and fee increases for the tertiary education of their children.

A further explanation resides with the particular circumstances that this cohort has faced in terms of governmental encouragement to save. For example, when the oldest baby boomers hit age sixty around the year 2006, most would have only had SG contributions for a maximum of 15 years, and would have received the higher contribution rate of 9% for less than 5 years. Thus, the SG has not added to retirement adequacy for many workers (Kelly and Harding 2004). For this reason, many baby boomers consider that government has a key role to continue to provide for their retirement needs in a significant way (Quine et al. 2006).

Another explanation relates to the nature of retirement planning itself. For baby boomers on the cusp of retirement, the time horizon for planning and taking action is limited, and this brings a number of further complications. Any adverse outcomes arising from a lack of planning and/or saving are not easily corrected when there is little time until retirement. This is compounded for those who have already left the workforce (Gerrans and Hershey 2012), and also when mistakes have been made with investment and other financial decisions (Banks 2010; Brown 2008). In particular, these factors are exacerbated further and significantly by shocks such as the recent global financial crisis (GFC) (Banks 2010), leaving those close to retirement with very little room to manoeuver in terms of recovery[17].

Seemingly unavoidable consequences of growing older also are influential, as extra medical expenses are likely to be incurred, and it may be harder to continue or return to work. It is also suggested that there is a greater risk of exercising poor financial judgement and being

[17] As DiCenzo et al. (2011) neatly surmise, for such individuals "the allowable margin of error is narrow, the time to 'make up' for mistakes short, and the potential consequences of blunders dire".

more vulnerable to fraud and scams (MacDonald et al. 2011)[18]. Again, the issue of reduced time horizons and limited time and financial means to recover from such setbacks compounds these risks further[19].

2.4.2 The requirement for self-funding

A clear implication of the aforementioned legislative, fiscal and cultural changes is the requirement for individuals to now be far more self-sufficient for their overall financial wellbeing. This is undoubtedly the trend across many western countries[20] but particularly so in Australia (Smith 2009). With this trend comes consequences – that individuals need to be able to make appropriate decisions, and also be able to bear the resultant elevated risks.

This trend does not just apply to how and how much an individual can save for retirement - though this is clearly important – but the more encompassing issue is how they provide for their requirements over an *entire* lifetime. This is more an issue of smoothing one's income earned whilst working, and indeed, is the central question of life-cycle finance (Siegel 2008). It infers a lifetime of responsibility on the individual for decisions relating to all of saving, investing, and spending (Bodie et al. 2008; Lusardi and Mitchell 2011).

Smoothing one's income and earnings over an entire lifetime presents important options for an individual to consider, including the choices of how much and when to work, save, borrow, invest (in both financial and human capital), and consume. Borrowing and utilising debt arrangements is a prevalent and important feature of modern household behaviour, which essentially is a smoothing technique that enables present consumption funded through future earnings. Naturally all borrowing should come replete with warnings and advice about the associated benefits and risks, but as the GFC as one example has shown, the associated risk is often underestimated or ignored[21]. Having the option of working into

[18] This includes "being misled by unscrupulous advisors, since mental health, as well as physical health, often deteriorate with age" (MacDonald et al. 2011).
[19] "With retirees typically unable to replenish assets lost through fraud because of limited earnings potential, the impact of fraud can be particularly devastating" (Cooperstein, quoted in Siegel 2011).
[20] Barberis and Thaler (2003); Black et al. (2002); Chardon (2011) (citing Kelly 2003); Gallery et al. (2011) (citing Bonoli and Shinkawa 2005); Gerrans and Hershey (2012); Taylor and Wagland (2011); Turner (2008).
[21] Rappaport (2008) succinctly cautions that for the vast majority of workers, "if borrowing goes beyond student loans and a home mortgage, I do not think it is a good idea. We do not really know what our ultimate income will be" (p.179).

older ages, whether part time or full time, and as far as health, skills and opportunity allows, can potentially greatly enhance the financial security and wellbeing of retirees.

However, lifetime consumption smoothing is not the holy grail of personal finance, as there are many risks involved in an individual's personal and financial affairs that can throw a lifetime financial plan into disarray. Hence, some consider consumption smoothing unrealistic (Rappaport 2008). Notably for our purposes, pursuing such goals and making related decisions now involves relatively little assistance from employers (Beshears et al. 2011). This bestows a key responsibility on the individual more so than before (FLF 2008; Taylor and Wagland 2011) – not just to make decisions, but to be financially literate in doing so.

2.4.3 A need for financial literacy

Financial literacy is defined as 'the ability to make informed judgments and to take effective decisions regarding the use and management of money' (ASIC 2003; Commonwealth Bank Foundation 2004). Such a definition infers more than merely having a degree of knowledge about monetary issues (though that is important in itself), but it implies and requires an individual to be able to make decisions and modify their behaviours in a way that is financially advantageous to them (Chardon 2011).

At a minimum, being financially literate involves having knowledge and making informed decisions on issues concerning general money and asset management, banking, budgetary necessities, investments, the use of debt, the comparison of financial products, and tax (Campbell 2006; Crossan et al. 2011; Fear 2008; Kimball and Shumway 2006; Moore 2003; Taylor and Wagland 2011; Van Rooij et al. 2011; Widdowson and Hailwood 2007). In terms of the challenges associated with the complex financial culture that currently pervades many developed countries (notably Australia), the demonstration of financial literacy has additional and specific requirements. These include being able to plan over longer rather than shorter time periods (Campbell 2006), making appropriate choices regarding superannuation funds and investment options (Gallery et al. 2011), a working appreciation of the time value of money, and appreciating the advantages of risk pooling mechanisms such as with insurance (Fear 2008).

2.4.3.1 Implications

The implications of this need for financial literacy are profound and can have significant ramifications for individuals, in terms of their savings, retirement options, and overall financial security (Chardon 2011; Gallery et al. 2011; Lusardi and Mitchell 2011; McKee 2010; Taylor and Wagland 2011). One straightforward example of this is the use of credit. The use of too much credit, its utilisation in inappropriate settings, a general recklessness towards the risks involved, or an unawareness of the underlying costs and conditions can and has trapped many people into a cycle of debt that they struggle to break free from (Warren 2007).

Another important implication is that improved financial literacy offers the potential for greater financial control, flexibility and wellbeing. For example, this includes being able to take advantage of more sophisticated financial products and markets now available to individuals (FLF 2008), making sense and use of a wide range of options and products, and overall, making one's own choices about how to invest wealth over a lifetime and then draw on that wealth during retirement (Ameriks et al. 2001). But, with opportunity also comes responsibility, and the level of individual responsibility has now increased significantly. Lusardi and Mitchell (2011) describe this need for financial literacy and the associated responsibility as a 'heavy' burden for individuals to bear.

It is also worth noting that the degree of reliance on financial literacy is context dependent. For example, in New Zealand where there is a universal (non-means tested) public pension and whose payment amount is a higher proportion of the average wage when compared to Australia, this provides some security and insurance against the cost of adverse savings outcomes in the context of retirement income. As such, financial literacy does not appear to be as significantly associated with planning for retirement as it is in Australia where the pension is not universal (Crossan et al. 2011).

2.4.4 Levels of financial literary

What is known about levels of financial literacy in the population generally comes through surveys, and also via what can be inferred from choices made in financial settings such as superannuation and debt markets. On a cautionary note however, any stated 'average' behaviour in itself can be quite misleading, so it is necessary to consider the issue of financial literacy from a number of angles[22]. Nevertheless, as a broad summary, what is apparent is that despite today's world of financial choice, complexity and self-reliance, levels of financial literacy in the population are generally considered to be too low, given the responsibility that individuals must bear (Brown 2008; Iannicola and Parker 2010; Widdowson and Hailwood 2007; Wills 2009).

2.4.4.1 The problem of complexity and risk

Major financial literacy surveys in Australia include a 2007 telephone survey of 7,500 Australians conducted on behalf of the Financial Literacy Foundation (FLF), and four surveys conducted on behalf of the ANZ (2002, 2005, 2008, 2011). In terms of what might be called straightforward knowledge and application[23], the results generally attest to a reasonable level of capability within the population. However, when considering more complex issues, the situation is more worrying. In an investment context, just 6% of respondents would consider reputation when investing (FLF 2007) and 26% of respondents did not understand that short term fluctuations in market values could be expected even with a 'good' investment (ANZ 2011). These findings are not one-off but in conjunction with the earlier ANZ surveys, they present a relatively consistent picture over time. Appreciation of the importance of diversification also fares badly, with only half of respondents considering diversification of investments to be 'very important' (ANZ 2008).

In terms of understanding compound interest, 67% of respondents claim to understand the concept but only 28% could actually solve a relevant problem (ANZ 2005). This difference between reported or self-assessed capability appears further with regards to personal investing. Despite a high reported level of confidence with one's ability to invest (69% of

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[22] Kotlikoff (2008) gives an effective analogy in this regard: "Vast numbers of households save, insure, and avoid risk either far too much or far too little. The fact that households make both types of mistakes and that, as a consequence, generate average behavior that, on its face, is not extreme offers little professional consolation. The medical community would not declare that heart disease has been cured if half of peoples' hearts beat too fast and the other half too slow" (p.57).

[23] For example, the management of daily financial affairs such as budgeting, and identifying the best indication of a superannuation fund's performance (ANZ 2011; FLF 2007; Taylor and Wagland 2011).

respondents claiming to be relatively confident), just 34% would actually consider both risk and return when investing (FLF 2007). This is supported by a subsequent study focusing solely on the financial attitudes and experiences of women, which found that less than a third would consider both risk and return when making investment decisions (FLF 2008).

The difference between self-assessed investment confidence and some proxies of actual competence therefore raises some doubt over the fidelity of other self-assessed capabilities. For example, over 80% of respondents reported a high level of confidence in choosing appropriate insurance and being able to recognise an investment scam (FLF 2007) – both key aspects of protecting one's financial wellbeing. However, given the main features of investment (namely risk and return) and how a scam can use these to sway investors towards a certain decision, it is reasonable to conclude that this poses real risk for many investors and that a self-assessed measure of ability to protect oneself can overstate the reality. Findings from the ANZ (2011) survey further attest to this, with 87% of respondents believing that an investment with high return was likely to have higher than average market risk, but only 53% would not consider an investment offering a return well above the market rate with no risk.

Thus, it is specifically in the area of risk where a lack of financial literacy is particularly apparent. The findings above and from other international surveys lead to the generalisations of various observers that, overall, individuals have limited knowledge of risks specific to certain assets (Wills 2009), they have difficulty appreciating the consequences of risks (Smith 2009), and the diversification of risk itself is a challenge (Lusardi and Mitchell 2011). Bateman et al. (2011b) state that Australian findings of uneven financial competence and a poor understanding of risk management and investment, confirm patterns seen elsewhere in the world.

2.4.4.2 Factors in financial literacy levels

Financial literacy levels are not consistent across all individual characteristics, but rather some variation exists across factors such as age, educational attainment, occupation, work status, and income (ANZ 2011, Gallery et al. 2011). For example, financial knowledge is lower in older populations which can make them more vulnerable to scams and poor choices (Lusardi and Mitchell 2011).

There are also differences between the sexes when it comes to financial literacy. Across many countries, a consistent finding is that women are less financially knowledgeable than men but importantly, they are also aware that they know less (Lusardi and Mitchell 2011). This is evidenced by their higher likelihood to state that they do not know the answers to certain financial literacy questions, rather than claiming to know the answers even when they do not. These international insights are supported by Australian studies which highlight that a high proportion of women (70%) recognise the importance of learning more about financial matters (FLF 2008). Of more concern are findings around the use of debt – as many as 20% of respondents would get into debt buying something they can't afford, and as many as 25% do not pay their total credit card balance each month (FLF 2008).

2.4.4.3 Reasons for financial literacy levels

Whilst many researchers, policymakers, industry commentators and the industry itself may bemoan a general lack of financial literacy, perhaps it is not surprising that such levels of financial literacy exist. Two potential reasons for this are the nature of the issues at hand, and the attitude of individuals towards those issues.

Firstly, although people have familiarity with money[24], there are limitations to what can be learned from one's own financial experiences. This is because each person only goes through each life stage once, and when decisions relate to a long term horizon it is often difficult to assess the worth or otherwise of such decisions. Furthermore, what is available to individuals in terms of financial products and options can rapidly change, meaning that previously acquired knowledge can be quickly out of date. As such, the nature of life long

[24] "Before we learn to read, we learn that money is serious stuff. Our money must be treated with care and kept in a safe place, unlike most of our other possessions, which can be treated rather cavalierly without our being rebuked by our parents. Money should never be spent without thoughtful consideration, and if we do spend money unwisely, we are quickly made to regret it. Our young lives are commodified, and money is the superior commodity. It symbolizes all that it can buy, and we may even come to believe that there is little that it cannot" (Allen et al. 2000, p.427).

financial planning and provision may mean that many individuals are not likely to ever attain critical levels of financial literacy (Beshears et al. 2011).

This is exacerbated by the nature of today's financial landscape. Its array of choices, products and options available can undoubtedly confuse and generate significant stress for many people (ANZ 2011; Beshears et al. 2011; FLF 2008; Taylor and Wagland 2011). As such and given that the landscape is complicated, the existence of poor decisions is of no surprise (Campbell 2006). This however is not a slight on those everyday workers and employees, whose requirement to have the skills and ability to take charge of their own affairs has rapidly increased. For many, the shift of responsibility from collective avenues (employers and government) to the self has occurred within their working lives. This leaves many as essentially 'involuntary' investors, who nevertheless are being asked to make important decisions in areas for which many have no experience or indeed interest in (Gallery et al. 2011).

A second factor concerns a retrenchment of the will to engage. In the face of much choice and complexity, individuals can simply avoid an issue altogether, or where that is not an option, simply revert to default options because that requires less effort[25]. There is plenty of evidence for both of these responses in the marketplace today. For example, even though 86% of respondents consider the age pension to be insufficient for retirement and 73% consider that SG contributions will not meet their retirement needs (FLF 2007), many Australian baby boomers conduct little planning for retirement in addition to minimum SG contributions (Hunter et al. 2007). When the limitations of these pillars of the age pension and superannuation savings are appreciated, but nevertheless sole reliance is placed on them, this is an issue of both default and avoidance[26]. The choice not to make longer term plans for savings and retirement needs is also reflected in other findings (Collins 2010; Iannicola and Parker 2010; Wills 2009).

[25] These (and other) behavioural responses are discussed in more detail shortly.

[26] The issue of default within superannuation is further evidenced by the observation that up to 80% of members go with the investment option that is offered as a default, with most of these members likely not making an active choice to do so (Cooper et al. 2010). In contrast and to highlight the likely selection effects occurring within the current Australian superannuation market, members with a self managed superannuation fund (SMSF) display higher scores in survey categories concerning planning ahead, choosing products, staying informed and financial control (ANZ 2011).

2.4.5 Behavioural factors

Also of interest are the actual behaviours that emerge when individuals have to make decisions in a financial context, and what those decisions are influenced by. The conventions of financial and economic theory have been to assume that individuals make decisions to maximise their utility, based on some trade-off between risk and return. Yet what has emerged from the more involved research into behavioural studies is that rather than a constant aversion to risk being the modus operandi, what actually is applied are differing levels of importance to potential gains and losses, which themselves differ depending on their assessed likelihood (Bateman et al. 2010; Kahneman and Tversky 1979; Weber et al. 2011). Many other insights about the behaviours exhibited by individuals have been suggested since Kahneman and Tversky's (1979) ground-breaking paper in this field. Sources of insights into these behavioural 'biases' include laboratory studies, analyses of survey data on actual financial decisions made, surveys examining hypothetical investment decisions, and responses to risk profiling questionnaires (Bateman et al. 2010).

Summarising or consolidating the range of such biases and behaviours is not straightforward, and usually a particular study would present just those biases that are relevant to the study at hand. We offer a slightly different approach here by presenting short descriptions of a large range of behavioural biases emerging from the literature, and arrange them into three categories. The first category relates to what arises from the environment that an individual is placed in – in particular in the Australian context, this concerns choice. Secondly, any individual is part of a social group in some shape or form, so the behavioural biases originating from that social influence is a separate category. Thirdly are those behavioural biases that predominantly originate internally, from within an individual. We do not claim this is exhaustive or optimal in the content or style offered and the categorisation of any particular behaviour or bias may well be arguable (or indeed overlap in more than one category), but in order to build a picture of the various influences that an individual investor faces, we find this categorical arrangement useful.

2.4.5.1 Environmental influences[27]

Table 3: Environmental influences

Type	Description
Too much choice The tyranny of choice Choice overload	The satisfaction associated with having and making choices may be limited to where there are small numbers of alternatives. With more choices, satisfaction can decline, as making a choice becomes more difficult and frustrating. Difficulty exists in choosing from many options because there are limits to the amount of information that can be considered.

2.4.5.2 Social influences

Table 4: Social influences

Type	Description
Confirmation bias	When investors seek out and take on board only those opinions which provide confirmation that their choices are appropriate.
Decision framing	Decisions can be impacted by the way in which information is presented or framed. For example, whether an annuity purchase represents an insurance against longevity, or a forfeiture of consumption in the interim.
Groupthink	Groups of individuals can reinforce the belief that a collective point of view is the correct one.

[27] Sources for the three tables that follow are: Baker and Nofsigner 2002 (who further cite Belsky and Gilovich 1999; Shefrin 2002; Shefrin and Statman 1985); Barberis and Thaler 2003 (who further cite Benartzi and Thaler 2001); Bateman et al. 2010 (who further cite Ameriks and Zeldes 2004; Bateman et al. 2009; Benartzi and Thaler 1995; Benartzi, Peleg and Thaler 2009; Clark and Strauss 2008; Gerrans and Clark-Murphy 2004, Hallahan, Faff and McKenzie 2003, Holt and Laury 2002, Kahneman and Riepe 1998, Tversky and Kahneman 1974); Benartzi and Thaler 1999; Beshears et al. 2006; Beshears et al. 2011 (who further cite Card and Ransom 2011, Choi et al. 2009b); Brown 2009; Duflo and Saez 2002; Engelmann et al. 2009; Fear 2008; FLF 2008; Gallery et al. 2011; Gerrans et al. 2006 (who further cite Hauser and Wernerfelt 1990, Iyengar and Lepper 1999, 2000, Kahneman and Tversky 1982); Hilton 2001 (who further cite Fortuna 1998, Mitchell and McGoldrick 1996); Hoffmann and Broekhuizen 2009 (who further cite Bikhchandani et al. 1992, De Bondt 1998, Hirschleifer 2001, Johnson et al. 2005, Shiller 1995); Hung and Yoong 2010; Kahneman and Tversky 1979, 1984; Karz 2010; Kotlikoff 2008; MacDonald et al. 2011 (who further cite Brown et al. 2008, Brown et al. 2009a, Greenwald et al. 2006, Morrison 2000, Webb 2009); Mullainathan et al. 2012; Munnell 2008; Reeson and Dunstall 2009; Smith 2009; Speelman et al. 2007 (who further cite Sethi-Iyengar, Huberman and Jiang 2004); Statman 1988; Thaler 1999; Van Munster 2011; Weber et al. 2011 (who further cite Egan et al. 2011, Nosic and Weber 2010, Odean 1998, Staw 1976, Thaler and Johnson 1990, Weber, M and Camerer 1998).

Herding	Conforming to what friends and family are doing can lead to herding behaviour where, for example, the latest 'hot' stock is purchased due to not wanting to miss out on the next big thing.
Peer influence	Peers (in particular colleagues) can have a strong influence on decisions and those in a peer group can develop similar tastes, interests, and lifestyles.
Social influence	When in an uncertain situation, social information is sought out as an important information source.
Social norms	Social norms can emerge from the beliefs and actions of a particular peer group.

There are clear relationships and connections between various influences above. For example, peer influence and social influence can lead to social norms, and if done collectively confirmation bias would lead to herding. However, there are also subtle differences as well. For example, social norms suggests a strong influence of those around an individual, social influence merely says that social information is useful but not necessarily persuasive, and herding operates more on fear that something may be missed out on by not acting now.

2.4.5.3 Individual Influences

Table 5: Influences internal to an individual

Type	**Description**
Absence of long-term planning	When comprehensive and long term plans are not considered. May arise from the conditioning of individuals to adjust to financial setbacks during their working life through adjusting consumption, earning, and being flexible, believing this will continue in perpetuity.
Ambiguity aversion	A fear of the unknown or the uncertain can mean that familiar is preferred to the unfamiliar.
Anchoring effects	Irrespective of the relevance of an initial piece of information, there may nevertheless be a focus on this. An example is a fixation on a particular stock price (usually the purchase price), and movements from this price dictate if pleasure or pain results.

Attachment bias	Where attachment to a particular security occurs. This may be simply an emotional attachment due to loyalty (particularly employees buying their employer's stocks, or family history), identification with some aspect of marketing, or some other emotional attachment.
Choice bracketing	Related to mental accounting in that a number of choices can be viewed in totality, or separately and independently from one another. Often various aspects of one's financial affairs are not integrated, but mental accounting takes hold, with attention being separately applied to each aspect, leading to independent decisions in each aspect also.
Cognitive dissonance	Where memories are selectively filtered to minimise information that conflicts with a particular belief, or seek out information that supports that belief.
Default bias	When decisions are complicated, decisions can be put off and staying with a default option results. Employees might also consider that a default exists because someone has assessed that it is the best option for them.
Disposition effect	Where losing stocks are held for too long due to a reluctance to sell, and where winning stocks are sold too soon. Relates to an individual's disposition to avoid regret (selling a losing stock realises a loss), and the disposition to seek pleasure or pride (selling a winner confirms a gain).
Escalation of commitment ('double up or nothing')	Individuals can take significantly more risk, on the same investment opportunity, following a loss. This is done in the belief it may recoup losses.
Familiarity bias	Where a preference is exercised for that which is familiar, possibly because this allows a more involved evaluation to occur. Individuals may consider that this lowers risk, but can lead to too much faith in what is immediately familiar.
Gambler's fallacy	When then is a belief that some 'self-correcting' process exists for one's chosen investments chosen, and that their time for a rise in value 'will come' again.
Heuristics	When faced with complex choices, a reliance on heuristics, rules of thumb or mental shortcuts can occur. This may mean a reversion to what is familiar, an imitation of others, naïve diversification, reliance on more easily remembered information, or anything else that reduces

	the complexity of the decision into something that is simpler and more manageable.
Home bias	Like familiarity bias but where the familiarity is purely with local or national opportunities rather than international ones.
House money effect	Where there is enhanced risk taking after gains, more so than after losses. In contrast to escalation of commitment which is prevalent in an investment framework, the house money effect prevails in a lottery or gambling framework. In this latter situation, any winnings are treated as an additional bonus and not really owned by the individual, hence additional risk is preferred for the possibility of greater gains.
Hyperbolic discounting	When recent information is given a great deal of weight and influence.
Illusion of control	Individuals can overestimate the control they have over outcomes. May be due to their conditioning from having received regular pay over their working lives, allowing them to make choices and have control at regular points in time.
Insufficient diversification	Investors may not diversify enough, often by weighting heavily on 'home' or local/national investments (leading to 'home bias').
Intuition	In contrast to explicitly planning, individuals may rely on intuition for investment decisions, long-term planning, and when to change spending habits.
Law of small numbers	Investors may think they see patterns in data over the short term or small numbers of stocks, and act accordingly rather than consider patterns more realistically emerging within larger data frames.
Loss aversion	When, given an equivalent loss or gain, the fall in investor utility from the loss exceeds the increase associated with the gain. Generally, individuals tolerate a foregone gain more so than a loss, even when economically similar. This bias is accentuated following a realised loss, giving rise to heightened fear of more losses.
Mental accounting	This has many forms. 1. How situations are perceived. For example, choosing between a 500ml can of coke for \$1.50 and a 1.5L bottle for \$1.75. Does the decision depend on a comparison of price and volume, or actual need at the time? 2. Assigning certain activities to certain accounts. This can assist with self-control, and allow an easier approach to measuring progress

	towards specific goals. 3. How frequently the separate accounts are evaluated and whether their separation and intent has a short or long time horizon. 4. A preference for round numbers such as 5% or 10%, and for simple solutions such as a 50:50 split between two options rather than other ratios.
Mood dependence	Mood affects choices, whereby good moods can lead to more optimistic judgements, and bad moods can lead to more critical behaviour.
Naïve diversification	Individuals may diversify in a naïve fashion, often using simple strategies such as allocating *1/n* of their savings to each of *n* available investment options, regardless of what those options are.
Optimism bias	Many people believe that their judgements are better than average, with misfortune more likely to strike others than themselves. Can lead to persistent underestimation of risk and greater overall risk taking behaviours.
Overconfidence	Many investors are overconfident in their financial knowledge, understanding and judgments. Leads to explicitly maintaining control of assets and investments, rather than seeking additional financial information and advice.
Probability weighting bias	Individuals tend to overweight small probabilities and underweight large probabilities of an event.
Procrastinate	Individuals often procrastinate planning, decisions or action. They may perceive that such postponement(s) have no immediate penalty, or they may be unmotivated due to being faced with complicated choices.
Regret aversion	Individuals act in a way to minimise the chance of feeling regret. Many dimensions to this, such as regret being higher with decisions not taken than with decisions that were taken, regret is often avoided such as not selling investments where doing so would realise a loss, and regret can be stronger when the outcome arose from a decision(s) made by the individual themselves.
Representative bias	Where similar qualities in different investments suggest that similar outcomes are likely, but can lead to judgements being based on stereotypes rather than actual prospects.

Risk aversion	The degree to which an individual is not willing to take on risk, even when there is a potentially greater return. This bias is very dependent on the framing of particular options: for example, risk aversion may dominate when only gains are involved, but risk-seeking may dominate when facing the possibility of loss.
Self-control	Associated with a lack of discipline to proactively save, even when attractive incentives exist to do so. Can stem from inertia, procrastination, and an unwillingness to forfeit a level of consumption now.
Short sighted investment horizon	Little concern paid to longevity risk, and preferring to invest in liquid assets rather than consider longer term options.
Status quo bias	If making a change can mean a potential loss, this may outweigh the perceived benefits, even when those benefits are greater. Exhibited through things such as preferring to hold existing investments, preferring default option(s), and not changing decisions because this might equate to an admission that the initial decision was wrong.

Again, there are relationships and connections between many stated influences in the above table. Simply being in a positive mood can lead to optimism bias, which can lead to overconfidence and the illusion of control. Optimism can also mean that less critical analysis is undertaken, with any negative information downplayed or ignored, which is related to cognitive dissonance. The use of mental accounting can lead to naive diversification and choice bracketing, with a subsequent absence of long-term planning, the downside of which can be exacerbated by sudden (over)reactions to major events via hyperbolic discounting.

An example of how social and individual-oriented influences interact is given by overconfident investors – this may either mean that peer influence is lessened because that investor has little interest in what others can tell them, or the overconfidence itself may have arisen due to a combination of groupthink, social norms and familiarity bias. The environmental factor of choice overload and its associated cousin of complexity may drive individuals to the use of particular heuristics, perhaps falling back on default biases, which itself may be exacerbated by social influence and mental accounting in a particular context (notably choice of superannuation investment options).

The point here is not to illustrate an exhaustive number of particular connections and scenarios, nor to demonstrate a developed appreciation nor need of particular terminology as vital to our inquiry. Rather, it is to highlight that a number of factors are at play in any individual's decision making process at any one time, that the source of any applicable biases may be varied, and that understanding that a range of behaviours have been observed in many financial contexts may help explain some of what we later observe in the unique situation(s) that our research participants find themselves.

2.5 The Role of Advice

It is apparent that many individuals may not make good financial decisions if left to their own means (Mullainathan et al. 2012), particularly given the complexity that features within the current landscape (RWA 2012). Given the implications of poor decisions and outcomes, this means that many individuals need to seek help for various aspects of their financial affairs. Doing so requires an awareness of that need, a willingness to seek help, and the availability of suitable sources for that help. The obvious point of call for assistance is with professional financial services, but it can also be a range of non-professional or informal sources. Both of these are reviewed in the discussion below.

2.5.1 Non-professional sources of advice

It is common for people to utilise multiple sources of information to help with their financial decision-making (ANZ 2008), including those from non-professional sources[28]. Sources originating from social interaction includes family members, friends, work colleagues, and other peers. Education seminars, community services, and government sources are also useful and tend to relate to specific, single issues. For example, superannuation funds may give seminars regarding the benefits of voluntary contributions, Centrelink may advise on eligibility for certain benefits, and some community programs may give limited advice around the basics of budgeting or point people in the right direction for specific tax advice.

[28] References for the sources that follow are: Baker and Nofsigner (2002); FLF (2008); Gallery et al. (2011); Iannicola and Parker (2011); McAlexander and Scammon (1988); McKee (2010); Mullainathan et al. (2012); Ntalianis and Wise (2011); Wills (2009).

Sources which originate more from personal readings or investigations can include various items in the financial media (such as the thoughts of personal finance experts in newspapers, magazines, radio and television), media advertising and information in general, publications directly from the finance industry, books, and publications from government. Again, many sources such as the Product Disclosure Statements (PDS) of superannuation funds and investment opportunities will be quite specific to a particular issue or opportunity. Indeed, any advice directly from a superannuation fund must relate only to options (investment or insurance) within that specific fund itself.

A further source which has clearly grown in significance in recent years is the internet. This transverses the boundary between social and personal sources of information, in that it can be used as either, and undoubtedly its use can change the way that people now make investment decisions (Baker and Nofsigner 2002). Now, interested investors can have much information as promptly as industry professionals, they can enter financial transactions independently of a professional if they choose to, and it can be done more cheaply than before (Smith 2009).

Of interest is the relationship between financial literacy and the reference to particular sources of advice. A number of studies confirm that individuals with low levels of financial literacy are more likely to get advice from peers or family than those with higher levels of financial literacy (ANZ 2008; Gallery et al. 2011; McAlexander and Scammon 1988; van Rooij et al. 2011)[29]. Conversely, those with higher financial literacy were more likely to rely on professionals such as financial advisers. Gender differences also exist, with women more likely to consider getting information and advice from some community services and government sources, as well as professional sources such as financial advisers (FLF 2008).

2.5.1.1 The downside risk

Although the range and variety of non-professional sources plays an important role and in some cases may be helpful for many individuals, there are clear risks with a reliance on

[29] Rather than financial literacy levels, Iannicola and Parker (2010) refer to "non-affluent consumers" being "more likely to only receive financial advice from informal, trusted sources, such as family and friends".

such sources. The first of these is that these sources may not in fact be providing appropriate advice. This is no surprise as friends, family and peers are not likely to be experts in the field of personal finance either, but simply are people who are open enough to offer whatever help they can give. But given the low levels of financial literacy, this naturally is as likely to pertain to them as it does to the self. Furthermore, if an individual has not been able to work out the advantages and disadvantages of certain decisions for themselves, relying on others who themselves may not have done so simply exacerbates the problem. In this sense also the impact of peers may be as much a hindrance as a help.

The inappropriateness of advice is also likely due to generational differences with financial issues. What was good advice twenty years ago may not apply today, with different rules pertaining to tax, superannuation as a savings vehicle (especially so given the transition from DB to DC schemes), and changes in available investment options and debt arrangements. The use of the internet as a research tool can exacerbate these risks, where the wealth of financial information can lead to individuals becoming over-confident, thinking they have greater knowledge than what they actually do have. This can lead to other apparent biases such as optimism and in particular, an illusion of control (Smith 2009).

A further risk concerns the fact that each individual is unique, with factors such as the level of family support, attitudes to risk, testamentary intent, belief(s) and attitudes towards retirement differing between individuals (McKee 2010). And, although some non-professional sources may provide specific guidance for specific issues, such advice is unlikely to consider someone's situation at a comprehensive level or be individualised for their particular circumstances (Iannicola and Parker 2011).

2.5.2 Professional Advice

The combination of complexity associated with personal finance, the push to self-reliance, the uniqueness of each person's financial situation, the limited opportunity an individual has to gain experience due to infrequent consideration and purchase of products, low financial literacy levels, changing rules, a multitude of choices and options, and so on, all point to a critical role for professional financial advice (Allen et al. 2000; FSA 2009;

Gerrans and Hershey 2012; Iannicola and Parker 2010; McKee 2010; Morris 2010). This makes a consideration of the role of professional advice of much interest and importance.

2.5.2.1 Features and history

The Australian Financial Planning Association (FPA) describes financial planning as 'developing strategies to help you manage your financial affairs and meet your life goals'[30]. Determining a financial plan in conjunction with a professional is essentially an interaction between goals (such as retirement) and beliefs (such as perceptions of money), with multiple functions required of a financial adviser in order to provide such a service. According to Kliplin (2010), an adviser should provide strategic advice[31], tactical advice[32], an implementation of decisions made, and then help keep individuals on track to achieve their financial goals. Similar functions are suggested by Johnson (1983)[33]. Kotlikoff (2008) refers to financial planning as a highly precise business, whereby the dangers of mistakes are real with the possibility of poor outcomes in terms of financial health a very real prospect.

As a profession, financial planning is relatively new (Hunt et al. 2011; Santacruz 2011). It has emerged rapidly over the last twenty years or so from origins in not only life insurance sales, but also from some services offered in part by accountants, lawyers, and investment brokers associated with stocks and managed funds (Collett 2010; Cowen et al. 2011; Santacruz 2011). Thus, from relatively narrow specialties it has and continues to morph into a unique and distinct profession (Cowen et al. 2011).

However, debate exists as to whether personal financial planning is a true profession, versus the alternative of being a sales or distribution arm of the financial services industry. Murphy and Watts (2009) discuss four attributes which can be used to distinguish between the two: whether responsibility of advice is based on 'self-interest' or 'public interest';

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[30] http://www.fpa.asn.au/default.asp?action=article&ID=22724, accessed 22 March 2013.

[31] Coaching and guiding individuals through various life changes.

[32] Expertise on insurance, investments and superannuation, all within an appropriate individualised plan.

[33] Financial planning is enabled through "thorough collection and impartial analysis of information on the factual and affective dimensions of a person's or family's total financial situation; the identification of needs and the establishment of specific financial objectives; and the formulation, implementation, and continuous monitoring of a comprehensive financial plan to achieve them" (cited in McAlexander and Scammon 1988, p.185).

whether a systematic body of theory is 'stable' which accepts prevailing knowledge as sufficient or 'creative' which seeks to increase knowledge over time; whether professional authority is conferred via sanctioned rules of from superior knowledge; and whether ethical responsibility is regulatory or self-imposed[34]. Evidence from the UK suggests that financial planning currently falls short of a true profession in the attributes of ethical responsibility, and having a systematic body of theory (Gaskell and Ashton 2008, cited in Murphy and Watts 2009)[35]. Others suggest a middle ground by referring to it as an 'applied profession'[36].

Whatever the appropriate description, financial planning has grown in Australia to a stage where it is now a significant industry in itself. Despite limited publicly available information regarding total revenue arising directly from advice (rather than product and administrative revenue), McKee (2010) estimates total recurring financial planning revenues in Australia to be approximately A$1.0 - 1.5 billion per annum.

2.5.2.2 Rationale and benefits

As highlighted previously, there are various factors which justify someone seeking professional financial advice. As such, the industry itself often markets itself at a broad enough level to appeal to anyone who has an interest in greater wealth, protection or peace of mind[37]. In this sense, there is common ground between the portrayal of value of professional advice to portrayal of value offered from other professional services. For example, referring to experts for advice in general is common practice[38], and financial

[34] All the latter options on each attribute point to a profession, all the former options point to the realm of services offered being camped within an industry.

[35] The latter point is also highlighted by Black et al. (2002) who state that personal financial planning (PFP) "has evolved largely devoid of a theoretical foundation", and that "few disciplines achieve recognition and respect without a strong theory base, particularly within higher education. We believe that PFP will prove no exception" (p.2).

[36] An implication of which is that "a simple mastery of theoretical knowledge is considered insufficient preparation for students entering such a profession" (Goetz et al. 2005, cited in Cowen et al. 2011, p.5).

[37] As one example, "the value of advice is relevant to anyone who aims to be financially independent" (NAB 2012).

[38] In particular, "the most prominent situations in which people turn to experts for advice occur under conditions of enhanced uncertainty, such as an economic recession. During such times, people may feel unfit to predict the consequences of their choices, and may seek the counsel of experts to reduce the enhanced perception of risk" (Engelmann et al. 2009).

health being entrusted to professional advisers is compared to physical health being entrusted to professional physicians (Allen et al. 2000).

The potential direct benefits of professional financial advice are considered significant in many circumstances (McKee 2010). For example, information and confidence to invest in risky assets leading to improved investment returns[39], protection from fraud, and where applicable, reduced transaction costs (Hung and Yoong 2010; Mullainathan et al. 2012). One mechanism by which these benefits can come about is via the adviser helping an individual to consider their position in totality[40] rather than piecemeal (Black et al. 2002). Another interesting and quite specific mechanism is suggested by the experimental studies of Engelmann et al. (2009). They measure neural activation patterns in response to certain stimuli and situations, with results suggesting that one role of expert advice is the transfer or offloading of some decision making requirements from the individual to the expert. In other words, the presence of an expert could potentially be viewed as an explicit resource for assessing the likelihood or need for some proposed strategy or product.

A range of important but non (directly) pecuniary benefits are also associated with financial advice, and such qualitative or intangible benefits are considered as important as any other benefits that might accrue to the customer (Collins 2010; Hunt et al. 2011; McKee 2010; RWA 2008). The first of these arises from an adviser operating more as a financial coach than as a specific investment adviser (Kliplin 2010). As a first step this may simply mean making the customer aware or helping them to set specific goals (Hayhoe 2001, cited in Hunt et al. 2011, p.70), which then allows a plan to be put in place to meet those goals. Having a plan in itself can provide peace of mind, which if done comprehensively and realistically then allows the customer a degree of control as well as financial protection against unforeseen events, such as death or disability (RWA 2008). As such, those using financial advisers may be more engaged with their finances, and subsequently have greater certainty and control over this area of their lives (Kliplin 2010).

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[39] Importantly, this helps ameliorate some major and additional investment mistakes made by many individuals, such as underdiversification of risky portfolios (Campbell 2006).

[40] A consideration of all assets and liabilities, and one's situation with regards to self, nuclear and extended family.

What these additional benefits can lead to is a sense of empowerment on behalf of the customer. By firstly providing the customer with financial knowledge and advice, this allows someone to appreciate and have some understanding of what options are before them (deVries 2009). This further allows them to make informed decisions and willingly take responsibility for those decisions, which is one definition of empowerment (Hunt et al. 2011). As such, a value of the advice process is the opportunity for guidance and direction in making important life decisions, with the customer themselves feeling empowered, satisfied and good about doing so (Hunt et al. 2011; Kliplin 2010).

2.5.2.3 Selecting an Adviser

Wijetllake (2012) reports three qualities that consumers consistently look for when selecting an adviser:

1. Concern: having a genuine focus on client needs rather than anything self-related[41];
2. Candour: being honest rather than pretending to know or exaggerating;
3. Competence: knowing what customer-specific problems can be solved and how to solve them.

The key aspect of human relationships that underlies these qualities is that of trust. Trust can be defined as "an expectancy held by an individual or a group that the word, promise, verbal, or written statement of another individual or group can be relied on" (Rotter 1971, p. 444, cited in Tan 2009). It is clearly of much importance in any professional relationship (Iannicola and Parker 2010; Kliplin 2010; McKee 2010; Wijetllake 2012), particularly so because of the requirement to disclose one's personal affairs, usually on a confidential basis, and the inherent reliance of the customer on the professional to achieve a desirable outcome (Hunt et al. 2011). It is essential therefore for a customer to know that the financial adviser will put their needs first, and the onus is on the adviser to clearly demonstrate their priority of meeting those needs (Murphy and Yetmar 2010).

[41] Notably, this includes oneself, one's products and one's services.

Another feature of the issue of trust is that the customer-adviser relationship is likely to be a long-term one, in the vein of a lifelong financial guide and coach for key events and decisions over a lifetime. The ideal outcome of such a relationship over a long time period is that the customer will feel a strong sense of control and comfort about the management of their financial affairs (McKee 2010).

Of relevance then is how a potential customer gains assurance of the quality of the adviser, and how they establish trust in such a critical relationship. It is here that we find a common thread to the mechanisms and sources that individuals refer to when seeking greater knowledge of financial matters for themselves. Just as individuals tend to ask family and friends for advice directly about financial matters, so too as a first port of call do they often ask family and friends about their opinions of particular advisers (Collett 2011; FSA 2009; McAlexander and Scammon 1988). Friends and family may be good sources of opinion because of their own dealings with a particular adviser (FSA 2009), thereby operating in the vein of a personal referral (Wijetllake 2012).

Other factors are also relevant here, including those related to what we term 'peer related credentials'. These include the recommendations of other professionals (for example, lawyers and accountants), the reputation of the company with which the financial adviser is affiliated (for example, the advice arm of a particular bank), and the adviser's own professional qualifications and credentials (FSA 2009; McAlexander and Scammon 1988). There are also social attributes which may appeal to certain customers and not to others. For example, the friendliness of the adviser, their religious beliefs, and in simple terms, the 'likeability' of the adviser (McAlexander and Scammon 1988; Wijetllake 2012).

It is here that a further consequence of financial literacy rears its head again, due to the fact that an assessment of the financial adviser's knowledge is also a further and important factor in adviser selection (Collett 2011; McAlexander and Scammon 1988). One way to partially assess this knowledge is via the advisers' aforementioned credentials, but in addition the customer also has to interpret whether the experience and working knowledge of the adviser provides sufficient assurance. But, if the customer's own interpretation of that level of knowledge is limited, then those customers are particularly vulnerable. This is also exacerbated with customers who have lower levels of wealth and/or financial knowledge, and are more likely to rely on social rather than peer-related or knowledge-based attributes when assessing adviser worth. Of course, the need to make some sort of assessment relates not only to levels of knowledge, but also to the ethical quality of the adviser as well.

There is an appreciation on behalf of advisers of their core need to establish and maintain good communication and relationships over time, in order to develop sufficient levels of trust (FSA 2009; Iannicola and Parker 2010). As such advisers anticipate and plan for numerous interactions with their customer over time, not just an initial consultation (Wijetllake 2012). Such interaction would likely go beyond merely professional consultations to encompass wider social connections (Pompian 2008, cited in Hunt et al. 2011, p.70), which again leads into the ready source and value of personal referrals and recommendations of friends and family, as these social circles likely overlap for many people.

2.5.2.4 Reasons for avoidance

There are also many reasons as to why individuals might not seek out professional financial advice. Once more the issue of financial literacy may have a part to play, with low levels leading many people to undervalue the role of financial advice (MacDonald et al. 2011). Furthermore, consumers may be intimidated by jargon that they do not understand (Iannicola and Parker 2010), or they may consider that they can manage their affairs better by themselves (Greenwald et al. 2006, cited in MacDonald et al. 2011). The latter point may particularly relate to males rather than females, due to the cultural and/or self-imposed expectation that men should be able to manage their lives sufficiently well without outside help (du Plessis et al. 2010).

A lack of financial literacy can also exacerbate information asymmetry that would naturally exist between an expert and a layperson in the normal course of events (Black et al. 2002). Unfortunately, this can mean that there is greater vulnerability to predatory practices (Iannicola and Parker 2010), or even at a more benign level it may mean that consumers cannot differentiate between objective advice and a deliberate sales pitch (Collins 2010). Thus, in addition to being useful for an individual directly, higher levels of financial knowledge and literacy may also be useful in allowing greater engagement with professional financial advice (Iannicola and Parker 2011).

Of course, reasons for limited uptake of professional financial advice also reside within the industry itself, rather than originating from consumers' attitudes and circumstances. Notably, the expectation of consumers is that by turning to professional advisers they will improve their financial health. But contrary to this, conventional financial planning can lead to the consumer being in worse financial shape, often through advisers taking a simplified approach to planning to ensure customers more easily and quickly navigate through the planning process (Kotlikoff 2006, 2008). This can occur through asking consumers to set their own consumption preferences rather than the adviser helping them to set appropriate goals which allow them to maintain a stable standard of living (smoothing their lifetime consumption). Other downsides of advice can be that behavioural biases can exacerbated rather than mitigated (Mullainathan et al. 2012)[42], and more critically, sometimes the advice offered from financial 'experts' is conflicting, contradictory, and in some cases plainly wrong (Brown 2008).

Another reason is that the actual process of seeking financial advice may be a barrier, either directly because of anxiety about the process itself (Gerrans and Hershey 2012)[43], or because money issues are seen culturally as a private matter (du Plessis et al. 2010). Additionally, those of lower wealth tend not to be pursued by financial advisers in general[44], leaving this significant segment of the population with more limited opportunity to access professional financial advice.

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[42] As one example, one issue consumers have is the need for a more honest presentation of scenarios whereby the downside of decisions are highlighted rather than just the upside (deVries 2009). Presenting just the upside can exacerbate optimism bias and overconfidence, and limit a more critical assessment of options.

[43] "Barriers may exist that may prevent individuals from seeking financial advice. Evidence from health services suggests that individuals may fail to seek professional advice in situations where it can reasonably be expected to help them. One reason is anxiety about the medical consultation process itself and the disclosure and evaluation process it involves" (Gerrans and Hershey 2012, p.37).

[44] In the US context, "only 11% of financial advisers are interested in providing advice to clients with less than a quarter-million dollars in assets" (Iannicola and Parker 2010).

In terms of numbers of people who consult professional financial planners, An ASIC survey of 1,200 investors in 2007 indicated that 15% of Australians consult a professional financial adviser as an investment information source, although in response to a hypothetical scenario, 28% said that they would do so (ASIC 2008). An ASIC executive indicated in 2009 that "the figures vary but between 22 per cent and 34 per cent of people would see a traditional financial planner"[45].

2.5.2.5 The issue of trust

The issue of trust clearly has a big part to play in whether financial advice is pursued or not. Morris (2010) reports that as a profession, financial advisers are ranked below pharmacists, doctors, dentists, accountants, bank managers and lawyers in the area of ethics and honesty. Undoubtedly then, there are challenges facing the industry as a result of low levels of trust (Greenwald et al. 2006, cited in MacDonald et al. 2011; Hunt et al. 2011; McKee 2010). Part of this is due to unprofessional actions that some advisers admit they have willingly done (Murphy and Watts 2009), which is one reason for recent Australian legislative pushes for advisers to be legally obliged to put their clients' interests ahead of their own (Collett 2010).

Furthermore, a raft of publicity surrounding various financial disasters in recent years has brought these issues even further into the public sphere[46]. In the Australian context, the collapses of Storm Financial, Opes Prime, Westpoint and others led to an influx of complaints to the Financial Ombudsman Service (FOS)[47] (Knight 2011), and through the subsequent adverse media coverage and commentary this has heightened distrust in the industry (Kliplin 2010; Santacruz 2011). Such publicity in general increases the fear for consumers that they could be taken advantage of by an unscrupulous adviser, thereby undermining trust further (Iannicola and Parker 2010).

[45] ASIC Strategic Policy Executive, Canberra public hearing of 24 June 2009, Parliamentary Joint Committee on Corporations and Financial Services 'Inquiry into financial products and services in Australia', p.21.
[46] We note, of course, that unethical actions and the presence of scams and swindles in the financial context are not just recent occurrences (McAlexander and Scammon 1988).
[47] FOS is an industry body for consumers to resolve complaints. It is made up from a membership base of financial institutions (http://www.fos.org.au/centric/home_page.jsp).

An associated factor is the existence of conflicts of interest. These are inherent in many professional capacities[48], and in the context of financial advice the focus has been predominantly on the issue of compensation for the adviser (Bearden 2001). A financial adviser can be compensated in various ways such as salaries, explicit fees from the customer to the adviser, and/or commissions. Commissions are usually a percentage of some measure of the transaction (size of investment, or premium), and are generally paid to the adviser from the provider of the underlying product. These may be initial payments, or regular payments, or both. It is claimed that commissions give greater access to advice for those that could otherwise not afford it, but that over time, the presence of commissions can significantly inflate the overall cost of advice (Collett 2010; Collins 2010).

The conflict arises from the fact that with commission arrangements, the compensation for the adviser arises from the sale of products. This can incentivise advisers to sell products with the highest commission structures, in direct contrast to what consumers may actually need – the provision of unbiased advice (Bentz 2001; Collins 2010; Iannicola and Parker 2011). As one example, a shadow shop of advisers released by ASIC in 2006 showed that advisers transfer their client's superannuation savings between superannuation funds, solely for reasons of commissions and of little benefit to the client (Collett 2011)[49]. A significant source of general mistrust then lies with consumers not believing that their best interests are being served, as a result of compensation arrangements (Collett 2010; FSA 2009; Iannicola and Parker 2011).

Such perceptions are also influenced by the structure of the industry – advisers can be considered 'independent' or non-institutional operators, versus 'aligned' or 'tied' to a financial institution such as AMP, AXA, the banks or other businesses[50]. Approximately 75% to 85% of financial advisers fall into this latter category, meaning that for these advisers a dual role exists of giving advice and selling products of any associated

[48] For example, one study indicated that one in four physicians experienced a conflict between helping patients and protecting their own income (Jaklevic 1997, cited in Bearden 2001, p.27).

[49] Furthermore, consumers were six times more likely to receive bad advice when their adviser was paid higher commissions to move the consumer to a different superannuation fund (Collett 2011).

[50] Executive Manager, Guardian Financial Planning, Melbourne public hearing of 26 August 2009, Parliamentary Joint Committee on Corporations and Financial Services 'Inquiry into financial products and services in Australia', p.86.

institutions. Notably, this can create "potential conflicts of interest that may be inconsistent with providing quality advice and these conflicts may not be evident to consumers"[51]. As a result, a perception exists that an adviser cannot both sell a product and give unbiased advice. This is a particularly strong view amongst those who have not yet used professional financial advice (Iannicola and Parker 2010). The use of fees as compensation instead of commissions potentially better aligns the interests of advisers and consumers (Collins 2010), and this is certainly the motivation behind recent reforms in the Australian market[52]. Nevertheless, it is important to note that in some cases the concerns about commission-incentivised behaviour and product pricing may be overstated (Collins 2010), with consumers not necessarily against being charged reasonable amounts for quality advice[53]. Furthermore, a danger is that debate(s) about compensation arrangements can replace the more important issue of the quality and value of advice being given (Kachor 2010a).

2.5.2.6 Difficulty of assessing value

An important factor in this discussion is the difficulty in demonstrating the value or otherwise of financial advice, for which there are many reasons. Advice itself is essentially a credence good with its subsequent quality being hard to assess (Bluethgen et al. 2008), and this is exacerbated by the complexity of the underlying issues that financial advice pertains to (FSA 2009).

One major issue in discussing the quality of advice is the temporal nature of outcomes arising from that advice. The long term implications of appropriate financial planning are significant and given the associated aspect of risk, this can mean that a focus on short term financial benefits can be inappropriate (Collins 2010). However, this itself opens up a number of issues. Very poor advice and decisions can certainly lead to significant losses and poor outcomes in the short term, and these should not merely be waved away due to a

[51] ASIC public submission [378] to the Parliamentary Joint Committee on Corporations and Financial Services 'Inquiry into financial products and services in Australia'; ASIC deputy chairman, Canberra public hearing of 24 June 2009. Parliamentary Joint Committee on Corporations and Financial Services 'Inquiry into financial products and services in Australia', p.25.

[52] These are the Future of Financial Advice (FOFA) reforms, which are discussed further in chapter 3. See http://futureofadvice.treasury.gov.au/content/Content.aspx?doc=home.htm.

[53] In fact, Gino (2008, cited in Hung and Yoong 2010) claims that individuals are significantly more receptive to advice that they pay for, rather than advice they get for free.

fallback on 'it is the long term that matters'. And, it can also lead to spurious claims about the effectiveness of advice and quality of decisions, notably due to the cherry-picking of convenient data[54].

But, it is undoubtedly the case that even when high quality advice may have been given, there may not necessarily be evidence in the short term of the quality of that advice. Whether it is the purchase of a product whose quality is not immediately obvious (Bentz 2001), or whether advice is given to forego current consumption (if indeed this can overcome the bias of hyperbolic discounting), it can be difficult from the consumer's perspective to assess whether advice is sound within short time frames (Iannicola and Parker 2011)[55]. This issue of time also applies to the adviser's own learning where they may only get limited feedback themselves (Barberis and Thaler 2003), due to the need for long time periods to give evidence one way or another of decisions taken.

Not only time, but also the nature of financial outcomes does mean that the outcomes arising from advice is necessarily one of probability, not certainty. In the context of institutional portfolios but nevertheless extended here for our purposes, Hedberg (1973) humorously points out that quality measured solely by a single result involves uncertainty "in a field where chance can, for a time, make a hero out of a fool, or a goat out of a conscientious analyst" (p.24). In other words, sometimes given advice may work out well, and sometimes it may not.

Hence it is the case that there are many, hard-to-assess factors when considering the quality of financial advice. The worth of advice can be abstract (Iannicola and Parker 2010), not always visible to the general public (Kliplin 2010), and in general, the assessment of value generally has to involve a qualitative judgement (Weatherhead 2009). As such, this means that the value of financial advice can be relatively intangible to some consumers

[54] For example, "it would not be unreasonable for many intelligent people who get most of their financial information from financial programs to believe there are very few financial professionals who lose. With so many possible measures of performance, it is difficult not to find one that looks good. One of the authors was presented with the record of a noted investment professional which showed below-average performance over the past 1, 5, and 10 years. Performance over the past 15 years, however, was above average. This was described as being noteworthy evidence that the professional was not interested in quick results but was investing for the long term" (Allen et al. 2000, p.429).

[55] Indeed, "financial advice is not like hiring a plumber, in which the immediate and concrete benefit of the service is a fixed sink. Instead, the benefits of financial advice are delayed" (Iannicola and Parker 2010).

(Wijetllake 2012)[56], and this quality assessment is complicated further when determined by a consumer's own subjective judgement[57].

2.5.3 The regulatory environment[58]

The basis for the regulatory system of financial services providers in Australia is centered on the 1997 Financial System Inquiry (FSI), otherwise known as the Wallis Report (Treasury 1997). The underlying assumption of its recommendations were that the most efficient allocation of resources across the industry would be through the free market – one where competition and innovation would direct and rationalise the range and cost of services, products and overall capital allocation over time. The FSI also recognised that some institutions are of 'systemic' importance to the functioning of the economy as a whole, and as such should be subject to closer regulatory control.

Hence, the financial sector more or less is broken into two segments. One segment includes institutions considered to be of 'systemic' importance and include deposit taking entities, life and general insurance companies, and superannuation providers. These institutions fall under the prudential supervision of the Australian Prudential Regulation Authority (APRA) and as such so do their licensing and reporting requirements, and standards around capital adequacy. The priority of such prudential supervision is to ensure confidence that their promises to investors and policyholders are met.

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[56] "If clients can touch it, feel it or see it, they know exactly what they're buying and immediately many purchasing concerns disappear. But in professional advisory services, you never have the advantage of allowing the client to 'kick the tyres' the way sellers of products do" (Wijetllake 2012, p.24).

[57] For example, it may be a good piece of advice to invest in cash for some given set of reasons and goals, but a investor may be disgruntled in ten years when they ask, "if only I had invested in shares…". There are ways around this with documenting the original decision and conducting an explicit financial needs-analysis, but nevertheless if advice is measured solely by the investor's assessment of the result at some time in the future, and this is taken as the measure of the quality of the original advice, then this is not necessarily a fair assessment of the quality of the original advice. As an additional analogy, with professions such as medicine there is good practice which nevertheless can result in undesirable outcomes, but there is also practice which can be professionally negligent. In financial affairs, it may not be straightforward for a disgruntled client to differentiate between the two.

[58] The discussion in this section is based on our understanding of the 1997 Financial System Inquiry (FSI), the Corporations Act (2001) (Commonwealth of Australia 2001), and the Financial Services Reform Act (2001) (Commonwealth of Australia 2005). It is supplemented by information provided on the websites of the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA), as well as by the public submissions of ASIC and the Treasury to the Parliamentary Joint Committee on Corporations and Financial Services 2009 'Inquiry into financial products and services in Australia'.

The second segment relates to the remainder of the financial services sector, and includes entities such as finance companies, financial advisors, stockbrokers, fund managers, unit rusts and other market-linked product-providers such as debentures, mortgage trusts and unlisted trusts. These entities fall under the supervision of the Australian Securities and nvestments Commission (ASIC). Hence, in terms of overall regulatory oversight, APRA and ASIC operate as a 'twin-peaks' system.

As a significant point of difference to the supervisory requirements offered via APRA, the ole of ASIC is based on a conduct and disclosure regime, which at its heart is there to nitigate the information disadvantage that consumers could otherwise face when dealing vith this segment of the market. A major rationale for not having every entity under APRA-like prudential regulation is due to the costs involved, which would ultimately be assed onto consumers. Such costs can be direct (such as meeting stringent capital dequacy requirements), or indirect via impacts such as potential restriction of competition nd innovation. As such, the aim of regulation in this segment is to ensure the efficient, onest and fair operation of those entities. The promotion and enforcement of such aims an happen via a multitude of actions[59], but the key ones of interest are those associated vith licensing, conduct and disclosure requirements.

Key legislative pieces include the Corporations Act (2001) and the Financial Services Reform Act (2001). As the central legislative piece regarding financial service law in Australia, the Corporations Act (2001) regulates the activities of companies, as well as artnerships and managed investment schemes. It is administered by ASIC and provides ey obligations and requirements that must be met by any financial service or product rovider in Australia including registration, reporting, and responsibilities of directors. Chapter 7 of the Act deals specifically with financial services and markets, including the censing regime and the requirements relating to conduct and disclosure.

For example, the administering of consumer protection laws, applying minimum standards of competency nd ethical behaviour so that customers have fair service by appropriately qualified people, and ensuring ccess to effective and appropriate complaints handling procedures. For an overview of ASIC's current unctions, see http://www.asic.gov.au/asic/asic.nsf/byheadline/Our+role?openDocument.

The Financial Services Reform (FSR) Act (2001) introduces a more uniform approach to the licensing system, rules around disclosure, and code of conduct obligations for financial service providers. Through this it aims to assist and give confidence to decision making by financial service consumers by promoting fairness, honesty, professionalism, order, integrity and transparency in the financial services and product market, whilst still encouraging efficiency and innovation. Like its forerunner the Wallis Report, the FSR regime is based on the belief that market efficiency will drive the best outcomes in terms of overall provision of financial services, and as such, minimal regulatory intervention is seen as an appropriate approach.

2.5.3.1 The licensing regime

Any entity (individual or company) which provides a financial service[60] must be licenced with ASIC via an Australian Financial Services Licence (AFSL). This licence infers various responsibilities on the licensee including responsibility for those who, whilst under the licensee's control and direction, are involved in providing the service for which the licence had been granted. This includes acting honestly and fairly at all times, adherence to licencing conditions and financial laws, maintenance of competency to provide the services promised, having adequate risk management systems and resources[61], having appropriate compensation arrangements, and also, where services are provided to retail clients, having a complying dispute resolution system in place.

Exemptions do exist under this regime, and this is typically when someone is an 'authorised representative' of an AFSL holder. The AFSL holder may have employees assisting it in providing financial services, and under such exemptions each such individual is not licenced explicitly by ASIC, but as noted above the AFSL holder is held responsible for their conduct. A rationale for such exemptions is to increase the number of financial service providers, where for various reasons many may not want to obtain an individual AFSL[62].

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[60] This includes, amongst other things: giving advice on, dealing in, or making a market in financial products.
[61] Unless it is an APRA-regulated entity which then has greater protective provisions.
[62] There are approximately 3,300 entities that are authorised to provide personal advice including advice on products (including securities, derivatives, superannuation, general insurance, life insurance, and deposit-taking facilities) (St. John 2011). Overall there are approximately 18,000 financial planners and 45,000 authorised representatives (CEO, Financial Planning Association, Canberra public hearing of 28 August 2009,

An AFSL must be granted upon certain criteria being satisfied[63], and as such, the grounds to refuse a licence are limited to the non-fulfilment of those criteria. This means that the AFSL regime is effectively a 'gatekeeping' mechanism which checks the competency, integrity and resources of those entities at the time of application, effectively setting a threshold at entry for providing a financial service.

2.5.3.2 Disclosure

Where an adviser is recommending a financial product to a customer, the disclosure aspect of the regulatory regime focuses on the product detail and appropriateness, the capacity of the adviser in giving advice, and the influence of remuneration and other benefits that may influence the giving of that advice. The purpose of such disclosure is to allow the customer all that they need to know in order to make an informed decision.

Such disclosure is intended to overcome one notable issue in the realm of the financial services industry – that of information asymmetry between those in the industry and those who are customers. By being transparent about all relevant factors to the giving of advice, the customer is theoretically in a position to be able to assess advice given in the light of other influences – most obviously issues of remuneration, but also, for example, by comparing to the characteristics and features of other products which may not have been recommended. This form of disclosure sits well within a framework founded in the virtues of efficient markets, because arguably it is offers a low level of intrusion and friction in respect of the operation of that market, whilst still (arguably) giving the customer information to make an informed decision.

Parliamentary Joint Committee on Corporations and Financial Services 'Inquiry into financial products and services in Australia', p.27).

[63] Such as ASIC not being unsatisfied as to the applicant's fame or character, and have no reason to believe that licensee obligations under the Corporations Act will not be complied with.

Disclosure in a formal sense is predominantly given through three main documents[64]:

- The Financial Services Guide (FSG). This provides information about the nature of the services being offered, and provides details relating to the payment for such services.
- The Statement of Advice (SoA). This is differentiated by whether general advice (not considering the customer's personal circumstances) or personal advice (this considers the customer's objectives, financial situation and needs) is being given.
- The Product Disclosure Statement (PDS). This outlines key information about the financial product.

This documentation must be given to a retail client in certain situations, with the content required to be clear and concise, yet still comprehensive and relevant to the customer's needs.

2.5.3.3 Overall intent

Broadly, the overall intent of the regulatory FSR licensing, conduct and disclosure regime is intended to strike a balance between consumer protection and the capacity for markets to innovate and deliver efficiency, flexibility and variety to the end customer. Crucially, this means that the regulatory settings in the non-APRA regulated segment does not guarantee that market and institutional failure will not occur, nor that financial promises will always be met. Risks exist for the customer because they can choose a product or suite of products which are unsuitable for their circumstances, including those with high risk features that they may know little about, or are not in a position to manage effectively.

In terms of where personal financial advice has been given, the requirements and indeed obligations on the adviser boil down to three key elements expressed in the Corporations Act (2001), s945A(1). These are to:

- Understand the customer's relevant personal circumstances in relation to the advice being given;

[64] Detailed discussion of these aspects of disclosure is provided in Treasury's public submission [388] to the Parliamentary Joint Committee on Corporations and Financial Services 'Inquiry into financial products and services in Australia'. Only a brief summary is presented above.

- Give careful consideration to whether the advice is reasonable in all of the circumstances obtained above; and
- Ensure that the advice is appropriate to the customer, given those circumstances.

In other words, an adviser must know their customer, know their product, and ensure that the product is appropriate for that customer. The basis for such advice must be 'reasonable', appropriate and provides an obligation on the adviser to specify advice specific for the particular customer.

2.6 Summary of Chapter

In this chapter we outlined the system of 'pillars' in place for retirement savings and provision in Australia. Importantly, this system is not static but exists in a historical context, with ongoing changes apparent such as the move from DB to DC superannuation schemes.

The current system provides many challenges for individuals. The availability of many competing choices, the individualisation of risk where longevity and health risks are of particular concern, and an increasing reliance on non-governmental institutions in general, presents a level of complexity to individuals that they may not be well equipped to handle.

Major risks exist for individuals around the levels of savings needed and the perceived pressure to self-fund one's retirement, and these risks are exacerbated by levels of financial literacy which may not be adequate to deal with the complexity at hand. Such levels of financial literacy also influence and are influenced by a raft of behavioural factors which are attracting increasing attention and interest. We present such factors in three groupings: those arising from an environmental, a social, and a personal context.

The subsequent need for financial advice is apparent, and various sources of such advice exists. In particular, we gave attention to the professional advice industry, providing an overview of its history and rationale, highlighting that issues of trust and engagement exist. The particular difficulty in assessing 'value' of advice was highlighted.

This chapter concluded with an overview of the regulatory environment for financial provision and security in Australia. A 'twin-peaks' model is in operation, with the ASIC-regulated sector essentially underpinned by a belief that market efficiency will deliver the best outcomes in aggregate, over time, across society at large. In this context, the regulatory tools of licensing and disclosure are seen to be sufficient to deliver appropriate outcomes in terms of overall costs and benefits.

Chapter 3: An Australian Financial Storm

3.1 Introduction

"As long as the music is playing, you've got to get up and dance. We're still dancing": so said the then president of Citibank in July 2007[65]. Of course, what soon followed was a number of defaults on loans across many financial contracts, significant falls in equity markets, the failure of a number of financial and investment firms, and significant personal losses for many individuals worldwide. This period, its circumstances, and its aftermath, is now colloquially referred to as the Global Financial Crisis (GFC).

Although at a macro level Australia was impacted less by the GFC than many other countries, the impact nevertheless was material and is still being felt in many circles. The Australian Securities Exchange fell more than 50% between October 2007 and February 2009[66], which resulted in losses for those with direct holdings, but also for those with exposure via superannuation funds. In addition, the failure of listed companies such as Centro, MFS, Allco Finance, ABC Learning and Babcock and Brown, compounded such losses for many individuals (Ralston 2009).

A major additional impact in Australia has been the collapse of several financial product and services providers, resulting in many thousands of people losing their life savings, house ownership, and any semblance of financial security. Many of these investment companies offered complex and/or leveraged products (such as Opes Prime[67] and Storm

[65] Cited in Smelt (2010, p.230).

[66] The value of the ASX All ordinaries Price Index was 3296 in February 2009, down 51% from its value of 6779 in October 2007. See http://www.asx.com.au/research/historical_equity_data.htm .

[67] Opes Prime specialised in the borrowing and lending of securities. At the time of its collapse in March 2008, it had more than 650 active client accounts and creditors were owed about $630 million (Chappell 2010). Investors took out margin loans on the security of their shares, thinking they had ownership of these shares. However, these shares had been transferred to the broker in exchange for the loan, and when the broker breached their arrangements, the shares were sold by the banks, often at the bottom of the market, without the investors' knowledge (Spigelman 2010). The appointed administrator later claimed that there was a "tangled web of subsidiaries and related companies", resulting in "probably the most complicated legal matter that I've been involved in… everyone had a different view" (Urban 2010).

Financial), whilst others offered managed investment schemes (such as Timbercorp and Great Southern). In some cases these collapses involved fraud (such as superannuation fund Trio Capital), whereas others have been claimed to primarily involve a failure of 'product' (such as Westpoint[68] and numerous managed investment scheme collapses). The collapse of Storm Financial, in contrast, is claimed by some to be a failure primarily of financial advice (Taylor 2012a, 2012b).

Given its distinctive features, this chapter considers the collapse of Queensland-based Storm Financial in some detail. Our intent here is to describe perceptions around the overall circumstances of the collapse, and as such, much of the following material is necessarily based on media sources[69]. However, balance is given where possible with the few academic and professional sources that are available, as well as the accounts of other parties such as Storm's administrators (Worrells 2009).

3.2 Storm Financial

3.2.1 Overview[70]

Storm Financial was a Townsville-based financial planning business[71] which as at August 2008, was in a seemingly healthy position. Total investments under management were $4.86 billion, spread across approximately 14,000 clients. Some 3,000 of these clients had taken out margin loans as additional leverage on their overall investment, with these loans contributing approximately $1.8 billion of total funds. However, with the onset of the GFC, funds under management began to fall rapidly such that by the end of October 2008, total investment value had dropped to approximately $3.5 billion (Worrells 2009).

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[68] Westpoint Corporation was a West Australian-based financial firm specialising in property development. It collapsed in 2006, with approximately 4,000 investors losing a total of $300 million. Of particular note was the "incredible devastation… being wrought on families as a result" (Kohler 2006).

[69] Some of these media sources cite material that we also later cite in its original form (such as contributions to a Parliamentary Inquiry). The utility of using those views which have predominated in the public domain is to give an indication of the environment (both real and perceived) that ex-Storm investors have found themselves in since the collapse. Furthermore, the continuing nature of impacts and legal disputes associated with Storm's collapse means that media sources give a very accessible form of relevant information relating to the collapse and its aftermath.

[70] In addition to the discussion which follows, the website for Storm financial is conveniently archived at http://web.archive.org/web/20070828204959/www.stormfinancial.com.au/index.php for further reference.

[71] Storm Financial was previously known as 'Cassimatis Securities' which was established in 1994, which then later changed to Ozdaq Securities, and then to Storm Financial.

Subsequent events over the final few months of 2008 led to ASIC beginning formal investigations in December 2008, the entry of Storm Financial into administration in January 2009[72], and the subsequent placement into liquidation on 26 March 2009. The total losses accruing to Storm's clients has been reported to be in the region of $3 billion (Raggart 2009b; St. John 2011; Trenworth 2010; Washington 2010a), although this figure is disputed[73].

As well as the loss of investor funds, many clients lost their homes and total life savings, and others are still in limbo (as at mid-2013) as to their status due to ongoing legal issues. The scale of and trauma involved with the demise of Storm Financial attracted much media attention at the time and also since then[74], and its collapse has been highly significant on a national scale as well as for those individuals involved.

3.2.2 The Storm Model

3.2.2.1 Strategy and product

The basic model used by Storm was to encourage investment in Storm Australian Index Trusts, essentially a 100% Australian equity-based indexed fund. The source of the funds for this investment choice came from some or all of an individual's own savings, the withdrawal of superannuation funds, the selling of other assets, a mortgage against the investor's primary residence, and then a margin loan against the accumulation of these amounts to provide additional funds and leverage[75].

Loans against an investor's own home were provided by the major banks, but most prominently by the Commonwealth Bank (CBA) and Bank of Queensland (BoQ). The net

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[72] At that time it owed its main financier the Commonwealth Bank of Australia (CBA) $27 million (Worrells 2009), plus other debts.
[73] ASIC (2012c) claims that "the total loss suffered by all investors who borrowed monies from financiers to invest through Storm to be approximately $832 million...ASIC does not know of any reliable source for the $3 billion loss figure".
[74] As an example of some reporting, a variety of labels such as "Australia's champion wealth destroyer" (Barry 2011) have been used frequently to describe Storm's collapse.
[75] This last source of credit has been described more exasperatedly as borrowing "yet more funds" (Smith 2009, p.528).

proceeds of such loans were used to purchase units in the equity investment, for which the investment vehicle was usually provided through Challenger or Colonial First State. The additional margin loans were usually provided by subsidiaries of the CBA or Macquarie Bank (Barry 2009; Ferris 2011).

The strategy to both (re)mortgage a previously unencumbered home and also take out a margin loan has been referred to as 'double gearing' (Ferris 2011), or 'leverage on leverage' (Smith 2009). Individual margin loans were semi-secured from the credit provider's point of view, with individual investor's units in the Equity Trusts being pledged as collateral (Ferris 2011). In a rising market, returns on the equity investment would be more than sufficient to pay for interest on the mortgage and margin loans as well as provide for the lifestyle requirements of investors. In fact it seems that this was the case for most investors for some time leading up to the GFC (Smith 2009).

Margin loans had allowable loan to value ratios (LVR) as high as 80% to 90% (Barry 2009), though the initial setting of the LVR was more often around 55% (Vogel 2012)[76]. Over time investors were encouraged to increase the absolute size of their investment, in line with increases in the values of both the equity investment and house value (Barry 2009). In fact, no matter what happened in equity markets, the advice appeared to be such that more equity investment was always beneficial[77]. This, of course, meant that the size of investors' loans also increased[78].

Ferris (2011) highlights that lessons from history are not readily learned, in that the Storm model had a predecessor with National Mutual's Negative Gearing Package some twenty years earlier. A similar model applied then also, of mortgaging a home to access funds for investment, then via a Citibank-provided variable-interest line of credit, and often marketed

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[76] The 'general information' for ex Storm investors at http://www.sicag.info/index_files/Page1541.htm gives further detail.

[77] Indeed, "if the stock market then fell by 10% they were told to put in more cash and buy more shares, because shares were cheap. If the market rose by 10%, they were told to borrow more money and buy more shares to maximise their gains" (Barry 2011). The diversion of funds explicitly to the Storm-badged equity investment was also framed in terms of property itself not being seen as a safe investment (Fraser 2012).

[78] One such example is a Townsville couple where the husband was the main earner with an annual income of $17,500 from part-time work. Yet despite this, their borrowings and exposure to the stock market increased 11 times in 25 months to have a share portfolio of $2.26 million, funded by a debt which accrued interest of $191,800 per year, and from which over time $152,000 in fees were paid to Storm (Barry 2011).

to those on low incomes and with limited resources. During the property crash of the early 1990s property values fell, interest rates on loans increased, and income fell. The rapid increase in debt levels and forced sales of homes makes the Storm situation "depressingly familiar" (Ferris 2011).

3.2.2.2 Investors

The investment strategy offered by Storm may well have suited certain groups of people at particular stages in life – for example, those on high marginal tax rates, those with the means to cover periods of negative cash flow (particularly in the early years as the initial commission to Storm Financial was 7% of the value of any new equity investment), those who were prepared for and able to meet margin calls if/as they arose, and also those who were experienced investors and who understood the risks involved (Ferris 2011). However, most investors were not necessarily experienced in financial matters, and were in or were just about to enter retirement (Smith 2009; Washington 2010a)[79]. Hence, the overall Storm model has been likened to a 'one-size-fits-all' model of financial advice (Washington 2011) whereby predominantly elderly investors borrowed money against their house and took out margin loans to invest in equities[80].

The motivation of investors to get involved with Storm has naturally been the subject of much speculation (for example, The Australian 2011). Whether investors believed that Storm's approach could fast track their way to great wealth or at least far more wealth that other strategies could deliver, or whether they had more straightforward and modest goals, is discussed later in this thesis.

3.2.2.3 The Role of the Banks

The provision of services by the involved banks was clearly an essential cog in the Storm model, whether it was via the provision of mortgage loans, margin loans, or as the vehicle

[79] Allan Myers QC, legal counsel for ASIC, described the typical Storm investor as "not experienced in financial matters but comfortably off, having a home that is not mortgaged or mortgaged to a modest extent, plus other assets such as superannuation" (cited in Fraser 2012).
[80] In other words, "index funds and high leverage, for all customers" (Smith 2009, p.535).

for equity investment. The CBA and its subsidiaries had the most significant involvement of all the banks, through CBA-provided home mortgages, Colonial Geared Investment-provided margin loans, and Colonial First State-provided equity investment services (O'Shaughnessy 2009; Worrells 2009).

However, several points of contention have arisen with regard to the involvement of the banks within the Storm model, and these have been (and still are as at August 2013) subject to legal dispute and action. The accusations have included blank loan applications being filled in either by Storm's advisers or elsewhere[81], the overstating of income, the over-inflation of asset (property) values, all leading to what is politely termed a relaxing of normal lending standards (Barry 2009; Ferris 2011). The role of some banks has been more provocatively claimed to be the 'sting' in the tale of Storm Financial (Fanning 2009). The charges are not without foundation as some banks have acknowledged some responsibility arising from deficient lending practices (Ralston 2009), and an anonymous former senior bank employee urged Storm clients to go to the Financial Ombudsman Service with complaints (Raggart 2009a). Some of these accusations are not necessarily unique to Storm[82] but its impact on the scale of Storm's demise has been picked up by many commentators[83].

[81] According to lawyer Stewart Levitt, "we know what's in your records is often falsified, often by Storm planners or by bank officers" (cited in Wilson 2012b).

[82] Indeed, the artificial inflation of a borrower's income or assets by some party other than the borrower applies "far wider than the Storm Financial crisis, consumer advocates have warned" (Klan 2010).

[83] A range of specific and general allegations are highlighted by a wide range of commentators. For example, borrowers' signatures being witnessed on home loan documents in towns that the borrower has never visited; substantial overstatement of investors' ability to make loan repayments; bank branches resembling an endless cash machine; money being thrown at Storm clients even though otherwise "in late 2007, 2008 you couldn't even get an overdraft"; and "unbelievable sweetheart deals" being struck such as $10 million margin loans without credit checks (Beaman 2009; Klan 2010; Raggart 2010; Ralston 2009; Washington 2011). Specific cases include a war veteran on a disability pension of $850 per fortnight who could nevertheless access a loan of $1.2 million due to an annual income of $99,996 being on his bank records, despite having no contact with the bank (Raggart 2009a); and a Brisbane investor with an annual income of $24,000 who was granted a $2 million line of credit to invest in Storm, trapping her in "a dreadful debt spiral" (Marx 2012a). Washington (2011) describes the situation pointedly as "the epitome of banks in league with a financial planning industry that had run out of control", with any thought that the banks took a prudent approach "demolished".

3.2.2.4 Marketing

Like any business that believes it has something worthwhile to sell, Storm had a number of approaches to winning the trust of potential investors. Firstly, in order to portray its approach to becoming 'successful' as legitimate, one method was to associate with successful objects – well known people, and tangible and immediate rewards. For example, pictures of Storm management with James Packer and former US president Bill Clinton were referred to (Fraser 2012). Other marketing featured prominent Australian sportsmen (O'Shaughnessy 2009). Trips overseas for clients also occurred (Smith 2009), including Alaska, Canada and the Mediterranean, although it is noted that investors paid for the majority of their own costs on such trips.

Another way to portray success and confidence is growth and expansion, and naturally successful business models do grow and attract further business. Storm's ambitions in this regard included the purchase of additional financial planning firms (and hence their networks, advisers, and clients) throughout Queensland and Sydney in 2007, and the building of a new headquarters office space in Townsville over 2007/2008. Additionally, Storm attempted a market listing in late 2007 (O'Shaughnessy 2009), but poor investor demand resulted in that failing to proceed.

A third and perhaps most influential approach was through personal assurances, which undoubtedly is a powerful influence in many settings. In the case of Storm, the persuasion was such that many investors continued to pursue Storm's suggestions and advice over extended periods of time (Barry 2011)[84]. Repeated assurances are of course often engineered to generate trust – and investors were repeatedly told not to be concerned about their portfolios, leading to a heavy reliance on Storm's guidance (Marx 2012b). In particular, many investors claim that they were explicitly told that there was little chance that they would lose their home (Ferris 2011). Part of this assurance was via the appeal to diversification – that investing in index funds diversifies away the risk associated with a

[84] One example is a Townsville resident who earned $46,000 per year and owned a house valued at less than $400,000, but ended up with $1.8 million of loans to fund his share portfolio. He commented that "from day one they [Storm] told me it would fund itself… that's what they told me". Over his ten years with Storm, he paid $700,000 in fees and interest to Storm and the banks (Barry 2011).

specific stock and that this made the overall model more assuring (Smith 2009). The interview transcript of Ellen Fanning (2009) with Storm's founder Emmanuel Cassimatis reiterates the assurances given to unequivocally trust Storm:

> FANNING: You kept saying to your clients, "Trust us. Trust us" you kept saying.
> CASSIMATIS: Yes, I did.
> FANNING: We'll do the worrying for you.
> CASSIMATIS: Yes, I said that.

A fourth approach and also influential arose from what can be termed 'Institutional assurance'. The fact that Storm had a close relationship with reputable financial institutions (indeed the largest bank(s) in the country) who were happy to offer, support and finance loans and investments in equities, would have been comforting to many investors (Ferris 2011). Indeed, it was comforting to Storm's founders themselves[85]. An additional source of comfort for investors would have been that many of Storm's advisers had master's degrees in finance, thereby assuring as to their education credentials (Fraser 2009). Furthermore, having an Australian Financial Services Licence (AFSL) from ASIC and that Storm advisers were accredited with the Financial Planning Association (FPA) also gave assurance to prospective investors[86].

In addition, potential investors were required to go through a process of investment education prior to any application to banks for investment loans. This involved attending several hours of educational seminars and meetings, a process which could take up to six months. According to one former Storm adviser, this process was to ensure that investors were well educated and had a good understanding of all aspects of the investment (Dias 2009). Ferris (2011) again compares this to the National Mutual business of 20 years ago, where potential investors were given whiteboard presentations (albeit brief) "which, clearly, many of them did not understand". With Storm however, the educational seminars

[85] "We assessed the institutional risk, and the way we handled that institutional risk was to speak to the large corporations like CBA - we thought that they were trustworthy and in the end, we found that corporations are trustworthy, but individuals in those corporations are not" (Emmanuel Cassimatis, cited in Skene 2011).

[86] "Eleven FPA members were authorised by Storm Financial, out of 34 authorised representatives or employed advisers. Storm employed 150 staff in total" (Financial Planning Association of Australia public submission [277] to the Parliamentary Joint Committee on Corporations and Financial Services 'Inquiry into financial products and services in Australia').

were lengthy and had supporting written material, including 100-page long statements of advice[87] "which, clearly, many of them did not understand".

3.2.2.5 A Selection of Public Criticisms

A major criticism of Storm's approach has been the use of a 'one-size-fits-all' strategy whereby the same model of advice and product was given to investors, regardless of their personal circumstances (Barry 2009; Ferris 2011; Smith 2009)[88]. It is important to note however that that although Storm's investment offering clearly involved a high degree of risk by any reasonable measure, the inappropriateness of this is not perceived necessarily as the product itself in isolation, but the matching of the product with those for whom it was unsuitable[89]. For example, those with low incomes would be at the mercy of adverse interest rate movements on the loans, and particularly for those who had ceased work, this risk was exacerbated (Smith 2009). Furthermore, despite a long term investment horizon being more appropriate for Storm's model of high levels of debt in conjunction with large up front commissions, the target market was predominantly retirees or those close to it. The additional high levels of gearing on that debt make for a risky overall concoction, yet such highly geared strategies were recommended to those who could ill-afford it (Ferris 2011). And, even if all the above criteria were satisfied by a particular investor, that investor should also have a high level of knowledge of the intricacies and detail of the overall strategy. Yet this too was unlikely in many cases, particularly with respect to the risks posed by the leveraging strategy (Smith 2009).

The fact that Storm's founders and ex-Storm advisers are also suffering due to their own personal losses has also strengthened the criticism in some quarters of the inappropriateness of the advice[90]. The suggestion and adoption of a certain level of risk tolerance and appetite

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[87] However, although some risks were given in writing, these were "apparently undermined by verbal assurances from the trusted Storm advisers. The Storm investors were repeatedly assured that their homes were not at risk" (Ferris 2011).

[88] As Barry (2011) succinctly points out, "elderly couples with little or no income were loaded to the max with debt and persuaded to put their houses and super on the line".

[89] Indeed, Ferris (2011) highlights that Storm's product was sold to people who did not fit the profile that would be most suitable for the risks involved.

[90] "It is important that you know that the founders of Storm… along with most advisers and key staff, are all in the same boat as some of our clients. We have all followed the same investment and lending within our

by a potential investor is not made more appropriate or credible, simply because the adviser has adopted this for themselves[91]. In fact, doing so does not heed relevant legal and professional guidance to 'know the client' and ensure the tailoring of advice specifically to that client. In this sense, it is an ironic twist on the earlier point that via personal assurance (in this case, through Storm advisers themselves taking their own advice) the product can be made more appealing, when on closer inspection this is actually very misleading in the financial context where investors are not homogeneous agents.

Smith (2009) discusses in some detail the consequences of Storm's complex package of decisions being targeted to those who were not in a position to understand the detail. She highlights that when confronted with such complexity relating to the making of decisions with uncertain outcomes, people are generally more likely to take an intuitive short-cut and simply resort to trust. Decisions may also be based merely on whether the investor relates to or likes the adviser. Furthermore, if the marketing strategies have essentially been designed to engineer trust, then the acceptance of risk can unfortunately be fait accompli for many. Such a reliance on trust alone can mean that there is less scrutiny, fewer questions being asked, and less testing of what is being said by the adviser (Smith 2009)[92].

Whilst Storm's extensive education process may be claimed to address these issues, the counter claim has been made that risk was downplayed, by not demonstrating the downside of gearing and double gearing strategies in the detail to which advantages were demonstrated. Indeed, it would require a highly diligent investor to scrutinise and understand the details of risks which are often found buried in long, detailed statements of advice (Smith 2009). Hence even when there is technical disclosure and education in the

portfolios, have our homes mortgaged and have suffered the declines in the markets due to the financial crisis...while this is no consolation, we are sure it proves we have not acted differently for ourselves. Being in the front line of course makes us the first casualties" (Emmanuel Cassimatis, cited in Raggart 2009c).

[91] Indeed, "whilst it's not unreasonable for the baker to say that he eats his own bread it is clearly inconsistent for a financial planner to give all his clients a similar and very risky strategy even if it is the same one he has adopted for himself" (FinaMetrica 2009). Or as lawyer Stewart Levitt more pointedly states, "they drank their own poison" (cited in Raggart 2010).

[92] An example of a change in risk-related decision making is that of one Sydney investor who retired in 2005 and on the advice of a financial planner, invested his savings in a conservative annuity pension which paid approximately $500 a week. When this same planner joined Storm soon thereafter, the investor placed $180,000 (newly borrowed against his previously fully owned unit), $350,000 in life savings, and a $700,000 margin loan, into 100% equity. His financial position after Storm collapsed was $12,000 of savings, and the continuing liability of the $180,000 mortgage (Washington 2009b).

sense that it was presented by Storm, this was no assurance that this was an appropriate way to meet the needs of individual clients and their particular circumstances[93]. Others have compared the education process to a well-oiled machine which was based on over-optimism about inevitable and ever-increasing equity values (Allan Myers QC, legal counsel for ASIC, cited in Fraser 2012). And although it is the case that many investors should have or could have known better, many would not have had the wherewithal to appreciate the true pros and cons of the strategy being sold to them (Washington 2011).

3.2.3 Events of the Collapse

According to the administrators (Worrells 2009), Storm was well placed financially as at 30 June 2008, with revenue increasing 57% on the previous year (to $69.9 million), and profit increasing 263% on the previous year (to $37.5 million). At that time it had net assets of $13.7 million as well as cash and equivalent resources of $24.9 million. Furthermore, at that time the relationships with its bankers and clients was reportedly strong, and growth and income for the business was expected to continue to be strong. And yet, soon thereafter Storm Financial collapsed.

3.2.3.1 Market risk

There is little doubt that the market risk associated with massive falls in equity markets was the major factor that started Storm's slide towards collapse (Smith 2009; Worrells 2009)[94]. However, the impact of the falls in equity values was exacerbated by the borrowing against family homes and the additional leverage used (Butler 2011). Essentially, the leveraging magnified the losses, driving many loans into margin call territory (Barry 2009)[95]. October 2008 was a key month in that many Storm investors signed authorisations to sell their shares and convert to cash, based on written advice from Storm (Smith 2009; Washington

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[93] As Smith (2009) further states, "these circumstances present a textbook case of the limits of disclosure in retail investing markets" (p.545).

[94] As Smith (2009) highlights, "that alone would have done them damage. Quite clearly the impact of the GFC was significant on equity values, and for Storm investors the value of assets held dropped to such a degree that margin calls were likely" (p.517).

[95] Or as Smith (2009) describes it, "the market risk was exponentially increased by the fact that they had borrowed money to invest, in some cases twice over" (p.517).

2009a). This left many with debts via margin loans, and this became the source of many complaints to ASIC which began investigations soon thereafter.

3.2.3.2 Approach to Commonwealth Bank

In November/December 2008, Storm sought to increase borrowings from CBA to enable further financial assistance for clients, and thereby continue the business (Worrells 2009). This included a request to consolidate all investor debt in a single facility for repayment over a three to four year term (Barry 2009). However, this was turned down by the CBA, reportedly because Storm had already been pronounced insolvent, although the administrators more cautiously reported that it was due for reasons they "assume had to do with CBA's perceptions of Storm's inability to provide adequate security and/or to adequately demonstrate a capacity to repay the amount sought" (Worrells 2009, p.20). Whatever the detail, rather than extending further loan facilities to Storm, CBA instead called in an outstanding loan[96].

3.2.4 Issues around Margin Calls

A significant and additional issue concerns the notification of margin calls to investors. Many investors were not contacted by either Storm or the margin loan provider when their specific LVR was breached for the purposes of making a margin call. Much has been reported and speculated about this lack of opportunity, especially because many of these investors may well have been able to pay the margin call had they been notified (Barry 2009). Instead, portfolios were sold at prices which were at or near the bottom of the market, without the knowledge of investors, hence turning a paper loss into a realised loss at a severely adverse time of market performance. The first that many investors knew of the subsequent liquidation of their investments was mid-December 2008 (Barry 2009; Washington 2009a). At this time many investors found out, often as a total surprise, that now not only were their investments wiped out but they now also owed significant sums to the margin loan provider in order to clear the subsequent debt[97].

[96] Raggart (2009b) described this as the CBA "unceremoniously" dumping "its one-time favoured partner".
[97] Debts in many cases were "more than 20% of the total loan amount" (Washington 2009a).

3.2.4.1 The Fault of the Bank?

Many allegations have been made that the CBA and its margin-lending subsidiary, Colonial Geared Investments (CGI), were the main responsible parties who failed to give investors the opportunity to meet margin calls on their portfolios (Fanning 2009; Sexton 2012). Furthermore, even if the opportunity was intended, significant operational deficiencies appear to have made it unworkable at any practical level for the number of investors involved (Smith 2009). It is also claimed that the data on CGI's website as well as electronic data feeds to Storm on individual investors' positions were inaccurate, and that the pro-activity of the CBA to correct this or to contact investors directly about their positions, rather than via Storm, was limited (Raggart 2009b; Sexton 2012).

3.2.4.2 The Fault of Storm?

The CBA's view was that as the sole manager of its clients' margin loan accounts, Storm itself had the responsibility to ensure that margin calls were advised and acted on (O'Shaughnessy 2009). CBA claimed that this approach was standard practice and the same as used with other financial groups, of which none experienced the breakdown concerning the notification to clients (Barry 2009). According to Storm's liquidators, Storm did not have the capacity (or intention) to closely monitor and managing investors' debts and portfolios (Ivor Worrell and Raj Khatri, cited in Washington 2010a)[98].

3.2.4.3 Uncertainty

We do not (and cannot) resolve the actual lines of responsibility here[99], and the uncertainty involved has been highlighted by others (Barry 2009; Ferris 2011; Washington 2009a)[100].

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98 Fanning (2009) reports that "it became apparent that Storm Financial's response to size and duration of the market fall was seriously inadequate. CGI formed the view that Storm Financial was no longer fulfilling its role in relation to margin calls", and so "CGI was forced to step in to ensure all margin calls were addressed in full". Furthermore, "if this had not happened, Storm Financial clients would have accumulated more losses as the market continued to fall".

99 In this respect, the view of the administrator is informative: these issues "will require detailed and sustained inquiry, perhaps with the assistance of the courts, before a final judgement can be made" (Worrells 2009, p.6).

100 Washington (2009a) states that the issue "has not been clearly answered by Colonial Geared Investments or Storm Financial", and Barry (2009) highlights that "Storm said bank information during this time was

What is apparent however is a strong perception amongst many investors that the margin loan provider was to blame for this lack of notification, whereas others lay blame with both Storm and the margin loan provider.

3.2.4.4 Consequences

Wherever the ultimate responsibility lies, the end result for many investors was devastating. Those not receiving and therefore not having the opportunity to respond to margin calls were left with significant shortfalls on those margin loans, and with Storm and the CBA unable to agree terms for continuation of the business, losses were consolidated and investors were left "high and dry" (Ferris 2011).

It is apparent then that Storm's collapse arose from a number of factors. The administrators point to the influence of the drop in equity values, the advice proposition, the process around margin calls, and subsequent actions by Storm and its directors (Worrells 2009). Smith (2009) agrees that an accumulation of factors were responsible ("as with most catastrophes"), but more specifically highlights the vulnerability associated with risks arising from the leveraging strategy. Smith (2009) also highlights the issue of 'provider risk', which was apparent in two ways in this context. Firstly, if Storm's advice was indeed inappropriate, then due to its collapse there would subsequently be no recourse for compensation for losses from Storm. Secondly and importantly, the closing of the investment vehicles by the entities that promoted them meant that fund assets were realized at low values, ensuring losses were realised that may have otherwise note occurred if the funds and individual positions had survived and had a chance to regain in value over time.

Hence, references to and critiques of the appropriateness of Storm's advice[101] is seen as slightly spurious to the crux of the matter at least in the mind of many investors – they were not given an opportunity to right their positions, despite being entitled to do so.

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outdated while the banks said Storm were unresponsive with margin loan queries". Ferris (2011) simply asserts that the lines of responsibility were blurred, with "confusion about who was responsible for what".

[101] For example: "The lesson from these corporate collapses including Storm Financial… is that, to a significant extent, the underlying cause of the collapse was a poor business model, which depended on asset prices continually rising and debt markets remaining open and liquid, and was exacerbated by an economic shock such as the global financial crisis" (Treasury 2011)

3.3 Fallout of the Collapse

In addition to the major traumatic impacts on investors, a number of other impacts have arisen. These include the removal of various bank staff[102], impacts on Storm employees, reactions from government, and also a variety of legal actions.

3.3.1 Storm Advisers

In terms of Storm's financial advisers, some have been expelled from membership of the FPA (Kachor 2011). ASIC banned one adviser from providing financial services for two years and another for four years, due to the provision of inappropriate advice, the making of false and misleading statements, and not understanding to an appropriate level the nature and risks of the product(s) that they were advising on (Lyell and Timms 2011). ASIC also enforced two other advisers to undergo professional education (Raggart 2011). One impacted adviser, Ms Carey Fraser, gave an interesting perspective on Storm's business model, as revealed by an interview transcript:

> FANNING: Emmanuel Cassimatis might admit his failures now but six months or so back, he wouldn't hear a word of it when one of his top sales people, Carey Fraser, tried to warn him that clients were in too deep.
> FRASER: And I just learnt not to question things too much.
> FANNING: Sounds like you learnt the hard way?
> FRASER: Yep.
> FANNING: You're really uncomfortable talking about Emmanuel Cassimatis, aren't you?
> FRASER: Yeah, I'd rather not comment.
> FANNING: Do you feel guilty about it?
> FRASER: Yeah, I feel guilty. I feel ashamed and I just, I just... Honestly, I just don't have the words any more. I want things to be so much different. (Fanning 2009)

[102] As one example, see the transcript of ANZ's deputy CEO at the Melbourne public hearing of 26 August 2009, Parliamentary Joint Committee on Corporations and Financial Services 'Inquiry into financial products and services in Australia', p.43.

3.3.2 Government

Following Storm's collapse, the Parliamentary Joint Committee on Corporations and Financial Services (PJC) established an 'Inquiry into financial products and services in Australia' in February 2009[103]. This Inquiry was set up to report "on the issues associated with recent financial product and services provider collapses, such as Storm Financial, Opes Prime and other similar collapses" (PJCI 2009). The terms of reference for the Inquiry were wide ranging, with the ability to consider and make recommendations on many aspects of the financial services industry. The findings of the PJCI were released in November 2009, with 11 key recommendations that touched on issues of regulation, training, education, professional standards, and adviser remuneration[104]. The Chairman of the PJCI was Bernie Ripoll, the Labour MP for Oxley.

The PJCI was not a judicial body and could not make judgments about unlawful conduct, but rather it was concerned with legislative changes and improvements to the current system to mitigate the possibility of such things being repeated again. Nevertheless, as well as the formal recommendations made, the overall findings highlighted that several factors were likely contributors to the scale of losses suffered by Storm investors. These factors included the inappropriateness of Storm's advice to many investors, and breakdowns in the handling and resolving of margin calls (Balogh and Chalmers 2009).

Hence, the PJCI did bring the role of the banks into the spotlight, with the CBA in particular coming "under fire" for its conduct in various aspects of Storm's business (Trenworth 2010). With respect to the issues around margin calls, the general conclusion drawn (though not in any sense of formal findings of the PJCI) was that indeed the margin calls were mishandled, with both Storm and the CBA likely at fault. Such conclusions were tempered somewhat by the contradictory testimony and evidence from investors, the banks, and Storm themselves (Bernie Ripoll, cited in Balogh and Chalmers 2009). As such, there

[103] Henceforth referred to as the PJCI.
[104] The terms of reference for the PJCI, and the recommendations made, are included as Appendix A.

was general disappointment amongst many investors that the banks were not found culpable for the collapse[105].

3.3.2.1 Reactions to the PJCI recommendations

Many commentators claim the recommendations of the PJCI did not go far enough[106]. Such critiques included the absence of protection for everyday people from "vested interests" within the industry, and the perceived futility of the ability of regulation to make individuals act in a particular way, whether they be good or bad (West 2009)[107]. Others voiced concerns about additional costs resulting for the financial planning industry, which would have to be passed onto customers. Against a backdrop of low demand and affordable access to financial advice, such moves could therefore harm access even more[108].

3.3.2.2 Future of Financial Advice Reforms

Following the recommendations of the PJCI, the Australian government proposed and, following further consultation, confirmed a range of reforms for the financial planning industry. Key 'Future of Financial Advice' (FOFA) reforms include:

- A prospective ban on up-front and trailing commissions and like payments for both individual and group risk within superannuation from 1 July 2013;
- A prospective requirement for advisers to get clients to opt-in (or renew) their advice agreement every two years[109]; and

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[105] Instead, they "found themselves having to be satisfied with the fact that some of the most senior executives of the banks involved in the Storm Financial collapse were subject to extensive cross-examination" and that they could themselves "air their grievances before the committee under the protections afforded by Parliamentary privilege" (Taylor 2009).

[106] An example of a somewhat pointed critique is that "the recommendations of the Ripoll inquiry radiate barely a ripple across the fee-deep ocean of financial advice. This report carries all the weight and ferocity of a wet lettuce" (West 2009).

[107] A further perception of limits with regulatory solutions is that "there will always be spivs, stockmarket cycles and fancy structuring to maximise fees and exploit loopholes" (West 2009).

[108] However, the Institute of Actuaries essentially rejected complaints about advice becoming more expensive: "the (advice industry) has to stand on its own two feet… people need to understand that this is the cost of that advice." Furthermore, "advice is expensive… and not required by the 90 percent of people whose best investment advice is to pay off the mortgage or put money into super. However, people who do need it ought to be able see what that advice is" (cited in Barry 2009).

[109] This means that every two years, investors who pay advisers an asset-based fee will have to 'opt in' to the advice. If they do not opt in, the asset-based fee will cease to be paid to the adviser (Collett 2011).

- The introduction of a statutory fiduciary duty for financial advisers requiring them to act in the best interests of their clients. (Commonwealth of Australia 2011)

Additional reforms included the banning of 'soft' dollar benefits over $300 being paid to advisers, the banning of 'volume' rebates (commissions) being paid to adviser dealer groups, and an enhancement to the powers of ASIC in relation to the licensing and banning of individuals (Chaaya 2010). The goal of these reforms is to improve the quality of advice, provide additional protection for investors, and promote trust and confidence in the advice industry[110].

As expected with such reforms, the response from the financial services industry has been mixed, with much dissatisfaction centred upon the 'opt-in' requirement. The FPA considers that this requirement is cumbersome and unnecessary for both advisers and clients, but despite such reservations, it welcomed the clarity that accompanied the release of the FOFA (RiskInfo 2011). A major concern of the Association of Financial Advisers (AFA) is the potential for increasing the already heavy compliance burden, thereby diminishing adviser profitability (AFA 2011), and also that legislation is biased towards some segments of the industry at the expense of others. The Self-Managed Super Fund Professionals Association (SPAA) also opposed the opt-in requirement, whereas the Financial Services Council (FSC) was more positive towards it. The greater certainty offered by the FOFA reforms was also noted by the Association of Superannuation Funds of Australia (ASFA) (RiskInfo 2011).

The banning of commissions in all its guises to all but risk-only insurance products (such as term life insurance) has been presented as a key step to a better industry for the consumer[111]. Others also agree with moves to make remuneration arrangements explicit and clear, as well as moves to give consumers an explicit choice whether to continue to access

[110] This last point is seen as especially important by those within the industry, with the additional observation that regulation by itself cannot "address the low level of trust among non-advice users; it is up to the industry to put self-interests aside and ensure a consistent message about the value of advice is presented to consumers" (Kliplin 2010, p.23).

[111] Shorten (2011) claims that "these reforms will see Australian investors receive advice that is in their best interests, rather than being directed to products as a result of incentives or commissions offered to an adviser".

and pay for advice on an ongoing basis[112]. However, although the Institute of Chartered Accountants in Australia (ICAA) agrees that the reforms will help remove conflicts of interest and improve the overall quality of financial advisory services, it also cautioned that the reforms still had limitations. In particular, this concerns clarification around what constitutes a fee (when expressed as a percentage of funds) and what constitutes a commission[113] (ICAA 2010). The ICAA also continues to call for a focus on the key drivers of quality in the context of financial advice, including higher education standards, the incorporation of practical and ethical components within such education, and importantly, "an overarching culture of operating in the public interest" (ICAA 2010).

3.3.3 Legal Fallout

A number of legal actions have been threatened, have occurred, or are still taking place since Storm's collapse. Storm itself was reported to be seeking recompense from the CBA for personal as well as business losses (Barry 2009; Hughes 2010). ASIC decided in November 2010 to pursue civil penalty proceedings against Storm Financial, with the major charge that by providing negligent and commoditised financial advice which was not tailored to each client's circumstances, Storm's executive directors breached their duties. ASIC also charged that Storm's statements of advice contained false and misleading information (ASIC 2012a; Sexton 2012).

There have also been compensation or resolution schemes set up by some of the banks (most publicly CBA). Despite this, ASIC is or was also suing the CBA, Macquarie Bank and the Bank of Queensland for compensation on behalf of Storm clients, due to their involvement in what they consider amounted to an unregistered managed investment scheme (ASIC 2012a). Additionally, a private class action against the CBA has been brought by another group of investors, via the legal firm Levitt Robinson. To date, the banks have incurred significant compensation costs, reputational damage in many quarters, and the possibility of protracted legal action.

[112] Furthermore, "good advisers will still be able to generate tangible benefits for consumers due to the significant choice and complexity of the Australian financial services market as there is no one size fits all answer to people's affairs" (McKee, cited in IAAust 2010).

[113] The ICAA's point was that the application of percentage-based fees in some situations is simply "commissions by another name" (ICAA 2010).

3.3.3.1 The CBA Resolution Scheme

The CBA set up a resolution scheme in June 2009 for many of its Storm clients. In doing so it acknowledged its own role involved the bank "to some degree", but not in a directly accountable manner (Sexton 2012). The scheme was brokered by legal firm Slater & Gordon, which represented upwards of 1,500 clients (Rich 2010; Trenworth 2010; Washington 2010c)[114].

The terms of the resolution scheme were announced in February 2010 (Raggart 2011), and although the specifics for each individual client would be confidential, some of the proposed details have emerged. The bank would return an amount of up to 90 per cent of the equity held by an investor in their margin loan portfolios when they first went into margin call (plus an allowance for interest) (Rich 2010), and/or where a loan was given based on an inflated home value, that loan would decrease to an amount that should have been granted. Furthermore, for any investor found to have their income level inflated, their loan would also be reduced with some subsequent interest payments refunded (Klan 2010). The total cost to the CBA of the resolution scheme was approximately $132 million (ASIC 2012a).

The proponents of the compensation scheme labelled it as "a unique deal", "historic", and an example to other institutions of how to solve such issues (Slater & Gordon spokesman, cited in Trenworth 2010). The main rationale for such claims is that the deal, in addition to being a 'first', was also 'fair' and 'fast'. In terms of fairness, the CBA themselves claim that the scheme represented its commitment to put right what had been done wrong (Raggart 2011). Furthermore, the scheme had other elements in place that the CBA highlighted would provide further protection to those who would accept it[115]. The benefit of delivering a fast outcome for investors was also highlighted, by both Slater & Gordon and the CBA. For example, a Slater & Gordon lawyer involved in the scheme warned of the

[114] Some other banks (other than the Bank of Queensland and Macquarie Group) also offered compensation schemes. For example NAB was reported to have "written off home mortgages and paid out millions of dollars to victims" (Gillham 2011). However these were much smaller in scale compared to the CBA - for example, ANZ's scheme related to "more than 100 clients" (Washington 2010c).

[115] This included, for investors, the "right to make a counter offer to any bank proposal and to have their case considered by the independent panel if they wish"' (Raggart 2011), with the independent panel consisting of "eminent retired judges" (Spigelman 2010).

dangers of litigation which could take years, with no guarantee of a better outcome[116]. One Townsville couple who accepted the resolution scheme consider that it achieved "amazing results by having outcomes just a year after the crash", despite their own losses running into millions of dollars (Raggart 2009b)[117].

However, there is also substantial angst amongst ex Storm investors regarding various aspects of the resolution scheme, with many "deeply aggrieved" despite entering the resolution process (Washington 2010b)[118]. One specific charge against the scheme is that it is actually not a fair deal, due to the rationale for the amount being offered. In terms of the known detail about the amount of compensation, lawyer Stewart Levitt claims it is not enough, due the resultant growth investors would have participated in had their shares not been sold (Rich 2010)[119]. The scheme is also claimed to only address hardship, rather than compensation (Raggart 2011), which is viewed as troublesome even given the pragmatic necessity for a trade-off between timeliness and the amount of compensation offered[120]. One further view of note comes from the Storm Investors Consumer Action Group (SICAG)[121] co-chairman who asserts that many investors are angry and/or resigned, and consider that offers under the resolution scheme are not high enough (Kachor 2010c).

116 He claimed that "both sides will walk away with a limp" via any "litigation Armageddon" (Hughes 2010).

117 The benefit of 'fast' also echoes claims from the Opes Prime saga. The two principal lenders (ANZ and Merrill Lynch) sought to resolve their exposure at an early stage by establishing a settlement fund (Spigelman 2010), and with urging by ASIC, a settlement was reached with creditors. The alternative of litigation, according to the insolvency specialist John Lindholm who was appointed administrator, was that "we would have been clogging up the courts; and it would have dragged on. A lot of those investors couldn't wait five years to get their day in court" (cited in Urban 2010).

118 For example, one Storm investor who chose not to enter the resolution scheme stated that the scheme "may be more about buying a way out of a problem as cheaply as they can without the scrutiny of the judicial process"'. Furthermore, the CBA "has made it quite clear they want everyone to think they are truly sorry for something they haven't actually nominated what they are sorry for" (Raggart 2009b).

119 Indeed, Stewart Levitt reported "overwhelming disaffection" from several meetings with Storm investors (Raggart 2011).

120 Nevertheless, "any resolution scheme must involve the willingness of claimants to compromise in exchange for achieving early finalisation and closure and removing the risks inherent in court proceedings, [but] the extent of such discount needs to be realistic, having regard to the scope of each individual's grievances" (Levitt Robinson 2010c).

121 SICAG is a collective group of impacted ex Storm investors, which was set up on 20 January 2009 in Redcliffe, Brisbane. The initial meeting of 400 "disaffected investors" that led to SICAG's inception was held "to discuss possible action to recover losses as a result of recent actions/inactions of banks and other organisations", and it was formed "to seek justice (and restitution) from a banking and financial services industry that has been able to get away with murder!" (see http://www.sicag.info/index_files/Page344.htm)

Another aspect of the scheme which has been questioned is the overall process used. One Storm investor (a Barrister) stated in an open letter to SICAG members that both the process and agenda of the scheme do not seem to have been run in the interests of investors (Goodridge 2010). A particular issue of consternation was the limited time available for investors to make decisions whether or not to accept the scheme, with many only having 28 days to decide (Goodridge 2010; Kachor 2010c). Given that most investors were retired and had just gone through traumatic financial events, many may well have felt that there was little other option other than to decide on a course of action within the limited timeframes offered (Levitt Robinson 2010b)[122]. Given these time pressures, concern was widely expressed that offers were being accepted due to desperation and duress (Kachor 2010d, 2010e; Levitt Robinson 2010c)[123], though such claims regarding the pressuring of investors were refuted by the CBA (Hughes 2009).

Whatever the merits or otherwise of the scheme, the human response is understandably mixed but the sense of dissatisfaction appears to predominate for many of those close to the coalface. Indeed, the time constraints involved suggest that investors may not have been able to truly consider what the most appropriate action was for their own individual circumstances and situation, a concern highlighted by SICAG (cited in Kachor 2010c). Ironically, a resolution scheme which offers more or less a one-size-fits-all proposal in terms of process (whether that be motivated by issues of equity, convenience, business, expediency, pragmatism, or some combination of those things) strangely echoes major pitfalls of Storm's own advice model. Given that shortcoming of Storm's model, it would be even more poignant for investors to consider their own circumstances in some detail, in relation to offers under the resolution scheme[124].

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[122] Similarities with Opes Prime are once more echoed here. Charlie Gollow of litigation funder IMF expressed concern that clients had no role in the settlement negotiations, despite being "the people with the claims and they were entitled to be compensated". Indeed, "they felt totally disenfranchised by the process", and according to Nathan McMahon, an Opes Prime investor, creditors were ultimately forced to accept "something unpalatable", given the apparent alternative of lengthy and costly legal action (Urban 2010).

[123] As such, many investors subsequently "may regret having felt forced into making quick decisions on matters of vital importance affecting their own and their family's future quality of life" (Levitt Robinson 2010b).

[124] PJCI chair Bernie Ripoll MP suggested as much when affirming that "in the end it is up to individuals to ascertain whether that resolution scheme and the offer that is provided to them is satisfactory...it's very much individual, it's very much like getting financial planning advice, it really needs to be uniquely for that individual person" (cited in Kachor 2010c).

3.3.3.2 Class Actions

The CBA resolution scheme has clearly generated some controversy, to the extent that a class action against the CBA was and is being pursued by a number of ex Storm investors. The legal firm Levitt Robinson filed a class action in the Federal Court of Australia at Sydney on 1 July 2010 (Gillham 2011), with support from various parties (such as retired federal court judge Ron Merkel). This class action was to run alongside ASIC's against the CBA and other banks. The motivation for the class action can be succinctly summarised as follows:

> We would have thought that the "churning" of increasing borrowings, double-gearing, excessive valuations, relative disregard for serviceability considerations, the failure to draw borrower's attention to the risks of their high gearing, including to their non-Storm assets, the mismanagement of Storm accounts throughout most of 2008, and the Bank's profligate lending policy towards Storm investors, even while it was exercising prudence towards other non-Storm customers, during the period of the onset and deepening of the Global Financial Crisis, could all amount to unconscionable conduct. (Levitt Robinson 2010a)

Essentially, those involved in the class action believe there has been a severe and tangible breach of trust by "some of the most important pillars of our financial system" (Levitt, cited in Wilson 2012b). Thus, given the dissatisfaction with many elements of the resolution scheme, the class action is to "put flesh on the public apology" offered by the CBA (Levitt Robinson 2010c)[125].

3.3.3.3 ASIC's legal proceedings

ASIC's legal pursuit of the CBA for compensation on behalf of Storm investors ceased on 14 September 2012 when it announced that a settlement for further, out-of-court compensation had been reached (ASIC 2012b). ASIC highlighted that this settlement did not infer that CBA was liable in any way, which was reflected in the terms of the agreement

[125] "I am not proud of the relationship that we had with Storm… to those of our customers who have been impacted by shortcomings on our part, I am sorry and apologise to them on behalf of the Commonwealth Bank" (CBA CEO Ralph Norris, cited in the Brisbane Courier Mail on 28 October 2009).

(ASIC 2012c). This compensation payout to Storm investors is to total approximately $136 million, and will be made in addition to the approximately $132 million already paid in the earlier CBA resolution scheme (ASIC 2012c; Marx 2012c). Again, the settlement amount agreed was met with some skepticism by investors (Marx 2012c).

ASIC's justification for the merits of the settlement, like the earlier CBA resolution scheme, was based on being a "timely, fair and certain outcome for Storm investors" (ASIC 2012c)[126]. ASIC's chairman stated that the outcome was fair and significantly was also timely, an important consideration given that many investors are elderly and not helped by spending extended periods in court (cited in Klan and Walker 2012)[127].

3.3.4 Perceptions of ASIC

The significant role of ASIC throughout the financial services industry presents one obvious and further aspect of Storm's collapse –the role of the regulator before and after the collapse, and the perceptions of others about its role. Furthermore, in the minds of many investors, the actions of a government regulator also by extension reflect on the government itself. It is difficult to provide balanced views on ASIC's role(s) as negative views tend to predominate in the public and media, but nevertheless, as the focus here is on perceptions and implications of Storm's demise, we explore a range of reasons stated by many investors which have resulted in them feeling alienated and frustrated with ASIC's role.

3.3.4.1 ASIC's role pre-collapse

One strongly held perception is that ASIC could have done more to prevent a collapse. A major reason for this perception is that Storm was reviewed by ASIC the year before the collapse, and at that time no public concerns were raised (West 2009; Wilson 2012b). A

[126] As ASIC further states, the "objective of obtaining compensation for Storm investors has been achieved... without the need for a long, costly legal process that brings with it a level of uncertainty", and furthermore, "Storm investors can be confident we would not have agreed to a settlement unless we thought the compensation was appropriate" (ASIC 2012b)

[127] The benefit of timeliness is naturally a tangible one for many investors. Indeed such settlements do not operate in a vacuum of other pressures and realities, with the presiding judge in ASIC's case against the CBA (Justice John Reeves) warning of the difficulty accommodating a trial running beyond December 2012 (Rawlins 2012). However, this is potentially another source of frustration for some investors, for whom 'justice' may be as much a concern as 'timely compensation'.

stronger claim was made by Storm's Emmanuel and Julie Cassimatis, who stated that Storm was repeatedly reviewed by ASIC officials, without ever raising concerns (Sexton 2012)[128]. Whether any concerns about Storm prior to its collapse were able to be acted upon or not, ASIC's pursuit of the banks and Storm after the collapse hasn't necessarily inspired confidence regarding its role. Indeed, ASIC's post-collapse legal actions, although based on their claim that the banks did not exercise sufficient due diligence[129], has potentially only served to accentuate the perception that ASIC acting in advance of the collapse was a realistic option.

In ASIC's defence, Bernie Ripoll stated that although Storm was audited and compliance checked by ASIC prior to its collapse, there would likely not have been any concerns that Storm was breaching legal responsibilities[130]. However, the legal niceties of the limits of regulatory intervention are most likely lost on many investors, with the more concerning issue being a perception that ASIC has a poor track record in respect of preventing corporate disasters (West 2009)[131].

Lawyer Stewart Levitt broadened the net of responsibility for a lack of action prior to Storm's collapse, stating that the government also bears some responsibility alongside ASIC for not keeping both Storm and the banks in check (cited in Wilson 2012b). An additional factor impacting the perception of ASIC's role prior to Storm's collapse arises from the initial granting of an AFSL (licence) to Storm, which has further tested the faith of many investors in the licensing regime and by association, the role of ASIC.

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[128] The Cassimatis's also claim that Storm was reviewed by external auditors, solicitors, bankers, insurers and academics, none of whom told them of "any systemic problems of the nature and scale" alleged in ASIC's case against them (Sexton 2012).

[129] In respect to whether investors could afford the loans, whether investors were sufficiently warned of risks, and also the closeness of the relationship with Storm (The Australian 2011).

[130] "There was not necessarily anything wrong with the organisation as it stood on paper, or in its systems, or the checks and balances that go with determining whether or not the organisation was meeting its obligations under law" (cited in Kachor 2009).

[131] West (2009) states further that despite the limitations of audit and compliance checks, "common sense might have prevailed. It was clear that a model which aggressively pursued the leverage of elderly clients with little or no income was flawed and bound for disaster".

3.3.4.2 Post-collapse responses

The time taken for ASIC to pursue the banks after Storm's collapse has also provided further frustration for investors. Legal proceedings against the CBA, Bank of Queensland and Macquarie Bank began nearly two years after the collapse (ASIC 2012a), although proceedings against Storm began earlier. One Storm investor made his frustration known in the interim period, writing to ASIC's chairman to state that "the time for investigation must surely now be over. The time for action is long overdue" (Washington 2010a).

A range of reasons have been suggested as to why ASIC's actions were sluggish in the eyes of investors. One major reason was that ASIC believed that the banks would settle out of court (ASIC 2012a; Barry 2011). It was also claimed that ASIC's lawyer in charge of the investigation walked out during the investigation due to his desire for a tougher approach, and furthermore according to one commentator, "the wheels at ASIC grind exceedingly slowly" (Barry 2011).

A further area of discontent is the perception that ASIC's dealings with Storm's advisers after the collapse has been weak. One ruined Storm investor questioned why his adviser wasn't banned for life, due to the adviser's role in "destroy(ing) hundreds of clients". His frustration stems from the perception that all ASIC did was merely "rap her over the knuckles with a feather" (Raggart 2011).

3.3.4.3 Unsatisfactory deals?

ASIC's out-of-court settlement in late 2012 with the CBA has been met by a mixture of what have become common reactions in many aspects of Storm's collapse: resignation and/or resentment[132]. One investor involved in the Levitt Robinson class action labeled it "disgraceful", with disbelief regarding ASIC's approach to settle such a significant collapse for, essentially, "a pittance" (Klan and Walker 2012).

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[132] Indeed, many investors "feel betrayed and will refuse the offer. Others say they'll be forced to take whatever they can get". One investor stated that "I think it's typical of ASIC. They'll get into something, go part the way through it, and then they'll find the easiest way out and make an agreement with the devil" (Smail 2012).

The extent of dissatisfaction for many investors may well be related to having high expectations of what ASIC was believed to be pursuing and achieving[133]. In defence of ASIC's decision to cease legal action against the CBA, ASIC's chairman stated that the goal of a court process was to achieve an outcome, which is what ASIC has delivered (Klan and Walker 2012)[134].

3.4 Summary of Chapter

In this chapter we presented an overview of the collapse of Storm financial. The general investment model offered by Storm was to invest into equities by using funds sourced from superannuation and other savings, the selling of other assets, where possible a mortgage against the investor's primary residence, and then an additional margin loan against the accumulation of these amounts to provide additional funds and leverage. The support of associated institutions such as banks was essential to the overall strategy, and was a key source of assurance for many individuals to proceed with Storm.

The catalyst for the collapse of Storm was undoubtedly the severe falls in equity markets throughout 2008, exacerbated by the high leveraging of many investors. However, a key and contentious issue surrounds the non-making of margin calls for numerous investors. This significantly increased and consolidated losses for many individuals, with little recourse or opportunity for individuals to correct their position and keep their financial fortunes alive, even though many would have had the means to do so. The relative responsibility and culpability of Storm and the credit provider(s) in this matter is contentious and remains unresolved.

The fallout has been significant since Storm's collapse, with much public criticism of Storm's model emerging in the media and via a related Parliamentary Inquiry. This

[133] Indeed, lawyer Stewart Levitt claimed that "this shows ASIC is bereft of sincerity when they claimed they wanted to get a declaration from the court to set a benchmark for bank conduct" (cited in Klan and Walker 2012), and that "they said they were bringing these proceedings to set a new moral and legal bar for the provision of financial services and products in Australia" (cited in Wilson 2012b).

[134] We leave a final word for now with a 76 year old Storm investor who had to return to work after Storm's collapse. He asked whether ASIC's chairman "would have made this deal if his wife, his children or his siblings were in it like we are. I bet you he would not have" (Smail 2012).

Parliamentary Inquiry also gave rise to regulatory changes to the financial advice industry. More widely, a number of legal actions are still ongoing, there has been severe criticism of many of the credit providers involved including the moves of some to offer compensation and resolution arrangements, and the role of the relevant government regulator ASIC before, during and after the collapse has been scrutinised. Such events are in the context of many thousands of investors suffering significant financial loss, for which the implications for many would be nothing short of traumatic.

Chapter 4: Consequences of Financial Loss

4.1 Introduction

A range of events and circumstances can impact on an individual's wellbeing. This includes traumatic events such as those leading to post-traumatic stress syndrome, the impacts of natural disasters, personal addictions, and health issues, to name but a few. There are also events that can lead more directly to substantial financial loss or stress, such as job loss, and as was the case with Storm Financial, the failure of an investment vehicle and the subsequent loss of monetary savings. Surprisingly, given the artificial nature of money merely as a medium for exchange, the impact of adverse financial events or circumstances are considered extremely damaging even when compared to other events of a more physical or relational nature. Indeed, a US study suggests that the financial stress associated with filing for bankruptcy can exceed other traumatic events such as the death of a close friend or separating from a spouse (cited in Warren 2007).

This chapter reviews some of the impacts on an individual with regard to a selected range of traumatic events and circumstances. This range is certainly not exhaustive or comprehensive, but merely serves to illustrate the variety of impacts that can occur. This is also done to appreciate that some impacts can be generalised across a range of traumatic events, and leads us to consider the specific impacts we might expect to emerge from events or circumstances leading to financial loss, including those arising from events and circumstances that could be considered traumatic[135].

This chapter also reviews the factors that appear to be influential in shaping the magnitude of any impact, firstly for a selected range of traumatic events and circumstances and then for those specific to personal financial affairs. This includes those factors in play at or close

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[135] Indeed, in response to the GFC, "reactions were immediate, intense and emotional, as is typical when people are confronted with a traumatic experience" (Gounaris and Prout 2009, cited in Iannicola and Parker 2010).

to the time of the loss event, as well as considering the temporal dimension where the ongoing impact of the loss event may be mitigated, managed or elevated over time. This too is considered first in the general sense, and then more specifically in the context of personal finance.

It is also of significance that different impacts are not unrelated, as the following from Warren (2003a) highlights:

> Most [academics and other experts] have one highly focused area of expertise, and they usually write articles and hold forth on the talk shows about one specific category of calamity. But families don't experience risks in neatly segmented boxes. Whether they give it much thought or not, they live under the shadow of multiple dangers. A woman could lose her job, she could be struck with a devastating illness, her marriage could turn sour, and her parents could grow too feeble to care for themselves – and it could all happen at the same time. There is no law requiring that these disasters be polite enough to wait until the previous one is resolved before a new one wreaks additional havoc. Moreover, one disaster often triggers another. A layoff may leave a family without health insurance, increasing the exposure to an exorbitant medical bill. Similarly, a job loss may actually lead to divorce.

For this reason, a particular focus is presented on the impact of health, especially mental health, because this is one impact which influences all others.

4.2 Impact of Traumatic Events and Circumstances

Any stressful set of circumstances, including traumatic events, can impact in ways which are nuanced in depth and effect. Furthermore, the types of impact may be highly context-dependent, making them complex to describe. Indeed, there are many aspects to consider when discussing such impacts, such as the private, reflective, social, physical, emotional and financial worlds of an individual. All will be addressed within this chapter.

There are a number of direct impacts on someone who has gone through a traumatic experience. Shock, horror, fear, distrust, stress, withdrawal, and a profound feeling of loss can predominate in many contexts. Many of these impacts can be compounded by ongoing reactions to the original experience, for example those war veterans who suffer frequently from nightmares, flashbacks, and other reflective behaviours that continue to shock and traumatise those who have been exposed to the horrors of war (Corbin and Strauss 2008). Furthermore, many such veterans turn to drugs and alcohol to blot out these episodes.

In an early description of post-traumatic syndrome, Kelly (1981) highlighted a series of sequential impacts on those who have experienced serious accidents. When severe enough, the ability to work is affected which can lead to financial disadvantage and loss, and consequently impaired career advancement and fulfilment. The control of one's temper, one's libido, and any sense of "domestic happiness" can also be impacted. What this unsurprisingly results in is resentment, particularly where the accident is caused by someone else. Furthermore, this resentment is compounded if the reactions of medical and legal professionals is not empathetic, or indeed if such reactions portray disbelief at the severity of the impact on the victim. A further exacerbation occurs if moral disapproval is conveyed regarding any moves to seek compensation for any resulting financial loss.

Major impacts on those admitted to hospital with chronic physical ailments are also informative (such as severe back pain sufferers, as studied by White 2003). One notable impact is a loss of control. The loss of familiar roles which formerly gave a strong sense of identity can throw an individual into confusion and self-doubt, as they are forced within the hospital system to depend on the hospital's own schedules and ways of doing things (White 2003). When contrasted with their former role as a comparatively independent employee or household member[136], this was seen to be very depowering.

A further relevant influence is any stigma associated with the condition itself. Media reinforcement of back pain sufferers as people who exaggerate their own condition and pain, or as people who are lazy, can both initiate and compound such stigma. An example of such stigmatisation is the frequent portrayal of back pain sufferers being on some form of compensation, but then carrying out activities (such as lifting heavy objects) which leaves the observer in no doubt that the claim is fraudulent. Such stigma not only impacts

[136] Or more generally as an "independent, self-reliant, self-assured adult" (White 2003).

the sufferer themselves, but also others around them[137]. Associated with stigmatisation are the perceptions of others, colloquially described as 'everyone else knows best'. Back pain sufferers often perceive that others regard them as being incapable of seeking viable mainstream and alternative care. Even if a friend intends well by suggesting the latest fad 'cure', this reinforced sufferers' feeling that others do not empathise with, understand or believe the extent and difficulty of their ailment. Such perceptions and comments can arise despite the sufferer's treatment with pain management specialists, and the trying of many traditional and alternative therapies (White 2003).

From this brief consideration, it is clear that important impacts of traumatic circumstances are direct physical and emotional aspects, and also a wealth of secondary or derived impacts. These include relationship and relational difficulties, a loss of control over what was formerly able to have come control exercised, a stigmatisation for what one is going through, and an awareness that others consider your circumstances could be so much better 'only if' you were to do or see things differently.

These impacts can also be exacerbated by the response of others, particularly those who are considered to have some degree of collective concern, care and compassion – this could mean family members and friends, but also professional people who have roles in assisting people in such circumstances[138]. It is also no large stretch to say that the views and assistance of collective society as a whole, most pointedly represented by formal government and its associated services and roles, could also be an influential factor in the nature of post-event impacts.

4.3 Financial Loss

The following discussion focuses on impacts associated more directly with financial loss. A definition of financial 'trauma' is omitted for the simple reason that it is not a term that assists later discussion – our major concern is with aspects of loss, which some may regard as traumatic some of the time under some certain set of circumstances, but others may not.

[137] In particular, "children often taking on the role of parent and with family members often needing to seek the help of a psychologist" (White 2003, p.25).

[138] As a leading suggestion, let us suggest that lawyers and financial professionals such as advisers and bankers could be influential in the context of financial loss.

For example, to most people the loss from one's wallet of a $50 note may be very annoying, whereas losing $100,000 from one's investments may represent a devastating loss. But it is also worthwhile to consider other aspects of these losses. For example, the relative loss of $50 to someone who has little, may be more traumatic than a loss of $100,000 for someone who has plenty[139]. A further factor is not merely a comparison of relative and static wealth, but also one's expectations. For example, the baby boomer generation has been described as having relatively high expectations for a certain living standard, the provision for which has been impacted by the GFC and as such has caused notable angst (CEPAR 2012). Thus for this particular cohort, significant losses might be considered as traumatic by any reasonable understanding of the term.

An additional factor determining the degree of impact or trauma may relate to the circumstances of the loss. Being robbed of $50 in a dark alley would obviously result in trauma of various kinds, but the financial aspect of that loss may be minor. But, forgetting to pick up the $50 note from the café table may well play on one's mind in terms of the financial loss – possibly even more than losing a much higher sum on an investment that one was well briefed about in terms of the risks involved, so that the possibility of some loss was not unexpected. Indeed, a financial 'loss' can arise from a pay rise not granted, a vocational choice not turning out as expected, a robbery, being cheated by a friend, being involved in a scam, a gambling loss, an investment mistake, being let down by poor professional advice, having good professional advice but the market just happens to work against you, a simple oversight, the promise of a windfall that wasn't, and so on. Each one of these circumstances, even for identical losses in terms of absolute dollar values, may generate quite different impacts for individuals.

It is apparent then that any discussion of financial loss is likely to be complex and involved on multiple levels. It is likely to be dependent on the severity of loss in absolute and/or relative terms, as well as the circumstances surrounding that loss, including whether others were involved in that loss occurring. It also may not be easy to neatly categorise factors and outcomes of financial loss, meaning that the exploration of relevant themes and findings is not a straightforward exercise.

[139] Or as a further example, "low-wealth seniors are especially exposed to the consequences of bad decisions since the utility of each dollar is relatively greater than someone with higher wealth" (MacDonald et al. 2011).

4.3.1 Sources of financial loss

One starting point for a discussion of financial loss is how losses occur, including from where and what they arise. Given that financial loss may arise from multiple sources, this section summarises these sources into three general categories for the purposes of a brief overview. These categories are the individual, the market, and misplaced trust.

4.3.1.1 The individual

As discussed in chapter 2, financial literacy in Australia and beyond is generally perceived as being inadequate. This can give rise to financial losses where investment scams, let alone a more nuanced view of risk and return, are not perceived as such[140]. This in itself may be a concern, but of greater concern to many observers is the combination of this with consumption and lifestyle expectations that are perceived as being unrealistic[141]. Where such expectations fuel consumption choices and thereby investment decisions[142], Gruber (2005) argues that any moves that assist individuals to spend beyond their means and then have protection against the consequences is inappropriate. In contrast, others disagree that excessive over-consumption is necessarily the core problem[143].

Regardless of one's views on lifestyle and consumption choices as a catalyst for financial risk and potential loss, any stigma attached with 'everyone else knows best' when someone encounters financial loss and any perception that one's losses are at least partly due to consumption and lifestyle choices, are important influences on anyone suffering from financial loss[144].

[140] Indeed, people's self-assessed ability to protect income is considered to be overstated, inferring a greater susceptibility to being caught by an investment scam (FLF 2007).
[141] Gruber (2005) refers to "society's desire for a constantly rising standard of living".
[142] 'Investment' here describes a wider realm that merely portfolio or monetary choices, such as: what housing options are chosen, what household goods are purchased, what modes of transport are selected, what vocational choices are pursued, what credit facilities are entered into at the household level such as credit cards and mortgages, and so on.
[143] For example, Warren and Tyagi (2005) state that "the over-consumption myth may be little more than a fairy tale". In doing so, they prefer to contextualise the criticism of household's consumption choices in more politically-laden terms: "So long as Americans can be persuaded that families in financial trouble have only themselves to blame, there will be no demand to change anything".
[144] Indeed, such stigma and perception "has the power to maroon families—both emotionally and financially - just when they most need support" (Warren and Tyagi 2005).

4.3.1.2 The 'market'

Recent years have demonstrated an extreme outworking of 'market risk', which at its most straightforward premise is represented by the fact that the value of something can go up or down over time. Undoubtedly the impact of the GFC was severe, to the point that it was "the most significant economic event since the breakdown of the Bretton Woods system in the 1970s" (Quiggin 2011, p.355). As such and in the context of retirement provision for the baby boomer cohort in particular, the source of losses from the market is significant because their anticipated retirement lifestyle and expectation is primarily self-funded (CEPAR 2012).

The 'market' may also more broadly encompass the fact that financial loss can arise from job loss or retrenchment. And, even though vast swathes of the middle class by definition are not chronically poor, nevertheless Warren (2003a) states that although the risks facing US families today are the same kind that other generations have faced, the odds of these risks playing out in tangible terms have increased[145].

4.3.1.3 Misplaced trust

In addition to earlier comments about the process, culture and perception of financial advice, it is noteworthy that a financial product itself may be a cause of financial loss. Very few products are likely to be appropriate for all people, and when a product turns out to have been an inappropriate choice, the trust in the product provider can prove to have been misplaced[146].

Furthermore, it takes someone to recommend or sell a product, and as trust is a key factor for getting involved in many products and investment options, that someone is frequently in

[145] Along with job loss, Warren also cites the economic fallout from medical problems, and the risk of divorce as relevant factors.

[146] For example, Warren (2007) states that "for a growing number of families who are steered into over-priced credit products, risky subprime mortgages, and misleading insurance plans, trust in a creditor turns out to be costly" (p.9).

a position of trust[147]. This aspect of trust may not just be regarding someone's ethical disposition, but also would implicitly be in their level of skill and knowledge. Indeed, Kotlikoff (2008) compares financial planning to brain surgery in terms of its required precision: "small mistakes and the wrong tools can just as easily undermine as improve financial health" (p.71). As such, trust is an aspect of human experience which would likely be impacted when significant financial losses eventuate.

4.3.2 Impact of financial loss

This section discusses the main areas of impact that might be expected to be associated with financial loss. A consideration of these areas can be done through looking at different levels of impact on an individual. Some of these areas are fairly straightforward and as such will only be briefly touched on, whereas others are more nuanced and as such will be discussed in more detail.

4.3.2.1 Direct Financial Impact

The most obvious direct financial impact relates to the scale of the actual losses involved. There are many recent cases of entire life savings being wiped out (Urban 2010; Warren 2007), but also of significance are cases that fall short of such totally calamitous circumstances.

In such cases there are various measures that can apply, such as financial stress, income poverty, subjective poverty, expenditure poverty, relative deprivation, as well as approaches concerned with 'social exclusion' (Marks 2005)[148]. The dominant approach in Australia for studies of poverty is relative income poverty, where a poverty line is considered to be half the median disposable household income. Also of interest are 'financial stress' measures, which can be defined in terms of financial behaviours at the

[147] For example, Iannicola and Parker (2010) report on the "several poor and immigrant communities [that] have suffered by being sold inappropriate products by trusted members of their own social networks".
[148] Such approaches broaden "the concept of poverty to include social relationships and participation" (Marks 2005, p.310).

household level[149]. If two or more of these behaviours have occurred within a certain period of time, then this is defined to constitute 'financial stress' (Marks 2005). One such example of financial stress has of course arisen from GFC-related investment losses for many retirees, who now face the prospect of their retirement income being significantly reduced (Smith 2009).

4.3.2.2 Housing

A related aspect of financial loss is the specific impact on one's housing situation. In the case of Opes Prime's collapse for example, many families were forced to sell their houses (Urban 2010). The loss of one's home is also highlighted by Warren (2007) as a major impact on families arising from adverse experience with certain financial credit products.

The loss of one's home (either after a significant loss when alternative arrangements for keeping one's home have been exhausted, or suddenly through a forced sale) has various impacts and implications. There are immediate cashflow implications which are certainly not trivial, if someone is now forced to rent rather than having previously owned an unencumbered house. There is also an emotive impact of leaving one's own home, together with the loss of associated memories and meaning, often under duress. A further financial (and emotional) impact is that it is primarily through housing that bequests are left to other family members (Banks 2010).

4.3.2.3 Emotional

According to Mundis, "a personal financial crisis is first an emotional blow…it is tremendously disorienting, it is frightening"[150]. Reactions can involve some or all of shock, anger, guilt, emotional distress, confusion, resentment, numbness, disbelief ("it can't be real" and "why has this happened to me?"), despair, guilt ("I've disappointed my family"),

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[149] Seven behaviours are listed by Marks (2005): Not paying utility bills on time, not paying mortgage or rent on time, pawning or selling something, going without meals, unable to heat the home, asking for financial help from friends or family, and asking for help form welfare or community organisations.

[150] Jerry Mundis was a former business editor of the New York Times who suddenly faced "$50,000 in debt with no visible means to repay it" (cited in MacDonald 2002).

a perception of being isolated from others, embarrassment and shame (Better Health Channel 2012; Gounaris and Prout 2009, cited in Iannicola and Parker 2010). A range of emotions have been to the fore as a result of recent economic turmoil, with a mixture of "optimism and hopelessness, panic and fear", and notably, this has been the case not just for investors, but for financial advisers as well (Gounaris and Prout 2009, cited in Iannicola and Parker 2010).

Another aspect of financial loss concerns one's sense of control and/or hope for the future. Descriptions of "bleak retirements", "broken lives" and a "sense of loss related to dreams and plans for the future" convey an outcome of helplessness and powerlessness (Better Health Channel 2012; Warren 2007). Furthermore, reflecting in hindsight on what has happened can actually compound this sense of powerlessness[151].

4.3.2.4 Relationships

Unsurprisingly, increased pressure on household finances and financial behaviours can lead to severe challenges on the quality of relationships (Iannicola and Parker 2010). This is most obviously shown within marriages which can become troubled (Warren 2007), even to the point of ending (the case of Opes Prime again, Urban 2010). Often this is due to anger resulting from financial loss, which can be directed at family members (Better Health Channel 2012), and/or through increased fighting (Warren 2003a).

Further insights into the impact on relationships come from an example of pathological male gamblers. Ciarrocchi and Reinert (1993) summarise a number of studies which considered the experiences of wives of pathological gamblers, and in doing so highlight several relevant issues. In particular, the circumstances of financial losses can be highly traumatic and cause much anxiety, primarily because the onset of calamitous financial losses can be very sudden and unexpected from the point of view of the spouse[152].

[151] This is often through thoughts such as "I wish I'd done things differently" (Better Health Channel 2012).
[152] In contrast to other addictions, the addiction of gambling operates on credit, which can lead to the hiding of financial problems by gamblers. Thus, the resultant trauma can be very high because of the "severe levels of uncontrollability and unpredictability" from the point of view of the spouse (Ciarrocchi and Reinert 1993).

A further lack of control for those around the gambler occurs when treatment is sought and steps are taken towards recovery. This is because all that can be offered is a level of support, but effectively without any control in the situation[153]. Of course by staying with a recovering gambler, a wife is (re)committing herself to a relationship which may not deliver much in the way of material resources for many years. This causes further distress as there is then little potential for "recreational, independence, and cultural pursuits" in the foreseeable future. Consequently, the combination of these factors means that the wives of pathological gamblers may experience a recovery developmental lag when contrasted to the gambler himself (Ciarrocchi and Reinert 1993).

4.3.2.5 Trust

As suggested in section 4.3.1.3, a decrease in levels of trust is a highly likely outcome of financial loss. This can be manifest in various ways and can be directed towards various parties. The GFC has brought such outcomes to the fore, in particular a decrease in trust in the financial services industry and especially professional advisers (Iannicola and Parker 2010)[154]. Naturally enough, this lack of trust is no secret with many financial advisers aware of it as a significant issue facing the industry (Fairfax NZ News 2008).

This lack of trust in the financial services industry has arguably been exacerbated by the lack of protection offered with financial collapses. For example, St. John (2011) describes shortfalls in relevant compensation processes, with some cases where compensation has not been able to be sourced even when there is an entitlement to it. In such cases, significant recompense has therefore not eventuated and this can accentuate the resultant impacts for individuals. The lack of delivery on compensation arrangements when these arrangements themselves would have been portrayed as a safeguard for investors making investment decisions, is hardly an advertisement for trust in the system.

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[153] The lack of control in the outcomes of such treatment is described from the point of view as the supporting person(s) as "going along for the ride" with "no hands on the steering wheel" (Ciarrocchi and Reinert 1993).
[154] Iannicola and Parker (2010) go as far to state that "consumer trust of financial services professionals is at historically low levels".

Another aspect of trust concerns the rebuilding of investment nerve following a loss. For those who have suffered significant losses but still have some financial savings left, convincing them to re-engage with the industry is no small task. Some highlight that an inability to re-engage can further exacerbate the impacts of existing losses by being too shy of all future risks, thereby reducing income and future returns to a greater degree than otherwise (Fairfax NZ News 2008)[155].

Furthermore, it is often not just the financial services industry that is the target of lower levels of trust. Also possible is a loss of confidence and faith in various institutions, including the government. This is potentially all the more raw where various institutions, leaders and government were formerly perceived as trustworthy and actually only exist as a functional entity due to the trust placed in them. Additionally, as seen in previous discussion regarding emotional impacts, it is possible that a lower level of trust in oneself can result as well.

4.3.2.6 Justice

Further reactions to financial loss can involve anger, both at oneself as well as being focused outwards towards an organisation such as an employer, or a professional such as a financial adviser (Better Health Channel 2012). Thus, where losses have eventuated due to the involvement of someone other than self, a "burning desire for justice" can result (Fairfax NZ News 2008).

4.3.2.7 Relativity

A further aspect of interest relates to the social circumstances of the loss. Feeling like you are the only one to have suffered a loss can exacerbate the emotive and relationship impacts, whereas knowing that others have suffered too can actually be a source of comfort. This is possibly due to the resultant awareness than one does not feel alone in their loss (Better Health Channel 2012), as well as a possible protective effect whereby one's circumstances may not seem as bad as that of others (Sargent-Cox, cited in CEPAR 2012).

[155] Fairfax NZ News (2008) cites the perspective of financial adviser Sheryl Sutherland.

4.3.2.8 Physical Health

There are various aspects relating to the impact on physical health. There is little doubt that financial strain in general can exacerbate physical problems, often due to lowered access to health care services. Any associated health problems can then also lead to further financial strain if reducing one's ability to work, which clearly impacts current as well as future earnings (Kim and Lyons 2008). For those who are retired, a reduction in the ability to work is not as relevant, but what is influential is that savings previously accumulated can be depleted quickly. Furthermore, many studies show that "financial problems are linked with declining self-assessments of health, diminishing ability to care for oneself, and generalized demoralization" (Thorne et al. 2009, p.100), suggesting that physical health problems can further morph into problems concerning mental health as well.

4.3.2.9 Mental Health

A particularly significant feature associated with financial loss concerns aspects of mental health. Adverse financial circumstances are frequently linked with mental health issues, such as stress, anxiety, depression, and psychological distress (du Plessis et al. 2010; Hunt et al. 2011; MacDonald 2002)[156].

Reactions to sudden financial losses can be described over multiple levels. For someone who had lost a small portion of their wealth, they would simply suffer some form of stress. A second level would certainly again involve stress, but where the losses become more significant, reactions could include anxiety and a decrease in self-esteem. A third and more serious level would see more acute symptoms including depression, "a lack of a sense of purpose in life, and panic attacks, and in the worst cases, thoughts of suicide" (professional counsellor Anita Bocchino, cited in Fairfax NZ News 2008).

Depressive reactions to financial shocks are perhaps very expected and normal responses, and for some "it's normal to feel like you just want to go to bed for the next five days"

[156] A recent example is the reported increase in levels of anxiety and depression among older Australians as a result of the GFC which as previously noted, relates to the pressure of the "self-funded nature of their retirement", combined with "expectations of a high standard of living" (CEPAR 2012).

(Mundis, cited in MacDonald 2002). But being in bed doesn't imply rest of course, and indeed difficulties in sleep and an inability to relax are two symptoms of anxiety and depression (Better Health Channel 2012). Other warning signs of such conditions include a difficulty in carrying out everyday activities such as going for a walk, preparing meals, and conversing with others; having emotional problems such as being angry, irritable or intolerant around other people; feeling overwhelmed and not able to cope; and also the use of alcohol or drugs. Notably, a key point is that any change in circumstances (particularly financial) where one is not able to exercise much control over that change, can increase the risk of anxiety and depression (Better Health Channel 2012).

The symptoms above and the overall lack of control over one's affairs can be exacerbated by an increasing sense of hopelessness and loss. The sense of loss associated with financial loss is often in the context of dreams and plans for the future (Better Health Channel 2012) – which is, after all, what gets many people out of bed and off to work each morning. Indeed, Banks (2010) points out that with financial loss it is not just a loss of wealth that is of interest, but also the resultant effects on expectations and plans for later life. As such, financial loss may well be distinctive in that it generates impacts that are more reflective and mentally damaging than with various other disasters. In many circumstances associated with such losses, the individual may blame themselves directly, or regret their trust in some other person or object of assurance, or be angry at some wider institution. In this context the loss of what has been planned and worked for, and where in hindsight there was a realistic possibility that this loss could have been avoided or should not have occurred, can lead to such strong emotive responses. This might be far more marked than with, for example, financial loss resulting from an earthquake or robbery, which may generate a far more fatalistic and less reflective response.

A sad and extreme outworking of impacts on mental health is the tragedy of suicide. This too is not uncommon with circumstances surrounding financial loss, with thoughts about suicide a common sign of extreme anxiety and depression (Better Health Channel 2012). MacDonald (2002) cites a case of suicide due to indebtedness, and a tragedy of Opes Prime's collapse is the account of a client who also took his own life (Urban 2010).

4.3.2.10 All linked together

Naturally enough, the impacts discussed above do not neatly fall into independent and isolated descriptions which have no bearing or influence on other impacts. By way of examples, we briefly highlight a small selection of how various impacts can influence others in the aftermath of financial loss. The example of Mundis is again of interest:

> This devastating condition sucks the joy out of a life. It wrecks marriages, it gets adult children into fights with their parents, and the stress takes a toll on one physically and emotionally, too. That shows up at the office or on the job. Accidents are more likely to happen. (cited in MacDonald 2002)

The virtual inevitability of financial ruin for pathological gamblers also evidences the inter-relationships of various impacts, with studies showing elevated rates of marital difficulties and other problems which include physical ailments, depression, guilt, confusion and isolation (Ciarrocchi and Reinert 1993). Needless to say, the compounding effect of several factors occurring at once significantly impacts an individuals' well-being even more (du Plessis et al. 2010).

The story of a New Zealand couple who invested in a failed property developer (Blue Chip) gives interesting insights that tie together many of the impacts discussed above. The result of borrowing heavily against their home to purchase an apartment was a debt incurring repayments of $5000 a month, and the likely loss of the home. By way of extended example the views and experience of this couple are quoted here (sourced from Fairfax NZ News 2008). Firstly, in terms of what the financial loss felt like:

> "It feels just like it felt when my mother died," [Judy] said. Many might recoil at the comparison how could the loss of mere money be like losing a parent? But... the physical and emotional responses to both can be identical, says Margaret Agee, from the University of Auckland, an expert in grief counselling. "We commonly think of grief as being associated with death, the death of people we love, but in fact, grief can be the response to many life experiences that involve loss or extreme change," she said. The assumed societal hierarchy of grief the death of a family member trumps the death of a pet, for example can

result in what Agee calls 'disenfranchised griefs', such as the reaction to extreme financial loss. This leaves sufferers confused about whether they are justified in their reactions, and lacking recognition, empathy and understanding.

In terms of reactions to the loss:

> Reactions to the financial pressure have been physical and emotional...Judy is plagued by obsessive thoughts, with her mind returning again and again to the financial situation...a racing mind has led to sleeplessness, and she now uses sleeping pills. "Your mind is so activated with stress. Some nights I didn't sleep at all before I got the tablets. My mind would go over things. I got really, really tired." Some physical symptoms are no surprise like the headaches that now plague her more frequently. Others were "My hair stopped growing. It took three months before I had to have another hair cut." Bruce reports an extreme loss of appetite. "You sit down to eat, but the food just looks unappetising, and you just don't feel like eating," he says.

Finally, in terms of how different people might react to such a loss:

> Judy thinks men experience grief at financial losses differently to women. Bruce sought solutions until he was mentally exhausted. Such obsessive thinking is common, but at least showed he was not depressed, according to his doctor. At 70, he tried going back to work milking a large dairy herd, but broke down physically after a week, arriving home shaking. "It was exhaustion and stress, I guess" Judy said. Men of a certain generation are also more likely to bottle up their feelings, something Judy has strived to ensure did not happen. "My husband would have been like that, but I feel we haven't done anything wrong. He feels like he has let me down as a husband because we may lose our house, which is the only thing we have." Bruce does find it harder to talk about his own feelings. He does feel that he should have been strong enough to say no to the Blue Chip hard-sell, but pities couples where blame poisons what is left of life.

4.4 Coping with Traumatic Loss

4.4.1 'Recovery'

Common terms used to describe what can happen to people after some major event are reconstruction, restoration, rehabilitation, restitution, and recovery, but each of these terms can mean different things in different contexts (Quarantelli 1999)[157]. The term most closely related to the principle of indemnity within a financial and insurance context is 'restoration', which in simple terms means putting back into nearly the original form whatever existed before the disaster[158].

The term of most interest to us is that of recovery. This refers to bringing a post-event situation to a reasonable level of satisfaction or acceptability, which unlike restoration, is not explicitly or necessarily referenced to the level in existence before the event (Quarantelli 1999). As such and given the scale of financial losses suffered by those investigated in this thesis, recovery is not only a more realistic situation in the long run than restoration, but it may also be more observable than restoration in the time frames considered.

However, restitution is also of interest, especially given the aforementioned desire to seek justice following financial loss. Restitution is similar to restoration but more as it relates to the rightful claimants of owners and their former state of affairs, and is commonly pursued through legal means (Quarantelli 1999). Given the structure of trust and importance of social relationships within the financial services industry in Australia, we might expect to see various degrees of restitution being sought and being of some importance to many investors – even if they fall short of complete restoration itself. Indeed, pursuing justice may lead to a situation where justice is seen to be done, but on a cautionary note this may not generate any sense of closure nor bring recovery about on its own accord[159].

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[157] Indeed, such terms "are not always pointing to the same thing or process", and in particular for the term 'recovery', "there is not even much agreement on the specific term, word or label to use, or if the different concepts used have reference to the same or different kinds of phenomena" (Quarantelli 1999).

[158] Alternatively, "re-establishing prior or pre-impact physical and social patterns" (Quarantelli 1999).

[159] Indeed, "justice done might be nice, but it is not going to deal with the anxiety and stress people are going to be suffering" (Fairfax NZ News 2008).

4.4.1.1 Lessons from veterans

The qualitative review and study of Corbin and Strauss (2008) regarding a war veteran's approaches to coping with his experiences gives some general insights for us to consider. Quite clearly war, with its death and destruction, is far more involved, raw, tragic and traumatic than even the most severe financial loss. And although financial losses can also lead to tragic impacts on human lives, it is not on the same destructive, widespread scale as with war, so no attempt is made to draw parallels between the two. However, that does not mean that these experiences are not useful to draw insights from.

One coping strategy is through the process of 'hardening' where one learns to not "feel things so deeply". To allow such emotion in would disrupt the 'protective shield' that some people construct to partially mitigate the horrors of war. Other strategies include making light of one's situation via humour, a distancing from what one is surrounded by, and the redefining of moral values to match and fit in with the new experience or situation[160]. Post-war, a strategy to get on with life was to do things that had been planned whilst at war, in order to provide "something to hold on to". As such, making plans for the future and hanging onto them in challenging times is considered as another survival strategy (Corbin and Strauss 2008).

Corbin and Strauss (2008) also describe 'walls of silence' that exist around war experiences. One such wall is the external one, "between the self and the outside world", where veterans do not want to talk about their experiences, particularly with those considered outsiders[161]. Poignantly, reactions to the disturbing experiences of war were made all the worse when the soldiers came home and received a reception that served to isolate them further[162]. A second wall of silence is the internal one, "built around the experience itself". This wall is maintained by avoiding outlets such as books, movies, conversations with others, and generally keeping busy so that memories are not revisited.

[160] This essentially is a justification that certain actions taken in war either by oneself or by others are considered morally reasonable, under the assertion that "hey, this is war", even if those actions would not have been taken otherwise (Corbin and Strauss 2008, p.174).
[161] This gave rise to Corbin and Strauss's difficulty in recruiting participants for interviews, with one respondent saying that "I can't talk about Vietnam to my wife, why would I talk to you?" (p.184).
[162] Indeed and as such, "they don't even like talking among themselves" (p.184).

These strategies again were to ensure that the protective wall put up around oneself could not be breached.

4.4.1.2 Factors in recovery from natural disasters

Also of interest are those factors which are influential in post-event recovery. To glean relevant insights, we refer to Quarantelli (1999) who reviewed many studies relating to the experiences of individuals, families and households following the occurrence of natural disasters. A summary of the major themes relevant to our context of financial loss is given below.

Most major themes relate to the social context of an individual, which is unsurprising given the social nature of humans. However, social aspects of both the impact and the recovery process are apparent in many forms. The first is that for most victims, the major source of help in recovery are relatives and kin, often through the assistance of housing. This is helpful and welcome in itself in the short term[163], but is also beneficial due to the avoidance of difficulties associated with multiple moves after a loss event, for which those who have lost a home find it increasingly difficult to cope with. In this context, the period after a loss event and the associated recovery responses can matter as much as the loss itself. Furthermore, although recovery through family and kinship support is usually the most tangible and useful to disaster victims, there are nevertheless families for whom recovery or otherwise will depend predominantly on institutional rather than other sources of help (Quarantelli 1999).

A second aspect relating to the social context is that the extent of recovery often reflects how one was before the event, particularly in terms of social connectedness and awareness[164]. In particular, a foundational factor in resilience has been suggested as "the resources available to individuals through their social networks" (Dynes 2005, cited in Aldrich 2010). This is supported by household studies of the Kobe earthquake in Japan

[163] Although Quarantelli (1999) does state that "while short run sharing of housing with others is acceptable, serious stress in relationships occur if common quarters are shared for extended periods of time".

[164] Indeed, "just as in everyday life some social units are in more formal and informal interaction patterns and networks than others, the same occurs in the post recovery period" (Quarantelli 1999).

which indicate that those citizens who were more active and participatory in the community had better recovery experiences than those were less involved (Tatsuki 2008, and Tatsuki and Hayashi 2002, cited in Aldrich 2010)[165]. Quarantelli (1999) categorises "single persons, older women, the homeless, or nonreligious people in an area with strong religious affiliations" as those who may not be included in recovery efforts as much as others[166]. An outworking of this can also be at a very practical level, such as some social classes may know where to go for help and assistance more than others[167].

A particular feature of the social context is the protective role of marriage[168]. The benefits of such a protective benefit with marriage can arise due to the ability to derive two incomes rather than one, and also that marriage may well be associated "with a set of attitudes and behaviours that reduces financial disadvantage" (Marks 2005, p.319)[169].

Quite clearly positive outcomes can arise from an involved and social recovery effort. As well as the obvious economic and financial benefits, at a social level relationships can be strengthened within families and also with other families who are either assisting or are recovering themselves. This can be partly due to what Quarantelli (1999) terms the 'emergent quality' of disaster responses, which is the appearance of new ways of doing things, and could include the creation of new groups with collective concern for victims. Nevertheless, such improvements in social relationships can be temporal and even give rise to later hostility, and naturally enough not everyone will perceive the changes in the same manner. Undeniably however, social networks and connectedness are key factors in overall recovery.

Another important factor in recovery is the stage of the life cycle that a victim is at. Generally, those who are older are less likely to recover to a position that is close to their

[165] Or as Quarantelli (1999) puts it, "in general, those outside of the everyday mainstream remain outside in the post recovery period".
[166] By way of further example, "some families from tightly integrated ethnic groups do so much better in recovering than other family units who are less linked into extended kinship patterns" (Quarantelli 1999).
[167] Even down to the detail of "knowing how and where to approach bureaucracies, filling in forms and doing other paperwork, etc" (Quarantelli 1999).
[168] "And to a lesser extent de facto relationships" (Marks 2005, p.319)
[169] Although Marks (2005) discusses general financial disadvantage rather than specific recovery from a natural disaster, the points made nevertheless have some traction in our context also, in that where references to subjective poverty and financial stress are made, these are relevant regardless of the source of poverty.

pre-impact level (everything else being equal), due to both economic and psychological factors. For example, difficulties can exist for older persons to rebuild their homes due to problems in accessing credit, or due to strongly felt self-perceptions that they have less remaining years in life than others to be able to do so (Quarantelli 1999)[170].

Another factor echoes earlier comments about the relativity of impacts. With respect to recovery after the event, Quarantelli (1999) states that the level and quality of assistance received is often evaluated in comparison to what others have received, and that "the more there are disaster victims the more probable is this relativistic attitude likely to prevail".

The significance of 'symbolic recovery' rather than economic recovery is also highlighted by Quarantelli (1999). For, although a great deal of material property and financial means can often be recovered, this differs in significance and importance to restoration of lost symbolic possessions[171]. This suggests that the loss of a home for whatever reason can have a significant impact on wellbeing due to its symbolic nature as well its sense of security and achievement, in addition to the more direct physical and financial consequences of housing provision.

4.4.2 Emotional recovery from financial loss

The range of strong emotional responses that can occur implies that for many people, tangible and significant help is needed in order to cope with loss. In this regard, this section briefly describes some advice from counsellors and mental health advocates, specifically relating to financial loss.

A starting point for recovery is finding someone to talk to, whether that be a friend or a professional (Better Health Channel 2012; Fairfax NZ News 2008). This can help both the victim and others understand what has gone on and come to terms with the situation, release emotions that would otherwise be internalised, allows openness about what has happened rather than hiding it, and simply gets support around the individual to mitigate

[170] To reiterate an earlier point, "this is simply another way of saying that not all socioeconomic losses are equivalent even though in financial terms the figures may be roughly comparable" (Quarantelli 1999).
[171] Such possessions include "important family remembrances such as photographs or the old tress that will never exist again in the front or back yard" (Quarantelli 1999).

the stress that would be occurring. Such communication with others can of course be far more targeted, such as discussing specific issues with counsellors, or exploring ways to reduce stress with medical professionals. The latter can especially be necessary for the time period immediately following a loss[172]. Communication with others does not have to be verbal either – writing things down can help as well, either to prioritise concerns to be addressed, to convey thoughts with others that are too difficult to express verbally, or purely as another emotive outlet for oneself.

Physical activity is also considered important, along with sensible and balanced dietary choices. This not only keeps the body in a better physical state to deal with stress, but also can head off further deterioration in terms of mental health which may otherwise result from poor self-perceptions and frustration with oneself. Needless to say, the limiting of drugs and alcohol intake with their mood altering and depressant qualities is ideal. Patience is also an essential factor as any major loss will involve long recovery times, and reminding oneself of how previous hurdles have been overcome is also considered helpful. Conversely however it can be difficult to avoid becoming obsessive about what has happened (as evidenced by some having a 'burning desire' for justice), with such obsession unhelpful but nevertheless possible at either end of the spectrum of responses[173]. A further helpful response is being proactive about involvement and interaction with others in a meaningful way, particularly where the financial loss also has an associated loss of social contact (Better Health Channel 2012)[174].

Some may also find it helpful to mentally turn-around their circumstances, by looking for positives out of the experience (Better Health Channel 2012) [175]. Alternatively a reframing of one's situation can be helpful as no matter what has been lost, "there will still be things in life left for a person" (Fairfax NZ News 2008). Whilst this advice is based on straightforward observations which are self-evident to even the most casual observer and

[172] As highlighted in Fairfax NZ News (2008): "Physical symptoms caused by stress are real. Take them seriously. Seek help for ways to overcome them".
[173] For example, constantly checking one's financial situation or at the other extreme, totally ignoring the financial problems now being faced.
[174] As one example of difficult financial circumstances, for many people "the most difficult part of job loss or retrenchment is the loss of a sense of 'contribution' and lack of interaction with friends and colleagues in a work environment" (Better Health Channel 2012).
[175] Or seeing the current situation as "an opportunity to re-evaluate your goals and perhaps take on new challenges" (Better Health Channel 2012).

may have been of much use to many people, in the context of earlier discussion this runs the risk of being perilously close to exacerbating some of the adverse impacts of loss. For example, the perception felt by back pain victims of 'everyone else knows best' is arguably relevant here. As such, for many who have suffered substantial losses, such advice may not be helpful for some stages of the recovery process, especially if the circumstances of the loss have caused significant mental angst.

4.4.3 Financial recovery from financial loss

It does not need an expert view to observe that there are two general ways to improve one's financial position. One is to increase income, the other is to decrease expenditure, and there are lots of ways or strategies publicly available for people to consider either or both of these aspects of personal finance[176]. The main thrust of advice in this area is to be deliberate and planned in what one does, especially in the aftermath of a significant financial loss[177]. The following sections describe the main approaches that can be taken.

4.4.3.1 Increasing Income

Increasing one's income can of course be easier said than done, but if additional jobs (generally, odd-jobs such as landscaping) can be taken, or if one's profession allows consulting or free-lance work, then this is helpful. If not having work is an issue, then the use of social networking sites, employment agencies, and word of mouth amongst friends is an obvious starting point. Getting an initial opportunity may even be assisted by offering to take a lower salary than other candidates. Examples of other ways to raise funds in the short term include the selling of household items no longer needed, taking in a paying renter or boarder, or selling a car for a cheaper option.

Rather than looking to earn more sooner, it may also be useful to plan to work for far longer than previously considered. This appears to be a growing phenomenon in Australia with 13 per cent of Australia's 2.6 million full-time workers over the age of 45 now not

[176] For example, one source (http://www.wikihow.com/Survive-a-Personal-Financial-Crisis) brings together lots of common-sense choices to help out in such times.
[177] As Lusardi and Mitchell (2011) state, "experiences such as large wealth or income losses seem to push people toward more planning" (p.506).

ever planning to retire (Burke 2011)[178]. A study of the retirement attitudes and intentions of Australian higher education workers suggested that many had postponed retirement decisions in recent years due to falls in superannuation savings (deVries 2009). However, not many of the research participants in this study were particularly worried about their ability to provide for the essentials of life in the future, so the select nature of this study and its participants is noted[179].

An important point is to seek advice regarding entitlements and available support services. These support services can of course be specifically financial in nature, and may include professional financial advisers. This may be useful in overcoming a reluctance to incorporate some appropriate level of risk into future investment choices. Thus, if the appetite and trust can be formed to visit professional financial advice again, this may be of assistance.

4.4.3.2 Decreasing Expenditure

Three main areas of expenditure are considered in this section. The first of these is debt obligations. Where these can be prioritised, then those debts that could lead to foreclosure or repossession should be the first to be addressed – for example, a home mortgage (MacDonald 2002). Next in line should be debts incurring interest, in order of interest burden. If the levels of debt and interest are such that obligations cannot be met, then contacting rather than running from creditors and being open with them is recommended, as is avoiding charges associated with any broken contracts. Indeed, claiming some control over one's situation may involve pro-actively contacting a creditor, as many organisations will have procedures in place to help those who are going through a period of financial hardship (Better Health Channel 2012). This may allow the negotiation of lower payments or even a moratorium for a short period, giving time to seek other ways to improve one's

[178] Furthermore, "almost a quarter of a million people who had previously retired from the labour force had either gone back to work or said they were planning to look for work in the future". Of these people, the majority were women "and they cited financial need as the most common reason for their return from retirement" (Burke 2011).

[179] Notably, given the self-selection of academics into roles of genuine personal interest, "research participants did not appear to be overly concerned by the economic downturn with modifications to retirement expectations more about working longer" and indeed, many "commented that the economic environment had provided them with a legitimate reason to keep working" (deVries 2009).

financial circumstances. Of course, if the financial loss has itself involved the loss of a home, then this removes a key asset which could have conferred flexibility to keep other financial options afloat[180].

A second area of expenditure that can be reduced concerns the basic essentials of living – housing, transport, food and clothing. If circumstances demand it, older individuals could consider living with adult children or in some other workable living arrangement (Kim and Lyons 2008). This is an example of the pooling of intergenerational resources, which is common and acceptable within the family context of many cultural practices[181]. Of course the roles can be different here within young adults falling back on parental assistance in times of need as well[182]. Transport costs can be reduced by carpooling and taking public transport where practical. Food costs can be reduced by not eating out and making changes to grocery shopping habits, including shopping at discount supermarkets and utilising store brands. For clothing, various purchases can likely be postponed for many months for many families, though of course growing children do pose a particular challenge. Shopping at second-hand stores may alleviate this particular pressure, if further shopping is required.

A third area of expenditure concerns the categorisation of wants and needs, or equivalently non-essential items and essential items[183]. Taking stock of non-essential expenditure might yield examples such as memberships to fitness centers (which can be replaced by running, walking, and a host of other free activities), entertainment clubs with regular costs, music lessons, holiday plans beyond what is now affordable, and so on. Most likely many of these can be cut without too much pain, if not without some psychological cost. The select group of higher education employees in the study of deVries (2009) did not in general perceive cutbacks in this area to be a significant hardship however, and intended to find "creative

[180] Notably however, "you should only consider a home equity loan as a last resort – and only if you are certain that you can improve your situation in time to avoid losing your home" (MacDonald 2002).
[181] For example, "it is common in some traditional cultures for elders to live with, and be financially supported by, their adult children". Furthermore, "it is also feasible and reasonable that there is an expectation of inheritance when children accept the risk of supporting parents and a desire to pass on an inheritance by the parents" (MacDonald et al. 2011).
[182] Indeed, changing "intergenerational familial economic relationships" mean that "when young adults experience financial struggles, they often rely on their parents for help because parents usually have more assets and fewer expenses" (Thorne et al. 2009, p.88).
[183] Indeed, "a financial crisis is a quick and painful way to learn the difference between wants and needs" (Mundis, cited in MacDonald 2002).

ways to enjoy living with less money (such as 'cheap' seniors activities)", and to still enjoy travel but on smaller budgets than before.

4.5 Summary of Chapter

In this chapter we gave a brief overview of traumatic events and circumstances, in order to present a range of impacts that might be expected to occur on individuals. A variety of emotional and social impacts can be expected, which in turn can be exacerbated by financial vulnerabilities that might also have arisen. Importantly, the reaction and perception of others are also highly influential in impacted individuals, including those of professionals, as well as society at large.

Where the traumatic events and circumstances are more directly of a financial nature, there are additional complexities that are important. For example, the severity of loss in absolute and/or relative terms, and the circumstances surrounding that loss including whether others were involved in the occurrence of that loss. Indeed, losses can arise from various sources such as individual choices, the workings or volatility of the 'market', or misplaced trust in others.

Where significant financial loss does eventuate, there are obvious direct financial impacts but of particular significance are the impacts involving emotional wellbeing, relationships, and trust in a range of parties. This in turn can lead to a determined pursuit of perceived justice. Impacts on mental health frequently arise from adverse financial circumstances, with stress, anxiety and depression not uncommon amongst many in such circumstances. Such mental health impacts further exacerbate other impacts, particularly emotional wellbeing and relationship / social interactions. Suicide is also an extreme but sadly not rare possibility.

Recovery from such circumstances is not straightforward and a wide range of experiences are apparent. Social connectedness with others is seen as an extremely significant factor, and for many people, tangible and significant help is needed in order to cope with loss. Much advice exists for 'recovery' (but not for 'restoration') in solely a financial sense, but given the possibility of significant mental angst with such circumstances, 'recovery' in a non-financial sense is unlikely to be formulaic across all impacted individuals and may well be the more difficult to address. In other words, severe financial loss is likely to have an impact well beyond a loss of money.

Chapter 5: Data and methodology

5.1 Introduction

Answering our research questions requires a qualitative approach and as seen in chapter three, by referring to high profile collapses we can begin to formulate a response via the analysis of various reports and commentary of others. But to develop this further, we consider additional data sources such as interviews, observations, transcripts of public hearings, public submissions to the PJCI, and other documents and correspondence.

Through such interviews, observations, and analysis of documents, a detailed picture can be gleaned of various individuals' perspectives regarding financial loss. Achieving such a picture is a common goal of much qualitative research (Denzin and Lincoln 2005). Also fairly typical of qualitative research is the breadth of data sources used (Freeman et al. 2007), and the presentation of findings in a highly descriptive manner (Eisenhardt and Graebner 2007)[184].

In this chapter we describe the various data sources available to us, and then present a detailed description of the overall methodology used to engage with and examine this data. This includes procedures and approaches used to affirm the themes and findings that arise. We begin however by giving an overview of qualitative research, as it pertains to our particular research questions. This includes a discussion of theoretical perspectives, design strategies including the utility of a case study approach, and a description of the overall approach adopted.

[184] Furthermore, how people actually behave in a financial setting necessarily requires a descriptive approach (Baker and Nofsigner 2002).

5.2 Qualitative research

A primary goal of this thesis is not necessarily to be able to generalise any findings to other contexts, but firstly to accurately report and summarise what the data infers in this particular context. We accept at outset that achieving answers to relatively broad questions may be nuanced, highly-context dependent, and even present inconsistencies[185], but see no reason why the different experiences and responses of each individual should be, *a priori*, more useful or credible by being able to be generalised[186]. Of course, where patterns or consistencies are found, this is worthwhile (Stake 1995), and it may be that generalizations or assertions can be offered which in itself will be useful (Freeman et al. 2007). This, of course, will assist us with our secondary goal. But, we accept the realistic point made by Shank (2002) that 'meaning' in examining such questions within a qualitative framework may present an incomplete picture.

We also acknowledge that what is drawn out from the data is necessarily (and unashamedly) reliant on interpretation (a point highlighted by Marshall and Rossman 2010) – both ours in terms of the choice of research approach taken and analysis of data, and also those of the research participants themselves. The nature of each interpretation, of course, may be quite different for each participant (Denzin and Lincoln 2005)[187], and as such a requirement for good research in this context is to not jump to a particular interpretative conclusion too quickly (Shank 2002).

None of this need detract from the utility of any findings, but what it does prioritise is the presentation of a clear framework and design which shows that a systematic inquiry has taken place. The need for an ordered and coherent investigation is highlighted by many researchers as key to being the 'quality' in qualitative research (Patton 2002; Piantanida

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[185] Or, as Shank (2002) puts it, "our picture of anything is always too simple… we want instead to develop a more complex picture of the phenomenon or situation. Only, we prefer not to call it complex. We prefer terms like "rich", "deep", "thick", "textured", "insightful", and, best of all, "illuminative"" (p.7).

[186] Some may baulk at such an admission, and for the actuarial reader this may also raise questions. After all, the actuarial approach in the face of much variability between individuals is to select reasonably homogeneous groups for important functions such as underwriting (even to the extent of medical loadings being a set multiple of 'standard' health), pricing, understanding the risk profile, reserving, and so forth, on the basis that this is reasonable given a large enough portfolio of policyholders, in association with other risk management strategies also being in place.

[187] Denzin and Lincoln (2005) go as far to state that "there is no single interpretive truth…there are multiple interpretive communities, each with its own criteria for evaluating interpretations" (p.26).

and Garman 2009; Shank 2002), since this demonstrates how conclusions are reached, thereby allowing others to assess research adequacy and trustworthiness for themselves (Rossman and Rallis 2003). We begin with a discussion of potential theoretical bases and approaches for pursuing such a systematic study.

5.2.1 Theory in a qualitative research context

What 'theory' actually means depends on the context in which it is used. Thomas (1997) gives four broad meanings to the term 'theory':

1. The opposite of practice, where theory is thinking and reflecting, as opposed to doing;
2. A hypothesis;
3. A way to develop an explanation;
4. Ideas formally expressed as statements that are falsifiable[188].

Shank (2002) describes a theory as a formal account of meaning which is useful by allowing us to make sense of complex phenomena. In some uses of theory, in particular where research questions allow quantitative approach to be used, testable hypotheses can be derived from that theory so that there is a clear link between what can be explained, and what can be predicted. In the realm of research that is more qualitatively focussed, a raft of theoretical bases and approaches exist. A selection of those of interest is presented below.

Table 6: Theoretical perspectives in qualitative research

Theoretical Perspective	Central Questions
Reality Testing	What's really going on in the real world? What can we establish with some degree of certainty? What are plausible explanations for verifiable patterns? What's the truth insofar as we can get at it? How can we study a phenomenon so that our findings correspond, as much as possible, to the real world?
Constructionism/constructivism	How have the people in this setting constructed reality? What are their reported perceptions, truths, explanations, beliefs, and worldview? What are the consequences of their constructions for their behaviours and for those with whom they interact?

[188] This of course is the general case of 'scientific theory', a meaning of theory addressed by Kuhn, Popper, and others.

Narratology/narrative analysis	What does this narrative or story reveal about the person and world from which it came? How can this narrative be interpreted to understand and illuminate the life and culture that created it?
Grounded theory	What theory emerges from systematic comparative analysis and is grounded in fieldwork so as to explain what has been and is observed?

Source: Patton (2002, pp. 132-133)

A grounded theory approach resides within a 'bottom-up' rather than 'top-down' perspective to drawing insights and conclusions from data. A 'top-down' perspective requires the adoption of a belief or approach about the research questions and resultant data, in advance of any analysis. This is in order to draw out findings that fit within a coherent framework of existing knowledge and approaches. In contrast, a 'bottom-up' perspective refers to the formulation of theory or a coherent framework that arises after or through examining the data. In other words, the difference between that and a 'top-down' approach reflects the timing of when the researcher brings a level of intellectual organisation to the data (Thomas 1997)[189]. The 'bottom-up' approach has virtually become the flagship for theory-oriented work in qualitative research, but both approaches can be complementary and can work hand in hand (Gibson and Brown 2009).

5.2.1.1 Shortcomings

An obvious question to ask is whether we need a theoretical approach or basis to conduct this research. This is a common question for those undertaking social research, and an appropriate response is that it depends on the context (Gibson and Brown 2009). Firstly, a reference to or basis on theory can in fact be unhelpful in various circumstances. In the context of grounded theory, having a theory pre-specified in advance of data analysis (in the form of already identified variables or categories prior to engaging with the data) can be

[189] As Thomas (1997) states: "In most theorizing one might say the presupposition exists, while what occurs in grounded theory might be called 'postsupposition' and an iterative visiting of the data to refine the theory" (p.81).

constraining, and a poor choice risks irrelevance to the data under investigation (Gibson and Brown 2009).

A further critique concerns the oft-held requirement of theory to generating academic legitimacy or credibility (Thomas 1997). Thomas (1997) highlights views of French social theorist and philosopher Michel Foucault that unusual and different opinions, as well as local and specific knowledge could be considered more. Thomas further highlights specific concerns with an overemphasis on theory:

- Only certain kinds of endeavour in (educational) inquiry are reinforced, and the legitimacy of atheoretical kinds sidelined;
- Theory operates as a force for conservatism, by stabilizing the status quo[190] which merely encourages particular ways of thinking and discourages diversity of thought;
- Theory is anchored to past ways of doing and seeing things, even to the point of forcing the theory to 'work'[191].

Nevertheless, having a theoretical basis can offer opportunity for more insightful engagement with data, with the absence of either a reference or incorporation of theory often leading to merely descriptive and sometimes impoverished analysis (Gibson and Brown 2009). We clarify our approach shortly.

5.2.2 Design strategies

A 'naturalistic inquiry' approach which uses 'emergent design flexibility' involves not being locked into rigid design strategies in advance of the actual research and analysis (Patton 2002)[192]. This is considered highly appropriate in many situations, particularly so when the focus of the research is not to test or extend existing or theoretical hypotheses, but rather to investigate some matter in as much depth as the data allows. Indeed, good and useful research is not necessarily characterised by formulating specific questions and

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[190] This is via the "circumscription of thought within a hermetic set of rules, procedures and methods" (Thomas 1997, p.76).

[191] According to Thomas (1997), theory "pays too much heed to that which is established" (p.88) and it "creates a 'trans-historical strait-jacket' into which the evidence of history is coerced" (p.98).

[192] Patton (2002) states that although "the design will specify an initial focus, plans for observations, and initial guiding interview questions, the naturalistic and inductive nature of the inquiry makes it both impossible and inappropriate to specify operational variables, state testable hypotheses, or finalize either instrumentation or sampling schemes. A naturalistic design unfolds or emerges as fieldwork unfolds" (p.44).

hypotheses in advance of the research, but it does require careful selection of case material to best meet the research goals. As any case selected for qualitative research is part of a wider set of possible cases, there should be a link between the phenomenon being studied through a particular case or cases, and how or where the particular details of that case sits within a larger context[193]. For example, with a grounded theory approach, insights from the research should have their foundation in the details of the cases being studied themselves rather than having questions specified in advance, allowing an examination of major themes that emerge from the data directly (Patton 2002). This emphasises the importance of case selection within a qualitative framework.

5.2.2.1 The Case Study Approach

Quantitative research typically utilises the law of large numbers to select either random or representative samples, from which inferences and probabilities can be deduced about a wider population. Indeed, the utilisation of representative data sets of respondents from panel data has characterised recent research by behavioural economists (Weber et al. 2011). The purpose of such research is to allow generalisations to be made, and as such if the cases are neither representative, nor random where case numbers allow, a problem emerges when trying to generalize theory from this (Eisenhardt and Graebner 2007).

In contrast, if the objective is to derive as much information about a given problem or phenomenon within the context of the complex workings of the real world, the most appropriate approach may not involve selecting a representative case or a random sample. Rather, because of the required emphasis on placing findings within this real world context, the specifics of particular cases are paramount (Denzin and Lincoln 2005)[194]. Such research may require in-depth consideration of causes and associated consequences of a problem or issue, so that an important criterion for case selection is its utility in generating such

[193] Marshall and Rossman (2010) give the example of a doctoral student in economics "who demonstrates that their qualitative case studies of five families' financial decision making are relevant for understanding larger forces in the marketplace… the case studies are significant because they illuminate in detail larger economic forces while focusing on individuals". The utility of this is that that the particulars of any study "serve to illuminate larger issues and therefore hold potential significance for that field" (p.7).
[194] Stake (1995) also stresses this point: "Case study research is not sampling research. We do not study a case primarily to understand other cases. Our first obligation is to understand this one case" (p.4).

insights. Selecting cases to emphasise representativeness are unlikely to produce these kinds of insights, as 'typical' or 'average' cases are often not as rich in information (Flyvberg 2006). Clearly then, a case does not always need to be chosen to be representative of some population (Eisenhardt and Graebner 2007)[195], and where the goal is not necessarily to generalise, but rather to consider a real world problem on its own merits, purposely selecting particular cases is more appropriate (Patton 2002).

Choosing an appropriate case or cases is influenced by various factors and it is important to note that having just a single case to study is not unusual, as long as that case is chosen appropriately (Patton 2002)[196]. An appropriate choice should be that which best helps pursue the research goals or maximises the potential for learning (Stake 1995). Patton (2002) uses the term 'information-rich' to identify those cases that are appropriate for study, with such cases generating much data about issues of central importance to the purpose of the research[197].

Such a case study would typically exploit the opportunity to be highly revealing in terms of a particular phenomenon, an extreme example of a particular problem or issue, or if it conveniently presents an opportunity for research access that would not normally be available (Yin 1994, cited in Eisenhardt and Graebner 2007). Rather than pursuing typical or average cases, extreme cases can reveal more information relating to the research goals[198], the events around the case may be quite dramatic and so interest and motivation is high, and the nature of such cases means that they illustrate things often overlooked in more typical case studies (Eisenhardt and Graebner 2007; Flyvberg 2006; Stake 1995). Identifying such a case as being 'paradigmatic' for learning is not necessarily straightforward however[199], but at this time we assert that 'we will know it when we see

[195] Or as Stake (1995) puts it, "good instrumental case study does not depend on being able to defend the typicality of it" (p.4).
[196] Furthermore, "single-case studies can richly describe the existence of a phenomenon" (Siggelkow 2007, cited in Eisenhardt and Graebner 2007, p.27).
[197] Hence the term "purposeful sampling" (Patton 2002, p.46).
[198] This is "because they activate more actors and more basic mechanisms in the situation studied" (Flyvberg 2006, p.229).
[199] American philosopher Hubert Dreyfus reveals some of the difficulty with the selection and justification of paradigmatic cases, which he sees as central to human learning: "You just have to be intuitive… it is a big problem in a democratic society where people are supposed to justify what their intuitions are. In fact, nobody really can justify what their intuition is. So you have to make up reasons, but it won't be the real reasons" (personal communication (1988), cited in Flyvberg 2006, p.232).

it'[200]. A further factor is the limitation of research time and access (Stake 1995). In other words, the case of choice needs to be not only accessible, but in a manner which is as tractable as resources allow.

Typically case study research can be taken in unexpected directions (Stake 1995) and there is a heavy reliance on the interpretations that participants and researchers bring to bear (Flyvberg 2006). Both of these factors can lead to the critique that such research can be 'subjective' (Eisenhardt and Graebner 2007) and merely 'stories' (Shank 2002). However, many authors address these concerns. In a methodological context, showing a close adherence to the data can demonstrate that findings and resultant theory building can be as objective as is appropriate (Eisenhardt and Graebner 2007), with such adherence often shown via examples of raw data, such as extended narratives and quotes. However, such narrative can also be seen as a drawback, but where substantial narrative is presented (due to the difficulty in summarising the complexities of the real lives of participants, rather than for the sake of verbosity), this can be more positively viewed as the case uncovering a "particularly rich problematic" (Flyvberg 2006, p.237). Where narratives and presentation of raw data leads to the charge of the research being just 'stories', Shank (2002) highlights that where these stories are coherent and reliably based on observations and other data collection, then this itself is a useful insight[201].

In sum, a case study approach within a qualitative framework offers the opportunity to discover useful insights about the complexities of the real world, within the bounds of the stated research goals. This can be done systematically, orderly, and notably using a variety of data sources, lending credibility to the overall approach and resultant findings. The choice of an appropriate case is that which allows maximum insight to be generated about the goals of the research, and this requires knowing in detail the particular circumstances of the case. This is also so that if implications for a wider context are made, the researcher and readers are then aware of the limitations of such implications (Patton 2002; Stake 1995).

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[200] With our defence that if United States Supreme Court Justice Potter Stewart can use this phrase on serious matters in court (see http://en.wikipedia.org/wiki/I_know_it_when_I_see_it), then we can use it also.

[201] Shank (2002) actually states this more purposively than our more guarded summary: "if we find certain accounts and discoveries and observations and happenings all fit neatly together into a lawful and coherent story, then we have uncovered a powerful source of order in the world" (p.15). The overall point however is that "story is the enemy of chance" (Shank 2002, p.15).

5.2.3 Adopted approach

The research questions stated earlier are the focus for this study. To the extent that a theoretical basis or approach assists us in pursuing such questions and gives explanation to the findings that are uncovered, then that is clearly worthwhile. However, rather than giving attention to whether or not we should name an explicit theoretical base, the utility in considering the question of such a basis at this stage is how elements of different approaches can be useful for the collection and analysis of data[202]. Our approach then is not concerned with theory as 'the opposite of practice', nor hypotheses or falsifiable statement(s) to be tested, but more a way to engage with data and develop an explanation for what emerges from interpretation of that data[203].

We consider that an approach utilising elements of grounded theory offers us a useful guide, to the extent that from data collected and analysed in a systematic and opportune manner, we observe patterns, and make sense or offer explanation of those. Elements of narrative inquiry also feature in this research which like grounded theory, does not start from explicit theoretical assumptions (Flyvberg 2006). Whether this generates 'theory' in the sense described by Eisenhardt and Graebner (2007) and others is not the central goal here, but certainly an approach grounded in the data of this study is the key foundational step we take.

Stating that this study will be based or grounded in the data is not merely intellectual politeness towards previously described approaches (or more correctly, groupings of approaches, as for example, grounded theory itself can infer a range of meanings[204]). Rather, it highlights that every qualitative study is unique, necessitating the need for an approach which although systematic, is necessarily also unique. As such, mechanically choosing a method from a list of available options is not appropriate[205], and given the

[202] A point similar to that raised by Gibson and Brown (2009) who highlight the "worry" of many researchers about the "requirement of having 'a theory', which can sound rather daunting" (p.13). Rather than seeing it is 'daunting', we prefer to categorise this concern as 'distracting'.

[203] Gibson and Brown (2009) further state that "theory is a practical activity and a way of thinking through problems or of looking at things in different ways... theory is a resource for doing things with data" (p.19).

[204] Grounded theory "can refer to something extremely specific and to nothing much in particular, depending on how it is being used" (Gibson and Brown 2009, p.13).

[205] Indeed, "no rigid rules can prescribe what data to gather to investigate a particular interest or problem. There is no recipe or formula in making methods decisions" (Patton 2002, p.12).

emergent nature of research when dealing with human subjects, specifying the detail in advance of each step especially with regard to later interpretation is not appropriate either (Denzin and Lincoln 2005). Rather, we seek data that is available and informative, and with that data, bring to bear a series of analytical tools that make sense of this unique data set (Becker 1998, cited in Denzin and Lincoln 2005).

The collapse of Storm financial offers a unique opportunity in this regard, with respect to our research goals. The magnitude of losses suffered, the wealth of publicly available data, the willingness of investors to share their stories further (as described shortly), the relative geographic concentration of investors in Queensland, and the relevance of the collapse to Governmental reforms and the financial services industry lends itself to a potentially information-rich case study approach which is both tractable and motivating[206]. A further advantage of this case study in particular relates to the reality of what has unfolded. That is, real people have made real decisions in the real world, and suffered real losses, which is a contrast to much research (both qualitative and quantitative) in the financial services industry which often bases surveys, questionnaires, and other data sources on hypothetical rather than real actions[207].

Hence, this case study allows us to respond to the main research question (either directly answered, or indirectly inferred from the data) in a manner which is consistent with elements of a narrative approach (Flyvberg 2006). Building 'theory' in the epistemological sense, as inferred from the data and interpretation, is not a goal, but offering additional, informed and evidential commentary on wider issues is seen as achievable and useful[208]. Due to the wealth of data available with Storm's collapse, this case study also allows the possibility of data saturation, which is consistent with the concepts of a grounded theory

[206] Whilst a case study approach is not the only way to pursue our research questions, given that "the choice of method should clearly depend on the problem under study and its circumstances" (Flyvberg 2006, p.226), then the match of research goals with the unfortunate impact on investors and the public circumstances of the collapse, gives an unusually close alignment of 'research goals' with 'available case study'.

[207] Many such studies ask questions like 'What would you do if...?', or 'In this situation, suppose that...'. There is value in such questions and certainly "such survey data should be seen as an additional and complementary source of data", but also noted is that "hypothetical actions are hypothetical, and some might argue that such data reflect cheap talk" (Weber et al. 2011).

[208] Flyvberg (2006) states that "in the study of human affairs, there appears to exist only context-dependent knowledge" (p.221), and furthermore, "predictive theories and universals cannot be found in the study of human affairs. Concrete, context-dependent knowledge is, therefore, more valuable than the vain search for predictive theories and universals" (p.224).

approach (Gibson and Brown 2009). This involves the analysis getting to a stage where nothing new is being added, but rather a routine reaffirmation of what has already been discovered.

What we pursue then is a case-study approach which has a basis in elements of grounded theory and narrative analysis (as just two 'headliner' approaches), though the detail of the approach taken to obtain and work with each source of data is specific to each source and described as such, where relevant. The main data sources for case studies in general are interviews, observations, and document analysis (Denzin and Lincoln 2005), although in our case there is much variety in what is available. These sources are described shortly.

5.2.3.1 A cautionary note

Given the understandably emotive issues arising from an involved look into the lives of real people faced with a significant traumatic event, we caution here what this research is not intending to resolve. One interpretation (and a superficial one, in our view) of the circumstances and fallout from Storm's collapse might suggest that it is an example of investors who knowingly took on high risk and lost due to the unfortunate timing of having their leveraged strategies decimated by the GFC. However a more considered examination of the collapse might likely tell other stories, as indicated in chapter three. We consider that neither a superficial reading nor an extended examination of the particular events surrounding Storm's collapse will add benefit to the goals of this research. Indeed, the various judgements about Storm's collapse that reside in the public domain may present varying degrees of truth or accuracy, but our focus is on the impact on real lives and offering some insights based on this, rather than ascertaining actual responsibility for the collapse[209]. Hence, we take an approach that is deliberately sparse with judgements about

[209] The chair of the PJCI, MP Bernie Ripoll stated that "this inquiry is not a court. We are not here to judge. We are not here to pass judgment. We are not a court. We are a parliamentary committee. We have a certain range of powers. We are inquiring very broadly into financial products and services" (PJCI public hearing in Cairns on 1 September 2009, p.1). He later highlighted that it has not "been possible to resolve the contradictory evidence received from Storm investors, the banks that provided margin loans, or Storm Financial themselves" (cited in Balogh and Chalmers 2009). If the collective investigation of one arm of the machinery of government is unable or unwilling to draw lines in the sand in terms of responsibility, there is little that we can add to this when focusing on other aspects of Storm's collapse.

responsibilities, but do report and comment enough on these issues to provide context for individual perspectives, thoughts or feelings that emerge in relation to the research goals.

But, this does not mean we leave our own perspective at the door entirely, for that in itself does not make for better qualitative research (Kvale and Brinkmann 2009; Magolda and Weems 2002; Stake 1995). Indeed, the combination of opportunity and responsibility for any researcher infers that judgements, even in an advocacy sense, should not be shied away from (Magolda and Weems 2002; Stake 1995)[210]. What is important though is that any views being offered on the more controversial aspects of Storm's collapse, within the context of our research goals, should be given in a way which lets the reader draw their own conclusions as well. Naturally enough, if enough people say similar things about some version of events, then that may well be telling the reader something more than otherwise would be the case.

5.3 Data

5.3.1 Data Sources in Qualitative Research

A range of data sources are used within qualitative research, with the availability of each source dependent on each particular study. The range may include the analysis of many types of documents, such as observational, historical, interactional, and visual texts; cultural texts, memorabilia, artefacts, productions and artistic works; personal accounts such as personal diaries and letters; official records and commentaries found in newspapers, annual reports, correspondence, memoranda, minutes of meetings, and other official publications and reports; and organizational, clinical, or programs records (Denzin and Lincoln 2005; Patton 2002; Stake 1995). An additional source are those things that the researcher is proactively involved in developing, such as interviews, introspection, field notes, observations, conversations, photographs, recordings, and memos to the self (Denzin and Lincoln 2005; Patton 2002). Surveys can also feature as a source of data (Patton 2002), with increased usage and interest in recent years in behavioural finance and personal

[210] "It is better to give the reader a good look at the researcher. Often, it is better to leave on the wrappings of advocacy that remind the reader: Beware. Qualitative research does not dismiss invalidity of description and encourage advocacy. It recognises that invalidities and advocacies are ever present and turns away from the goal as well as the presumption of sanitization" (Stake 1995, p.95).

finance (Baker and Mukherjee 2007; Neuhauser 2007). Also of importance is the personal experience and engagement of the researcher themselves[211].

In particular, personal interviews have many benefits, and are part of the methodological approach adopted by many studies in the area of personal financial planning and experience[212]. One benefit is the potential to explore issues in depth[213] (Eisenhardt and Graebner 2007; FSA 2009; McAlexander and Scammon 1988; Patton 2002), and notably when these issues concern real life rather than hypothetical experience (FSA 2009). Interviews are also particularly useful when the phenomenon in question is rare or occurs infrequently (Eisenhardt and Graebner 2007). This largely stems from the ability to take a flexible approach when interviewing, by adapting to the individual (and potentially novel) case. This allows a focus of effort to occur on those themes or aspects of the case that emerge as important, as the interview itself occurs (McAlexander and Scammon 1988). An outcome of this is that the interviewees are given the opportunity to describe the world as they see it, without the restriction of standardised questions or categories that may be a prominent feature of other approaches such as surveys and questionnaires (Patton 2002). Patton (2002) sees the 'pigeon holing' of responses as highly counterproductive, to the extent that the real stories and perceptions held by individuals may not get an accurate hearing in other approaches[214].

However, statements made in interviews can be ambiguous and contradictory (Kvale and Brinkmann 2009). We note however that this can be a feature of many data sources in qualitative research, and in fact an advantage of an interview is that ambiguity in responses can be clarified at the time, depending on the knowledge and attention of the interviewer. This as well as the overall success of an interview is also dependent on the degree of rapport and openness between the interviewer and interviewee. Other critiques of an

[211] Patton (2002) states this as a highly relevant data source, as "the researcher has direct contact with and gets close to the people, situation, and phenomenon under study; the researcher's personal experiences and insights are an important part of the inquiry and critical to understanding the phenomenon" (p.40).
[212] For example, FSA (2009), Into (2003), McAlexander and Scammon (1988).
[213] Particularly to achieve insights into "people's experiences, perceptions, opinions, feelings, and knowledge" (Patton 2002, p.21).
[214] Peterson et al. (2010) cite the anthropological studies of Mudimbe (1994) and Masolo (1988) who see local people themselves as legitimate producers of knowledge, urging others to "let narratives stand on local people's own terms and fall out along lines of demarcation that local people themselves choose, rather than seeing knowledge as being defined only as an 'objective product of the expert'" (p.9).

interview approach are an associated lack of scientific rigour in that the findings may not be reproducible (Kvale and Brinkmann 2009) and that there is often a clear bias with responses that are given (McAlexander and Scammon 1988)[215]. With respect to the former charge, an approach does not have to fulfil positivist criteria to be useful, and for both charges, with regards to our research goals it is a positive feature that we capture the emotive, circumstantial and temporal aspects of financial loss, which may be neither reproducible nor neutral by any definition. Nonetheless however, the issue of bias in responses is important and is addressed shortly.

With regards to the case of Storm, a wealth of qualitative data exists in the public domain, including a range of industry and media opinions, comment and stories, the findings of the PJCI, the non-confidential submissions made to the PJCI, and transcripts of related public hearings. These public data sources are described in more detail below, as well as the additional data, including interviews, that have been sourced privately.

5.3.2 Our Data Sources

5.3.2.1 Submissions to the PJCI

The PJCI included the opportunity for any interested person(s) to make a submission to the committee. As such a number of submissions were made from a range of interested parties, including financial advisers, related professional institutions and associations, government agencies, and individuals of whom many were directly impacted by the events leading to the PJCI. A breakdown of these submissions is below:

[215] The point made by McAlexander and Scammon (1988) is reasonable in that interviews can "provoke a 'knee-jerk' reaction that the data are biased in which impression management and retrospective sense making are deemed the prime culprits. The prototypical reader asks, *Is the theory just retrospective sensemaking by image-conscious informants?*" (p.188).

Table 7: Breakdown of Submissions to the PJCI

Type of Submitter	Number of submissions	Number of pages
Impacted investors from Storm Financial	168	763
Other investors	74	310
Financial Advisers / Planners	43	486
Financial Services Professional Organisation / Institute / Association	21	378
Individuals not identifying as investors	12	51
Private businesses related to financial services	9	65
Corporate such as bank / credit provider / insurer / margin lender	8	264
Ex-Storm employees	5	72
Other[216]	16	490
Confidential[217]	42	Not known
Total	**398**[218]	**2879**

Source: Submissions are available at: http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=corporations_ctte/fps/submissions/sublist.htm>.

Given the case study approach we have adopted and the focus on the impact on investors, the 168 submissions from Storm investors constitute a major (but not exhaustive) part of what we later refer to. All submissions constitute a form of survey, not as a representative pool of investors in general, but a select group of those who are interested in the purpose of the PJCI[219]. The associated bias of any views is viewed as providing context for any points

[216] This includes consulting and legal firms, information, advocacy and service organisations, academics, ASIC, the Treasury, the Finance Sector Union, and one politician (the Hon Dr Bob Such).

[217] To quote the PJCI: "The Committee routinely makes submissions public during the inquiry, including by posting them on the internet. However, the Committee will consider requests to keep a submission confidential. Please indicate very clearly on your submission if you want it to be kept confidential. It is helpful to the Committee's considerations if you also provide a brief reason for this request", available at www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=corporations_ctte/fps/info.htm, accessed 11 January 2011.

[218] In addition, there were a further 37 supplementary submissions, 2 submissions as a form letter concerning the role of CGI / CFS / CBA in Storm, and 5 submissions as responses to adverse or other comments made in other submissions (this latter point reflecting the PJC's statement that "some submissions to this inquiry reflect adversely on another person, organisation or business. The Committee, through the Secretariat, will endeavour to contact these individuals, organisations or businesses to alert them to such comment and provide them with an opportunity to reply").

[219] Nevertheless, the volume of submissions is noted. Indeed, Bernie Ripoll stated that "we have received more than 400 submissions to the inquiry, which is the largest number of submissions this committee has ever

made rather than a problem *per se*, so that rather than considering how to draw out the objectivity of any points made, we consider the subjective and personal perspectives about the human side of personal loss as informative in addressing the research goals.

Public submission 154, from consulting firm AEC Group Ltd, reported results of a survey of SICAG (see footnote {121}) members concerning various aspects of their involvement with Storm. One survey of 421 members was carried out in April 2009, and a second survey with 314 responses was conducted soon thereafter. The summary statistics arising from these surveys are also used as contextual evidence as appropriate, and will be cited as such.

It was not anticipated that the use of any submissions would generate any concerns of an ethical nature[220], but nevertheless it was considered that avoiding an explicit focus on specific names and details of particular individuals was appropriate. However, although our focus is not necessarily on such specific details, they are not necessarily avoided either where their inclusion adds to the context of the point being made and/or makes for easier reading. Notably all submissions referred to are publicly available, so any material drawn from here is not based on anything that is not available to any other interested party.

For later presentation, the citation style when needing to quote from a public submission will be of the form:

> I am an investor with Storm Financial. [public submission no., from xxx]

had and which I think is an indication of the level of interest in and the importance of what this inquiry does" (PJCI public hearing in Cairns on 1 September 2009, p.1).

[220] To be sure about this aspect, we rang the Parliamentary Joint Committee on Corporations and Financial Services on 11 January 2011. A discussion with Mr Ian Holland confirmed that he foresaw no issues with the use for research of the public submissions made. However, he cautioned that if we were to later contact those who had made a submission (and although contact details of each submitter were withheld, as discussed shortly we established contact with many investors through other means), then those individuals should not be pressed to justify their submission or be made to feel uncomfortable about it. This caution was noted and nothing in subsequent contact and interviews, to our knowledge, generated any concern related to this.

5.3.2.2 Transcripts of Public Hearings

Nine public hearing were held as part of the PJCI. These hearings offered an opportunity for many of those who made written submissions to clarify or update their comments, as well as engage further on certain matters. The hearings also offered PJCI members an opportunity to clarify for themselves the comments made in submissions, to ask questions that had not been answered in submissions, and to have a more dynamic interaction with key players and parties in the light of discussions and hearings held since written submissions had been made. The details of these hearings and their publicly available transcribed records are as follows.

Table 8: Details of public hearings

Number and date of hearing	Location	Length of transcribed record (pages)	Number of parties (people) appearing before committee
[1] 24 June 2009	Canberra	50	1 (5)
[2] 26 August 2009	Melbourne	116	8 (19)
[3] 28 August 2009	Canberra	89	6 (18)
[4] 1 September 2009	Cairns	105	4 (13[221])
[5] 2 September 2009	Townsville	112	6 (14[222])
[6] 3 September 2009	Brisbane	115	7 (10)
[7] 4 September 2009	Sydney	120	7 (20)
[8] 16 September 2009	Canberra	58	2 (8)
[9] 28 October 2009	Canberra	58	2 (7)
	Total	823	43 (114)[223]

Source: Transcripts are available at:
<http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=corporations_ctte/fps/hearings/index.htm>.

[221] 6 of these 13 individuals spoke at an open microphone session, held after scheduled witnesses had spoken.
[222] 6 of these 14 individuals spoke at an open microphone session, held after scheduled witnesses had spoken.
[223] ASIC representatives, CBA representatives, and one individual appeared more than once, meaning that the total number of distinct parties appearing was 40 and the number of distinct individuals was 106.

For the later presentation of findings, the citation style when quoting from a public submission will be of the form:

> I have a voice to be heard in public. [public hearing [4], p.12]

5.3.2.3 Interviews

As noted earlier, a collective group of impacted investors called the Storm Investors Consumer Action Group (SICAG)[224] was formed following Storm's collapse. As such SICAG was an ideal point of contact to ascertain whether any ex-Storm investors were interested in being interviewed for this research. Prior to contacting SICAG however, ethics approval was obtained from the Australian National University on 8 April 2011. This approval required us to address a number of issues, such as proposed methodology, risks involved with the research, whether any incentives would be made, how consent would be gained, cultural and social sensitivities, and so on[225].

We then contacted a co-chairman of SICAG (Mr Mark Weir) in September 2011, to ascertain interest amongst SICAG's membership. Mr Weir gave us an enthusiastic endorsement and as a result of his passing on our contact details and research interest, twelve investors contacted us for participation[226]. Although given the option of face to face interviews or questionnaires, all twelve respondents preferred to meet in person for an interview. The practicalities of this were enhanced by the fact that Storm was predominantly Queensland based. Three further participants were later added to this initial twelve[227]. Thus, a total of fifteen different participants (a 'participant' is either an individual or a couple) were interviewed. Key profiles of those interviewed and the setting

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[224] See www.sicag.info. Not all ex-Storm investors joined SICAG, with co-chairman Mark Weir stating his concern that many investors had not come forward: "Regrettably, we did not have the benefit of a database to assist our initial efforts to organise the investors group… although we succeeded in identifying the majority through (other) sources, we believe there remain many, who for one reason or another, possibly through a misplaced feeling of embarrassment or simply not having the emotional energy to do what is necessary, have not come forward" (Wilson 2012a).

[225] The ethics approval and associated documentation can be supplied upon request.

[226] The information letter and ethics information note sent to participants is attached at Appendix B.

[227] Two of these three additions were via referrals arising from interviews with the initial twelve. The third additional participant made contact after we forwarded an initial paper of interview findings to SICAG for distribution in August 2012. This initial paper is discussed shortly.

of the interviews are given below:

- Thirteen participants were investors with Storm, and two had been advisers with Storm (and who also were investors);
- Ten interviews took place in October 2011, three in November 2011, one in March 2012 and one in September 2012;
- Three participants were from New South Wales, four were from the Brisbane and Gold Coast regions, three were from the Sunshine Coast region, and five were from North Queensland;
- Thirteen interviews took place in people's homes, one in a coffee shop, and one was by phone due to a remote location. As such, most were in a relaxed environment and several interviews took place over morning or afternoon tea, and on three occasions during or just before a meal[228]. Where the interview involved a couple rather than an individual, often one of the couple would come in and out of the interview as domestic circumstances dictated;
- Seven interviews were with couples where both were investors, four were with individuals where their partner was also an investor but did not want to interview, two were with couples where one was an investor and one was not but both participated in the interview, and two were with single individuals. Thus, from these fifteen interviews, twenty-four individuals in all were involved in the interview process;
- One interviewee was in their thirties, four in their forties, two in their fifties, ten in their sixties, and seven in their seventies;
- Participants had a range of former or current occupations, including community and service, professional, building/manufacturing, retail and other roles.

Given the public nature of Storm's collapse and the exposure of various individuals through the range of public information available, we have chosen not to specify occupations in any further detail than what is above, nor to disclose combinations of certain features. For example, for us to specify that we interviewed a 25 year old married male video store

[228] An approach to interviews with open-ended questions and under comfortable and familiar conditions is helpful (Patton 2002).

owner from Tully in North Queensland[229] could lead to that participant inadvertently being identified, breaching confidentiality and potentially causing harm to that individual. Furthermore, for the presentation of findings in later chapters, as a general rule we do not explicitly identify each interviewee with all statements made by them, but we do make exceptions where helpful and safe to do so. For example, if our Tully interviewee stated that "my friends have been no help at all", and also stated that "I went and saw the adviser in September 2008 and he told me nothing about the risks but said to invest my redundancy from Big W", then identifying both statements with that one person also raises the risks of inadvertent harm[230]. Instead, we will keep the citation style generic as per the following:

> I am an investor with Storm Financial. [interview with Storm investor][231]

Whilst this approach potentially removes some ability of the reader to view each interviewee's circumstances in more detail, we consider it necessary to ensure that the moral and ethical assertions given to interviewees about confidentiality are given precedence over the utility for the reader. This is a particular issue for this case study, given the fact that legal action is unfinished, and the large volume of public data available[232]. Where we need to present more detail about a particular aspect of someone's experience, we do this explicitly at the time when that point is made[233].

The fifteen initial interviews ranged in length from approximately 40 minutes to 3 hours (approximately 21 hours in total across all fifteen interviews), and all were recorded electronically. Within two weeks of each interview a full transcription was made through a

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229 To clarify the fictional nature of this particular description: No participants were 25 years old, none were video store owners, and none were from Tully, let alone a combination of those features.

230 This harm could be to the participant, his own circle of friends, others who have not resolved their own situations with their bank (if for example the statements made concerned the Tully participant's own dealings with his credit provider), or anyone else drawing inferences from such statements.

231 Rather than, for example: "I am an investor with Storm Financial. [interviewee number 12]"

232 Even a brief search of the PJCI transcripts and public submissions reveals some common names to both of those sources. If a particular investor's views are represented in more than one data source, we take care not to over-emphasise views of one individual or group of individuals. Rather we seek to consolidate them into one consistent view, or highlighted at the time of any double-up so as to not give it undue attention. This is not seen as a major issue.

233 For example, the Tully participant may now avoid family occasions due to shame about his financial loss, which may be due to the poor reception he got from friends, and/or that he invested against his family's advice. Presenting a thread of reasoning such as this will be done when a point about (for example) social isolation is made, rather than by referring to earlier statements being explicitly identified with him.

professional transcription service[234], with these fifteen interviews giving rise to 402 pages of recorded conversation. Over a further two week period we read through that transcript whilst listening to the interview again, to correct any misunderstandings or misquotes made by the transcriber. The updated transcripts were then sent out to each respective participant, so that each had a full transcript of their interview within four weeks of that interview. Participants could then check they were happy with the fidelity of their recollection of the conversation, they could add or clarify anything further that had occurred to them in hindsight, and also they could assess as an additional step whether they were still happy that everything they have said was still allowed to be used further. As a result of this checking process, one made minor corrections and sent them back to us, two sent back further thoughts, insights, and annotations within the transcript about their experiences, four confirmed that they were happy with the record, and eight did not reply specifically on this point. None objected to the fidelity of the transcript as a record.

The original group of twelve interview participants then participated in a follow up interview in January 2013. Thus, there were twenty seven interviews in all[235]. The twelve follow up interviews were typically shorter than the initial interviews (ranging in length from 30 minutes to 1 hour 50 minutes, and totalling approximately 12 hours overall), as the initial interviews had provided much of the detail of the interviewees' background and history with Storm. All twelve were again interviewed in person, in their own homes. An electronic recording was again taken but rather than being transcribed in full, it was used in conjunction with notes made during the interview as a record of salient issues arising.

5.3.2.4 Observations

A further data source includes what can be termed 'observations'. These include notes and descriptions that were recorded at interviews, relating to additional insights that were not captured by the interview transcript itself. For example, it may be one thing to record someone's statement that their loss of money has made life difficult financially, but it is another thing to see the confirmation and extent of guttering on a house not fixed, the car

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[234] With full confidentiality clauses understood and signed in advance.

[235] So to clarify - the twelve who initially responded directly via SICAG each participated in two interviews, and the three participants who were added after the initial twelve interviews were each interviewed once.

not working, the emptying of a household as items are sold off, and so on. Observations in general are a useful data source to provide additional context for specific quotations and perspectives given by interviewees.

Another item under 'observations' arose from the occurrence of a public meeting in Townsville in October 2011. This was an update by the legal firm Levitt Robinson as to their class action against some bank(s), and somewhat fortuitously we were advised of its occurrence by an interviewee the previous day. Notes were taken at this meeting and any observations of use to our findings will be cited as such.

Furthermore, the utility of and reference to the observations of others has already been adopted in chapter three when discussing the specifics of Storm[236]. This continues within the analysis and discussion which follows, and provides a useful check of facts as well as our perceptions and interpretation of the major themes arising.

5.3.2.5 Other Correspondence

A variety of what we term 'other correspondence' has also been received in the course of this research, and this provides a further and highly insightful data source. This correspondence has arisen from several sources. Firstly, from presentations made to a range of interested parties[237], where feedback has been given and noted on the overall research idea, the methodology employed, and initial findings. Some of this feedback had already been incorporated into this thesis, and other relevant feedback will be cited as such where it appears.

A second source of other correspondence arose from the production of two papers for Australian financial industry journals, with these papers describing some general findings that stood out from the early stages of the research. The journals were deliberately chosen

236 'Others' here means politicians, regulators, the banks, advisers, other professional groups, investors, people associated with media (including television, radio, newspaper and on-line reporters), other interested persons, and so on.

237 Presentations to date have been made to ANU colleagues (2011, 2013), to a conference of the US Society of Actuaries featuring both an academic and practitioner audience (2011), and to an academic, actuarial and regulatory audience at the University of Auckland (2012).

to draw comment from their audiences of financial advisers and subsequently upon further circulation, impacted individuals. The first paper, 'Surprises from Storm', was published in the *Journal of Financial Advice* in August 2012 (a copy of the paper is at Appendix C). The second paper, 'Aftermath of a Storm', was published in *The Australian Journal of Financial Planning* in March 2013 (a copy of the paper is at Appendix D)[238]. Both papers were forwarded to each interview participant and also to SICAG, who then forwarded them on to their membership. As a result of these papers being put into the public domain through publication and circulation, eight financial advisers and seven additional ex-Storm investors[239] corresponded with us with various insights, comments and invitations to talk further. Where such correspondence provides additional sources for points of interest, is it is cited as such[240].

5.3.3 Summary

Thus, a large variety and volume of data is available to help address the research goals. As the primary research question has a definite temporal aspect[241], of relevance is what time period each data source primarily applies to. A summary is given below for clarification.

Table 9: Summary of data sources

Data Source	Time period that data source can relate to			
	Investing with Storm	Time of Storm's collapse	Up to six months following collapse	3-4 years after collapse
Submissions to PJCI	✓	✓	✓	
Hearings of PJCI	✓	✓	✓	
Interviews	✓	✓	✓	✓
Observations				✓
Other correspondence	✓	✓	✓	✓

[238] Publication of this paper was delayed for some time due to an editorial decision to take a conservative approach, given that various matters concerning Storm Financial were (and are) before the Federal Court in Brisbane.

[239] One of which led to the aforementioned recruitment of the fifteenth interview participant (for which the interview took place in September 2012).

[240] The use of any relevant email correspondence as a further data source was discussed with ANU's ethics committee, and subsequently approved. This approval can be supplied upon request.

[241] Indeed, asking what the impacts are of financial loss is a time-dependent question, as the experiences of each investor might differ depending what stage of pre- or post- collapse is being referred to.

There is a risk with such a summary, in that the overlapping of timelines and indeed data sources is never as distinct and precise as such a picture suggests. Nevertheless, it is presented as a guide to the relevance of each data source within the context of the overall research goals.

5.4 Methodology

There is a three-fold challenge with using qualitative data. Firstly, to make sense of it, secondly, to present it coherently and in a consistent and workable manner, and thirdly, to ensure and then portray that the 'sense' being made is, in fact, sensible and believable. Each of these three challenges is discussed below.

5.4.1 Analysis of the Data

Common to much qualitative research is the discovery that a raft of data can eventually be framed into a number of key themes (McAlexander and Scammon 1988; Patton 2002). A theme is not merely a description of what common points or issues have emerged from the data, but also reflects key factors, relationships and dependencies between those points or issues. More succinctly, a theme can be regarded as an insight into patterns that are evident within the data (du Plessis et al. 2010; Hill 2007; Patton 2002)[242].

5.4.1.1 Construction of themes

An important question is how key themes are determined to have emerged from the data. This begins with 'immersion' in the data, generally by reading all materials right through (Corbin and Strauss 2008), with the goal to be highly familiar with the overall responses or statements made. This then allows the researcher to begin the process of identifying patterns amongst those responses that are non-trivial (Hill 2007)[243].

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[242] Furthermore and on a cautionary note, although "ideas comprise something more like a pattern, a picture, or a story" (Bereska 2003, p.66), these "ideas do not easily and neatly fit into the boxes constructed by categories… when dealing with themes and patterns it becomes obvious that something that can be experienced only as a whole has been taken apart in a somewhat unnatural fashion to allow the human mind to get a better grasp of it" (Tesch 1987, cited in Bereska 2003, pp.66-67).

[243] A requirement for qualitative researchers is to "learn to separate the meaningful from the trivial, explore patterns in the data, and then articulate the patterns they perceive" (Hill 2007, p.30).

Some researchers then appeal or refer to a systematic process that they used to identify the core patterns and themes. The unequivocal point that we take here is a requirement to be systematic in whatever approach is taken, rather than being concerned with whatever particular label is applied to this process[244]. Indeed, systematic is not the same as formulaic, with the latter approach unsuitable for most qualitative research given the differences between any two real world cases (Anfara et al. 2002; Patton 2002; Peterson et al. 2010)[245].

However, taking a systematic approach allows the crucial features of theme development to occur, these features being interpretation and intuition. Interpretation is a feature of all research (Stake 1995), and the primary interpretive instrument in qualitative research is the researcher themselves (Freeman et al. 2007; Gibson and Brown 2009; Hill 2007; Stake 1995). Patton (2002) further infers that the resultant onus on the researcher is significant[246], with the researcher's own perspective on the issue or problem being studied of much significance (we address potential and resultant issues of bias and/or subjectivity shortly). Furthermore, the development of themes from such interpretation is seen as a challenging task (Anfara et al. 2002; Bereska 2003; Flyvberg 2006; Freeman et al. 2007; Patton 2002).

The intuition of the researcher in conducting data analysis is also an unavoidable feature of qualitative research[247], but crucially it is not merely a best guess, stab in the dark, or merely matter of opinion (Freeman et al. 2007). Rather, the use of intuition to develop themes and hence summarise the key aspects of an array of data is rendered systematic and acceptable

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[244] For example, du Plessis et al. (2010) describe a "thematic analyses coding process" with "a three-step progression and involved developing concepts and categories to organise data into a framework of ideas; comparing data instances, cases and categories for similarities and differences, and unifying key themes" (p.4).

[245] For example, "making sense of multiple interview transcripts and pages of field notes cannot be reduced to a formula or even a standard series of steps. There is no equivalent of a statistical significance test or factor score to tell the analyst when results are important or what quotations fit together under the same theme" (Patton 2002, p.57); "we share the danger of reducing the practice of qualitative research (inclusive of artistic, interpretive, and intuitive processes) to technical issues to be resolved by cookbook methods" (Anfara et al. 2002, p.34); and "we do not have adequate guides for transforming observations into assertions", but despite this, "people regularly do it" (Stake 1995, p.9).

[246] "It can take considerable self-awareness and confidence to report: I coded these 40 interviews, these are the themes I found, here is what I think they mean, and here is the process I undertook to arrive at those meanings. The latter statement calls for, even demands, a sense of voice and perspective" (Patton 2002, p.66).

[247] For example, Corbin and Strauss (2008) state that "after months of gathering data, studying the data, writing memos, and doing diagrams there is that inner sense, or 'gut feeling' of what this data is all about. It's difficult to explain but the story of our participants becomes part of us... we've listened to their words, observed their actions, felt their emotions, taken on their burdens, and so understand what it is like for them" (p.139).

by remaining grounded in, true to, or close to, the underlying raw data (Corbin and Strauss 2008; Gibson and Brown 2009; Hill 2007). One way to affirm this is through the presentation of narratives and perspectives in the words of research participants themselves, an aspect of qualitative research also discussed in more depth shortly. Crucially, even though the reduction or consolidation of data into themes can be helpful, this does not necessarily mean that contradictory or competing testimonies have to be resolved, but rather such findings themselves may assist in creating a greater understanding of the case (Stake 1995).

5.4.1.2 Process with Storm Data

A particular challenge with our study centred around the large volume of data[248], the variety of experiences represented, the variety in methods of portraying those experiences, differences in the brevity, clarity, accuracy and recollection of experiences, the emotion and pain associated with real loss and grief having been experienced, and the paucity of any existing theoretical or even procedural frameworks and guidelines to refer to within the context of significant and sudden financial loss. On a positive note, this allowed us a certain freedom and flexibility to pursue an approach which best leverages the particular circumstances of our case.

Our first step, prior to the fifteen initial interviews, was to read a selection of approximately thirty public submissions to give an idea of the impact on individuals, and ascertain a range of different views from different groups of submitters. Of course, no one 'group' of submitters is truly homogeneous in terms of perspective and opinion, so a range of possible insights and categories of organisation emerged, but with some views and experiences being more common than others. This range of initial insights provided a basis to construct the indicative interview questions (which are attached in Appendix B).

[248] The transcripts of the fifteen initial interviews, the public submissions made by impacted Storm investors, and the transcripts of public hearings gave rise to over 4,100 pages of written material. The total of twenty seven interviews (15 initial and 12 follow up) gave rise to 33 hours of recorded conversation overall.

The interviews and analysis thereof then gave rise to the dominant themes emerging of control and trust (to be discussed)[249]. The advantage of referring to interviews as the primary data source and in particular to identify the main themes of the overall study, relates to the advantages of interviews discussed earlier – the ability to explore people's experiences and perspectives in depth, the ability to be flexible and adapt the approach within the interview itself, the open-ended opportunity for participants to describe their views, the ability to clarify ambiguous responses, and the fact that the interviews allow a participant's experience to be explored at multiple points in time, rather than the other data sources which cover a shorter time period. Hence, interviews provided an ideal catalyst and avenue to canvass the breadth of issues sooner than other data sources, allowing us to identify those things which were most important to those involved, across the longer time period that we are interested in.

As well as our experience of and thoughts arising during interviews themselves, all transcripts were subsequently read as an initial recollection and check prior to sending back to participants. Then upon clarification from participants, transcripts were read again to re-familiarise ourselves with each interview and to ensure the final record was as accurate as possible. Later readings involved actions such as highlighting the type and volume of content relating to key points arising, noting down more detail key and relevant phrases and commentary made by participants, the allocation of key quotes / phrases and ideas to the overall structure we adopted, and importantly, providing context for key messages that were portrayed. Context here means the rationale a participant had for making a point, their own circumstances at that point in time, their recent experiences in social settings (including interactions with family, friends, other investors, professionals, and others), and their own emotional state (as far as we could ascertain) in making that point. Overall, some interviews were re-read and re-examined many times, with some interviews providing more insight or depth than others and so attracting greater attention for analytical purposes. However, all interviews had at least four complete readings, plus numerous partial readings

[249] A major consideration was to identify the dominant themes, and to put others aside. Hence, although 'dominant' does not equate to 'exhaustive', we consider these themes to encompass the majority of important points that were raised, in relation to our research goals. As Stake (1995) highlights, "almost certainly there will be many more data collected than can be analysed…it is also important to spend the best analytic time on the best data. Full coverage is impossible, equal attention to all data is not a civil right. The case and key issues need to be kept in focus" (p.84).

depending on points that were made.

In addition to interviews, the availability of other and significant data sources was highly useful in two ways. Firstly, the additional material in submissions and transcripts of public meetings provided invaluable material for data saturation. This also meant points suggested within interviews were viewed with greater or lesser significance or credibility, depending on how persuasively certain perspectives were supported or countered in other forums. As well as this role in building and shaping the picture suggested through interviews, these data sources could also suggest any other features that may have been overlooked through the interview process. The range of other data sources such as further correspondence, observations, and document analysis also added insights in both of these ways as well.

We made further use of the public submissions firstly by assessing the broad 'category' of each submitter (as indicated in table 7), and then reading all submissions again after all interviews were conducted. Upon this second reading, it was noted whether each submission indicated support for any major point that arose from the interviews. This took the form of a simple coding where a '1' was allocated if a particular theme was picked up on in a submission, and a '0' otherwise. For example, if a submission by a Storm investor described an emotional impact arising from their loss, this was coded as a '1' which could then be used in a descriptive statistical overview of submissions for discussion relating to emotional impacts. In this sense, a coding of '-1' is of little utility in our context, as quite obviously it is highly unlikely that any investor had a positive emotional response following Storm's collapse. This similarly applies for other themes that emerged. Of interest however are some differences between different groups of submitters, and these are discussed within the overall results. Any summary statistics used within the results are not claimed nor expected to be robust nor be open to any more detailed statistical tests, but merely provide another angle of evidence and information to support, moderate or highlight any major points being discussed.

Despite the volume of data, we did not utilise a specialist computer application to manage that data, preferring instead to read through the paper records and highlighting or making notes with pen or pencil as required (or Excel when dealing with the 'coding' of submissions). Although there is utility of such computer applications for many researchers including steps around initial analysis (Patton 2002), we felt happier and more in tune with the data using a paper-based approach instead[250].

In summary, we claim that themes 'emerged' from the Storm data in relation to our research goals, and that this occurred as a result of taking a highly systematic approach. Although the overall analysis relied on our own sense of interpretation and intuition about important aspects within the data, these aspects are grounded in the data itself. How to show and support this claim about the themes being data-based is discussed below.

5.4.2 Presenting the Findings

Following the analysis of data and establishment of emergent themes, the next task was to present these findings in a manner that is motivating, informative and reflects the underlying data, with demonstrable links to that data. This process can be described as constructing a 'portrait' and telling readers the meaning of that portrait (LeCompte 2000)[251]. Alternatively, it can involve far more straightforward assertions such as that presented by Ruwhiu and Cone (2010) who describe their data sources, state that a narrative approach was taken, and then simply describe what they consider to have emerged from their research.

These approaches may or may not involve the inclusion of examples of raw data, but where there is such inclusion, it is predominantly associated with the presentation of verbatim quotations from participants (Patton 2002). Doing this has various strengths and advantages. Firstly, where these quotes are given within an appropriate context, then the researcher's interpretation of that quote is made palatable or understandable to the reader (Patton 2002). The reader then also has sufficient context to assess their agreement or otherwise with that interpretation. Another strength is that presenting a participant's own

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[250] This preference is obviously a highly personal one, but we share the perspective of Saldana (2009) who claims "more control over and ownership of the work" (p.22), as well as Marshall and Rossman (2010), who perceive more "intimate immersion in one's data" with a computer-free approach (p.217).

[251] To continue the artistic theme, "portraits tell very human and personal stories. They also remind us of the social context in which the work was painted, providing a window into the life and times of their subject. Sometimes they also tell us about the artist themselves" ('Portrait of a Lady' exhibition, Museum of Brisbane, 10 October 2012).

words can mitigate the risk that the depth of what is being said is unnecessarily reduced or represented by some categorical, coded approach that does not really capture the essence of what is really going on[252]. This serves as a further advantage for the reader in that they can see the complexity of some aspect of the participant's contribution for themselves. In other words, the reader gets to see part of what the researcher has seen as well[253].

If quotations are given with sufficient context, and in a systematic and orderly way such that they are aligned with overall themes or structure, then this can give rise to what has been termed 'thick description'[254]. Such description is of much value and has various associated features and advantages, including the demonstration and application of good interpretation, portraying decisions of people in an intelligible way, and for the reader, replicating as descriptively as possible what a participant has experienced (Denzin and Lincoln 2005; Gibson and Brown 2009; Shank 2002; Stake 1995).

Where appropriate, qualitative research can also utilise summary or descriptive statistics. Notably however and particularly for the coding of submissions described in the previous section, often any summary data used is not of sufficient size or from appropriately formed selections to investigate anything further than straightforward description. As such, the use of such statistics is not usually to make a convincing case of the validity of any points made nor to substitute for the strength of descriptive analysis, but can simply be an interesting additional description of the repetition of certain points or actions by participants, or provide supplementary description where it is not possible to present all descriptive evidence. Summary statistics can also help counter claims that only some aspects of some data has been used, or that certain aspects of data have been focussed on to support interpretations made to the exclusion of contrary views (Maxwell 2010). Of course, downsides of such usage exist as well, which we aim to avoid[255].

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[252] As Peterson et al. (2010) state, "including narratives recounted in peoples' own words also tempers the inevitable reductionism of generalizing analytical methods that result in gross simplification of the complexity of everyday life" (p.10).

[253] As such, Patton (2002) states that direct quotations reveal "respondents' depth of emotion, the ways they have organized their world, their thoughts about what is happening, their experiences, and their basic perceptions" (p.21).

[254] Thick description is a term first used by Clifford Geertz (1973) (Gibson and Brown 2009; Shank 2002).

[255] For example, "numbers can be used rhetorically, to make a report appear more precise, rigorous, and scientific, without playing any real role in the logic of the study and thus misrepresenting the actual basis for the conclusions" (Maxwell 2010, p.480).

What is typically involved with single case study research also emphasises some previous points. A feature of presenting findings in this situation is to tell, where data allows, as complete a story as possible that relates case study details to the research questions at hand. Key aspects of this are to build a narrative about what has occurred, with reference to key participants in the form of quotations and any other data or evidence that is available (Eisenhardt and Graebner 2007). This evidence and description may be qualitative or quantitative, with the driver being to address the relevant research questions rather than being driven by methodology (Flyvberg 2006). Whatever evidence is presented, it needs to demonstrate that the story being told is grounded in the data (Corbin and Strauss 2008), and in our case this will involve the liberal use of quotations as evidence of raw data being related to points made. A relevant example is the PJCI report itself, where it summarises alternative views with supporting quotations, and then just states that 'it is the opinion of the committee that…'. Noting that the PJCI report is not written for an academic or necessarily industry audience, nevertheless it does not highlight the mechanism by which it came to the conclusions and recommendations made. Hence, although our research questions are very different to the terms of reference for the PJCI, the approach we take is to use and demonstrate the application of a systematic approach.

5.4.3 Affirming the Findings

A key concern of all research is ensuring quality, rigor and validity with regards to the research goals and resultant findings. In particular, establishing the credibility of a statement that 'themes emerged' is an important task[256]. Given the reliance on intuition and interpretation (and thereby taking the word of the researcher as to the fidelity of their findings), those well versed in quantitative-based research may regard such findings as impressionistic and subjective (Denzin and Lincoln 2005)[257]. In addressing this concern, Peterson et al. (2010) caution against simply adopting or transcribing methods from the natural sciences. Instead, many researchers refrain from adopting certain methodological procedures *for their own sake* and consider a pragmatic approach to be more appropriate, where the choice of methodology is tailored for each unique study (Flyvberg 2006;

[256] In other words, assurance is required that "themes that emerged actually have some congruence or verisimilitude with the reality of the phenomenon studied" (Anfara et al. 2002, p.29).

[257] Conversely, qualitative researchers may regard quantitative researchers as "seldom able to capture their subjects' perspectives because they have to rely on more remote, inferential empirical methods and materials" (Denzin and Lincoln 2005, p.12).

Marshall and Rossman 2010; Patton 2002)[258]. As such, there is acceptance that a model of good research is determined by the particular research questions and available data, with the number of such 'good' models potentially as variable as the number of different research studies (Bredo 2009).

Given this, there is no single process or procedure to ensure whether the findings arising from a qualitative study are credible or not, and merely meeting a checklist of criteria does not make a qualitative study credible in itself (Freeman et al. 2007). Rather, different approaches to the research questions will require different procedures. Nevertheless, referring to a range of generally accepted procedures can be helpful by providing clarity regarding the amount and form of procedures adopted. A summary of such procedures discussed in the literature is presented in table 10, within a structure addressing different components of research quality.

Other procedures are also mentioned in the literature, such as prolonged engagement (one year or longer) in the field and persistent observation, which have particular relevance in the context of a geographical study (Reid and Gough 2000). These are not listed in table 10, which instead only presents those dozen or so procedures which our study has incorporated, with many of these discussed already[259]. To place this selection of procedures in context, Creswell (1998) suggests that engaging in at least two out of eight named key procedures is reasonable[260].

In particular with our case study approach, the use of triangulation and member checking may give reasonable assurance if adopted appropriately within the overall study. Thus, we

[258] Indeed, "being pragmatic allows one to eschew methodological orthodoxy in favour of methodological appropriateness as the primary criterion for judging methodological quality, recognizing that different methods are appropriate for different situations. Situational responsiveness means designing a study that is appropriate for a specific inquiry situation or interest" (Patton 2002, p.72).

[259] For example, peer review has occurred through publication of initial findings in industry journals, three presentations to date of the overall study, and email correspondence with various parties and professionals. Another example is the procedure of journal/notebook, where we took notes at all 27 interviews, and emails between the researcher and supervisors serve as a further record of the process used and pathway to developing themes. A further aspect for our study that serves as additional assurance is the public availability of much of the data. Whilst not necessarily a unique feature, the extent and availability of his data certainly confers significant support to the components of validity, reliability and confirmability.

[260] These are (a) prolonged engagement and persistent observation, (b) triangulation, (c) peer review or debriefing, (d) negative case analysis, (e) clarifying researcher bias, (f) member checks, (g) thick description, and (h) external audits (cited in Anfara et al. 2002, p.30).

provide further discussion on the features of these two important procedures, and in doing so also address concerns commonly expressed in such case studies – that of methodological, researcher and participant bias.

Table 10: Key components and procedures for establishing quality in qualitative work

Component of quality of study	**Description**	**Possible procedures**
Overall rigour	Ensuring overall methodology is reasonable.	Argue the rationale that qualitative methods are appropriate; Description of respondents; Use interview quotations; Give details of interview practices; Revisits made to participants to clarify meanings and build rapport; Respondents contacted to verify interpretations (member checking).
Credibility or internal validity	Is the representation of experience authentic; how trustworthy are the conclusions drawn.	Purposeful sampling; Triangulation; Peer review; Member checking; Time sampling.
Transferability or external validity	How well can conclusions be generalized to outside the immediate context.	Purposeful sampling; Thick description.
Dependability or reliability	Are idiosyncrasies in interpretation minimised; Can any variability be tracked to sources.	Mechanically recorded data; Peer review; Triangulation.
Confirmability or objectivity	extent to which biases, motivations, interests or perspective of researcher influence interpretation	Journal/notebook; Triangulation.

Sources: Adapted from Anfara et al. (2002) (who also cite Creswell and Miller 2000; Creswell 1998); Bearden (2001); Marshall and Rossman (2010); Reid and Gough (2000) (who also cite Baxter and Eyles 1997; Lincoln and Guba 1998).

5.4.3.1 Triangulation

The incorporation of more than one method, interpretative practice, or source of data is an important procedure in seeking validity in qualitative research. The goal is to better capture what is really going on with the phenomenon at hand, and each different aspect can allow the viewing of this phenomenon in a different way (Denzin and Lincoln 2005). Like all procedures, this 'triangulation' does not ensure validation in itself, but is an additional and useful tool to support the assertion that the overall findings are credible (Flick 2002, cited in Denzin and Lincoln 2005; Marshall and Rossman 2010).

Our methodological and interpretative approach incorporates various perspectives – primarily that of the researcher (but modified and impacted by that of peer reviews), the supervisory panel, and interviewee participants themselves. It is also evident from the transcripts of public hearings that there is a degree of interrogation of views residing within the data itself, where the perspectives of those appearing at the hearings are sometimes challenged or explored in more depth. This of course is also a feature of interviews, although in a different manner, where the interaction between interviewer and interviewee also influences the conversation. Thus, a tangible aspect of triangulation in our study resides within the data itself, with the demarcation lines between 'interpretation' and 'data' not as distinct as they might otherwise be.

Indeed, this triangulation of data includes the number and sources available, but also the nature of how that data itself came to be. In particular, the views of individuals are available through public submissions, public hearings, and interviews which suggest an obvious triangulation of sources[261]. But more subtle than this are the methodological benefits being conferred via the different circumstances and environments of each source. In a submission, someone is making an effort to write a personal contribution, with time to think about what is being said. In a public hearing, someone is being questioned by a panel of political figures in an open forum with many other people present, and engaging with

[261] As well as this, there are the other sources of documentation, observations (ours and that of others), and other correspondence, but we focus here on the stated three sources.

that panel in speech rather than writing[262]. In an interview, someone is in a relatively informal setting in the comfort of their own home and with an audience of one. The questions being asked are generally open-ended, little pressure exists to answer questions if the interviewee does not want to, and there is safety in being able to revisit what has been said and recorded. So anything expressed in any of these contexts are effectively giving a degree of triangulation of views, via the differing methods of data collection and interpretation encompassed within each. Thus, even in an extreme case where one individual has their views represented through all three sources, there is sufficient variety in each method of collection which would promote confidence in the fidelity and/or consistency of what has been expressed. This is a particularly tangible advantage when dealing with the explanations and emotive states of people[263].

5.4.3.2 Member Checking

Like triangulation, member checking is a way to assure that a reasonable representation of participants' real views has been portrayed[264]. In relation to interviews, the process we used of transcribing or writing up the interview account, and then asking participants for reactions, corrections, overall accuracy, clarifications, and whether it was a fair representation, aligns with the approaches of others (Magolda and Weems 2002; Marshall and Rossman 2010; Stake 1995). Additionally, by also asking if everything in the interview record was still able to be used for the overall research, participants were given further comfort around what they would choose to disclose. Thus, a further benefit conferred by

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[262] Not only this, but also there is a checking or interrogation of some views by those who follow other speakers or who have read other people's submissions. For example, when appearing before the PJCI in public hearing [5], an ex-CBA manager for North Queensland questioned the wording and selection of facts presented in the submissions of others [p.76]. A broader benefit is also that issues surrounding Storm's collapse and the overall regulatory environment are viewed in some form from the perspectives of all those who appeared – private individuals, ASIC, banks, non-Storm advisers, ex-Storm advisers, ex-Storm staff, other financial service professionals, and so on.

[263] Indeed, individuals "are seldom able to give full explanations of their actions or intentions; all they can offer are accounts, or stories, about what they have done and why. No single method can grasp all the subtle variations in ongoing human experience. Consequently, qualitative researchers deploy a wide range of interconnected interpretive methods, always seeking better ways to make more understandable the worlds of experience they have studied" (Denzin and Lincoln 2005, p.21).

[264] In fact, and as suggested in the previous section, member checking itself can be part of the triangulation process (Stake 1995).

this process was the potential strengthening of the researcher-participant relationship (Magolda and Weems 2002)[265].

Another benefit of this process was the additional observations, insights and interpretations offered by participants in relation to the interview conversation, typically via email either with their reply to our sending out the transcript, or sometimes other points raised several weeks later. A further and highly valued outcome, which leveraged off the benefit of a strengthened researcher-participant relationship, was the commentary, thoughts and information sent through to the researcher on an ongoing basis as the Storm case moves through court and negotiated settlement(s) processes.

It is important to also note that member checking did not result in overwhelming feedback in terms of volume. This is not an uncommon occurrence and aligns with others' experience (for example, Stake 1995). However, feedback that did eventuate was useful, informative and insightful in terms of research information[266]. Just as importantly, it conveyed a sense of relationship and confidence established through the personal interview which, for its own sake, is a satisfying outcome[267].

5.4.3.3 Dealing with participant bias

The data sources we have available are clearly impacted by self-selection. Those who made a submission, appeared at a hearing, and/or responded to our request for interview participation have all chosen to make that respective contribution. Therefore, they may differ in attributes, circumstances and intent to those that did not. This presents the unavoidable challenge of a biased representation in the data. This issue is not infrequent in qualitative research, and even if care is taken to avoid it, it can still present itself in a multi-faceted manner. For example, self-selection can occur (as for our study) whereby only

[265] Which, notably, "is a cornerstone of qualitative inquiry" (Magolda and Weems 2002, p.498).
[266] As Stake (1995) points out: "I impose upon the actor's time to do some of my work. The most frequent response of the actors to whom I have sent drafts is not to acknowledge that I have sent anything. Often, the account is routine, apparently not deserving a response. But sometimes I get a thorough reading, a mutually respectful argument, and suggestions for improvement. I think I can say that all my reports have been improved by member checking" (p.116).
[267] This also aligns with and supports comments made shortly concerning the adoption of an empathetic stance.

those with the available time to contribute may do so (for example, those who are retired), or those who are highly emotive about the situation, or those who stand to gain from any potential outcomes, and so on (Dobes and Bennett 2009).

There are three aspects of this challenge we address here. Firstly, Eisenhardt and Graebner (2007) highlight that a key approach to mitigate this issue is to deliberately broaden the participant case so as to include other (usually 'highly knowledgeable') informants, to give a range of perspectives. This is well meaning and applicable to many research foci, but with our focus on the individual impact of financial loss, our effort was therefore on those who had suffered that loss. Therefore, this demanded a selection of participants that were by definition in the category of having suffered a loss, so that we can ascertain data from those involved, those who know, those who are impacted, and therefore who do have an opinion. This extends the earlier discussion about features of a case study approach, where now even within the bounds of the 'purposively-sampled' case study of Storm, investors within that case-study were further 'purposively-sampled' to help address our research questions.

Notwithstanding that and secondly, the participation of two former Storm advisers as interviewees did offer a different perspective and this was very useful to the overall findings. Furthermore, the investor participants themselves were not a homogenous group in terms of perspective and experience. Indeed, the initial contact from one participant is cited below:

> I feel we have a rather different perspective on the situation having been involved with the Cassimatis brand prior Storm. Additionally having had a very satisfactory investment strategy in place {previously} using Cassimatis advice, find ourselves somewhat at odds with those who came into the picture since 2005-6... because of the above I believe we have a different story to tell - even though we try hard not to relive it - and I would welcome the opportunity to talk with you. [email from interview participant, September 2011]

Thus, the mix of participants provided some comfort that the research has not adopted a homogenous pool with only one perspective to share. This is also supported by the earlier discussion regarding the triangulation component that resides within the three most voluminous data sources – the submissions, transcripts of public hearings, and interviews.

Thirdly, the fact that a second interview was held with twelve investors gives a degree of time-diversification of any emotional bias being present. Indeed, the levels of angst amongst the follow-up interviews in 2013, whilst still significant, were quite different to that present within the initial interviews some 12-15 months earlier. In this sense, the revisiting of the same participants gave a greater coverage of their overall experience and as such, less sensitivity in the overall findings to the self-selection arising through emotive reasons.

The challenge of bias resides not only in the selection of those who participate, but also once selected, what they might or might not disclose to the researcher. The extreme case of this is when participants simply do not tell the truth[268], though this is not perceived as a major issue for our study. More relevant are the reasonable points that have been made to us in various peer-review forums to date. These include a number of cautions about the bias in expected responses, with most points along the lines of the following: 'don't believe everything the individuals tell you', 'they have selective memories', 'yes, but they had it good for a long time', 'people always want to blame someone else', 'where's the individual responsibility in all of this', and so on. Similar concerns were also expressed in discussions with an academic colleague as below:

> These sorts of interviews give you a real post-event bias, of course. None of the investors – particularly as they seem to be self-selecting – will tell you yes, I knew there was a risk and c'est la vie that it didn't work out. They will all say they underestimated the risk, they weren't properly advised or informed etc etc. Ideally you'd like to speak to a sample of investors before and after a failure... but obviously that can't be done. [email correspondence with an academic economist, September 2011]

Aside from the pragmatic insight above about the availability of participants, we note that all of the above objections about the dangers of exaggerations, selective recall of events (whether deliberate or accidental), and partial truths that people might tell, may well be

[268] This is poignantly highlighted by the anthropologists Stoller and Olkes (1987), who give an extreme case of biased data: "When I began to write anthropological texts, I followed the conventions of my training. I 'gathered data,'... I 'wrote them up'", but the problem was that "everyone had lied to me... the data I has so painstakingly collected were worthless. I learned a lesson: Informants routinely lie to their anthropologists" (cited in Denzin and Lincoln 2005, p.18).

applicable for many of our participants. But, they are also true of many people at various times, whether or not they choose to participate in such research, and that is not a barrier to nonetheless infer important themes. Also, many of these objections do not relate to the research goal of "what happens when…", rather they relate to "how this came to be…". Nevertheless, there is a link between the circumstances of the engagement with Storm, the nature of the loss, and the reactions to the loss, so all cautions are taken seriously on their own terms. However, we do not consider that the accepted bias in participants presents a barrier to drawing out major themes in relation to our research goals. Additionally, as per previous discussion, procedures have been incorporated to identify and mitigate such influence as far as is possible.

Furthermore and on a related but more subtle note, it is not only the researcher that has to interpret what they see and experience, but participants also have to do so (Freeman et al. 2007). Given that participants also are influenced by mood, experience, intention, cultural and historical contexts, and adopted philosophical positions (Stake 1995; Freeman et al. 2007), then 'neutrality' in any insights being shared is impossible – but also not desired in our context. The research goals involve capturing the real world experiences, emotions, impact and reactions of individuals to severe financial loss – a bias-free response to that is not only fanciful, it is also of little use and interest. However, capturing those perceptions within a credible framework to mitigate some perceptions and views getting undue weight, is an important factor that we have given attention to.

5.4.3.4 Dealing with researcher bias

It is also the case that we may bring a stance or perspective which has its own element of bias as well. Indeed, to claim a totally neutral or objective stance in the process of data collection and analysis (including interpretation and intuition) would be unrealistic. The most obvious reason for this is that all work done has some dependency on the person doing it – so our own mood, experience, or intention as researchers is clearly influential (Stake 1995), as much as those influences relating to individual participants discussed above. Furthermore, where the objects of study are also people, then this creates an even more personnel-dependent circumstance (Stake 1995)[269].

However, accepting this does not mean that any research is rendered less useful, reliable or worthy, but it does require the researcher to be conscious of what stance they take when conducting that research. In particular, choosing to take a 'stance of neutrality' does not mean objectivity is attainable, but it does mean that a particular perspective does not have to be pursued or demonstrated in advance of any research stage. So whilst the research process itself may twist and shape the views of the researcher, and expectedly so, there is still a clear commitment to remain focussed on what it is that emerges from the data itself, rather than seeking evidence to confirm a particular view[270]. Pursuing the latter on a selective basis is most definitely an example of a researcher's bias getting in the way of good research, but being shaped by what emerges from the data collection and analysis is what would be expected to occur[271]. In fact, seeking sufficient detachment between the researcher and participants so as to not allow the possibility of some influence to occur would not constitute good qualitative research. A natural part of any human relationship is the existence of empathy and a cornerstone of qualitative inquiry is what the researcher experiences in the field, often through an empathetic stance. This can present a risk that the researcher's judgement can become clouded, but the alternative of remaining detached can reduce understanding (Patton 2002)[272].

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269 Indeed, "many qualitative studies are personalistic studies. Impersonal issues applied to carefully observed human beings become personal issues… some of us 'go native', accommodating to the viewpoint and valuation of the people at the site – then revert, reaching less in their favour when back again with academic colleagues" (Stake 1995, p.46).

270 Flyvberg (2006) claims that a major misunderstanding "about case-study research is that the method maintains a bias toward verification, understood as a tendency to confirm the researcher's preconceived notions, so that the study therefore becomes of doubtful scientific value" (p.234).

271 As Patton (2002) puts it, "the neutral investigator enters the research arena with no axe to grind, no theory to prove (to test but not to prove), and no predetermined results to support. Rather, the investigator's commitment is to understand the world as it unfolds, be true to complexities and multiple perspectives as they emerge, and be balanced in reporting both confirmatory and disconfirming evidence with regard to any conclusions offered" (p.51).

272 Patton (2002) discusses the concept of 'empathic neutrality' which "suggests that there is a middle ground between becoming too involved… and remaining too distant" (p.50). Empathy "develops from personal contact with the people interviewed" and "involves being able to take and understand the stance, position, feelings, experiences, and worldview of others" (p.52). An empathetic stance "communicates understanding, interest, and caring" and can "facilitate rapport and help build a relationship that supports empathy by disciplining the researcher to be open to the other person and nonjudgmental in that openness" (p.53).

Hence, we claim to have taken such a 'stance of neutrality' with respect to the approach taken. Notably, this is an easier stance to assure the reader of when our goal is not to investigate responsibilities, but to consider perceptions and the very human side of dealing with loss. Once more, some assurances as to the fidelity of our approach may be demonstrated to some degree by showing an adherence to the data, and the production and distribution of the industry papers also provides opportunity for those with some knowledge of the events (real or perceived) to comment and provide feedback, which has been taken on board.

5.5 Issues Arising

A final discussion is presented here concerning two key concerns we were cognisant of when conducting and presenting this research. These are the issues of confidentiality of participants, and the potential for harm.

5.5.1 Confidentiality

The earlier description of interview participants outlined the adopted approach to protect the confidentiality of participants as far as we are able to. This was considered necessary for various reasons, not least of which the ease of which confidentiality can be breached inadvertently. This can happen with the difficulty associated with disguising one participant from another, or through the revelations from one participant about another. Yet, to present an accurate and insightful narrative of relevant events, this necessarily requires a level of detail which may well risk breaching privacy, anonymity, and confidentiality (Magolda and Weems 2002; Stake 1995).

Although University level ethical approval provides some guidance and protection in this regard, it can never be complete in covering all situations of research with human affairs. Thus, we were obliged to think through confidentiality issues carefully and then make a choice, not only about how to reference and cite various data, but also about what data should be included. As such, some quotations and conversations of interest and relevance are not included in the later findings, even when that quotation provided an otherwise insightful point, and even when the participant gave explicit permission for it to be used.

This was essentially a moral choice and judgement on our behalf, and one in which we erred on the side of conservatism.

5.5.2 Harm

Related to the issue of confidentiality is the issue of potential harm, and the potential for harm to participants exists even when great care has been taken to preserve confidentiality. Harm can arise in various ways, for example: anything that is shared by participants essentially involves issues of personal privacy; by offering interpretations and writing up findings the researcher is making a choice of which version of events to adopt, or which perspectives to give weight to; and the very act of summing up someone's experience necessarily requires a simplification of that person's situation which may inadvertently be offensive (Magolda and Weems 2002) [273]. Difficulties and discomfort with such things is unavoidable in qualitative research, and part of the mitigation of this possibility for participants is their ability to be able to leave the research at any time (Magolda and Weems 2002), which was also a feature of our informed consent procedures.

It is not only participants that have the potential for harm, but also a range of non-participants. For example, the detail revealed in one participant's responses may erroneously lead someone else to identify the wrong person as the subject, in which case the identifier may suffer from resultant misplaced angst or suspicion, and the erroneously identified person also may be impacted. A wider group is at risk also[274] and in our case, this may be other investors, whether or not they have participated in this research. The most obvious example of this is the potential that some participants had to inform us of both the detail and process used to deal with their bank(s) after the collapse of Storm. If they were not permitted to disclose to us any details by virtue of their own settlement (where applicable), then simply reporting the fact that many people have had settlements with

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[273] "I worry intensely about how people will feel about what I write about them. I worry about the experiences of being 'writ down,' fixed in print, formulated, summed up, encapsulated in language, reduced in some way to what the words contain. Language can never contain the whole person, so every act of writing a person's story is inevitably a violation" (Josselson 1996, cited in Magolda and Weems 2002, p.498).

[274] As Magolda and Weems (2002) state, "qualitative research has the potential to unintentionally harm not only the individual respondents...but larger social systems (e.g., the subcultures of respondents), many of whom are not part of the study" (p.500).

which some were happy, and some were not, gives rise in itself to further perceptions of inequity, mistrust and angst.

For similar reasons, we frequently, but not exclusively, sanitise some quotes with respect to the names of people, banks, legal entities and other institutional parties. Clearly the risk with this is that an unintended party is perceived to be the party in question with regards to a particular quote, but we base such decisions on our primary obligation to safeguard research participant(s). It is also intended, in a slightly paradoxical manner, to allow a focus on the effects of financial loss, and so far as this can be placed in context by referring to general circumstances rather than, for example, bank 'A' and lawyer 'L' and politician 'P', this is what we aim for[275].

In other words, qualitative research involves risks, primarily because it involves human subjects and aspects of their lives which are important to them. As such, we have also taken a cautious approach in what is and what is not disclosed, in an effort to balance protection and wellbeing of participants and non-participants, with the need to give as true an account as possible in relation to the research goals at hand. Similarly to issues of confidentiality, dealing with such issues involves moral rather than technical choices (Magolda and Weems 2002), and hence again not all quotations and conversations of interest and relevance have been disclosed in later findings.

5.6 Summary of Chapter

In this chapter we presented an overview of qualitative research, emphasising that elements of 'grounded theory' and 'naturalistic inquiry' are useful for seeking insights into our research goals. They key aspect of such bases and approaches is that it gives us a way to engage with and interpret the data that is available.

The collapse of Storm financial offers an important case study in the context of our research goals. An involved study into Storm is made tractable by the magnitude and

[275] Where this does cast doubt on some unintended parties, or does leave a research participant feeling that being more specific would better convey their desire for particular details to emerge, we can merely offer an apology together with our stated rationale for such choices.

profile of losses suffered, and the wealth of available data, including the willingness of many investors to share their perspectives.

The data relating to Storm financial is extensive and arises from multiple sources. The main data sources discussed in this chapter are 356 public submissions to the PJCI (consisting of 2,879 pages of written documentation); transcripts of 9 public hearings (823 pages), 27 interviews with 15 different participants (33 hours of recorded conversation); various observations from interviews, public meetings and others; and a variety of other correspondence with financial advisers and Storm investors.

Our methodological approach to construct themes from the data was then discussed. We claim that themes 'emerged' from the Storm data in relation to our research goals, and that this occurred as a result of taking a highly systematic approach. The first consideration of possible issues arose from a selection of public submissions, which then helped shape the approach to interviews. The motivation associated with the convenience and familiarity of interviews then allowed us to suggest an initial assessment and emergence of the major themes, and hence an initial framework for further analysis. This allowed other data sources to be examined in a manner that allowed maximum utility to be gleaned from each, so that they provided invaluable material to either evidentially shape, correct, or support our perception about the major themes. This also allowed the discussion and significance of these themes to be examined in more depth than otherwise. Data sources were revisited repeatedly in an iterative manner to ensure that as the themes developed into more involved statements and descriptions, the supporting points were accurate in the context in which they were made. Unavoidably the overall analysis relied on our own sense of interpretation and intuition about the important aspects within the data, but importantly, these aspects are grounded in the data itself.

We then discussed how results would be presented, highlighting a heavy reliance on verbatim quotations from participants. The source, utility and shortcomings of some summary statistics was also discussed.

Affirming the credibility of findings is an essential part of the 'quality' in qualitative research and a range of possible challenges and approaches in this regard was discussed. We emphasised the use of triangulation and member checking as two approaches that are particularly tractable in this study, although other approaches have also been adopted. In particular, approaches to clarify, accommodate and manage the unavoidable biases of both participants and the researcher was given further attention in this chapter.

We concluded with a discussion on issues of confidentiality and potential harm arising from this study. This highlighted our right and choice to exercise judgement on what we will and will not include in our findings.

Chapter 6: Impacts of a significant financial shock

6.1 Introduction

This chapter presents the main findings of this thesis. It is structured around the primary research question: what are the impacts on people when they experience a significant financial shock? It begins by outlining a justification for the findings that follow, in terms of process and credibility. Although chapter five described in detail the overall approach and rationale for our engagement with the data, the discussion in this chapter specifically highlights the particular themes that emerged and how these reflect the underlying data itself.

We then give an extended overview of investors' rationale for joining Storm. This highlights the perceived pressure to be self-sufficient, and also the need to trust a range of parties when planning for the future.

The main findings are then presented, with the impacts of significant financial loss considered in three major areas. Firstly, in the personal world of emotional and health impacts. Although these can vary in form across investors, a consistent picture nevertheless emerges that personal impacts are both substantial and tangible for all investors. Secondly, in the realm of one's social world. This includes impacts on relationships, the ability to partake in cultural and familial roles, and changes in the way in which individuals engage in their communities. Thirdly, in the area of trust in many parties. This includes decreased trust in many institutions associated with the financial services industry, government, elements of some professions such as lawyers but particularly financial advisers, and perhaps most damagingly of all, a loss of trust in one's own judgement and ability to engage with the world.

The overall impact of these three areas is a loss of control in one's life choices and options. This is discussed in the context of the resulting dependence on others (including government support) to provide for life's necessities, the devastation of having one's housing situation under threat, and an overall sense of greater vulnerability to the uncertainties of life.

6.2 How 'themes' emerged

6.2.1 Overview

As highlighted in chapter five, findings from interviews are generally used as the basis for describing the major themes and issues that emerge, but there is no shortage of supporting data to either support, modify, or suggest alternatives to what the interviews give rise to. In fact, where evidence from non-interview data sources supports a particular theme, this can be substantive enough to be at and beyond the point of saturation.

In particular, transcripts of public hearings and submissions contain numerous relevant examples and as such, selected quotes from these sources are used to illustrate relevant points. Clearly there are a number of choices that could be made as to the use of particular selections, and we exercise judgement as to what is an appropriate inclusion or not. Indeed, the use of one's own 'filter' in making such judgements about data is a key issue in qualitative analysis (Neck 2013). However, the arrangement of such quotes and statements into key themes, and then key findings, gives an explicit aggregation of underlying data into higher level findings that is transparent and open. Thus, such findings can be linked directly back to statements and insights residing in the original data itself.

We present below tabular summaries of how this process has occurred in respect of the key findings in this chapter. The leftmost column lists three elements in each entry:

- a statement that describes the point made within the data;
- a brief quotation to show why that statement was generated;
- a summary of the number of excerpts used in chapter six, as evidence to support the key statement.

Table 11a[276]: Coding of statements from data: rationale for joining

Grouping of quotes into key statements[277]	Identifying key themes	Core findings
Beliefs about the age pension: 'the age pension would not be worth very much when I retire' [i1,p2] **Superannuation and self-sufficiency:** 'You have to be able to provide for yourself' [i2,p1,h1] **Doing a bit better:** 'We wanted to live a better lifestyle than being a pensioner' [i6,h1] **Fear:** 'by the time you're 80, you'll have no money left' [i3,o1]	Motivated to invest	
Need to trust someone: 'I've never been that great at looking at the financial side' [i1,p2] **Trusted relationship:** 'We paid them to do a professional job' [i4,p4,h5,o1] **Can trust Storm:** 'They're very careful. They were careful how they went into it' [i3,h3]	Trust in the adviser	
Big banks involved: 'the association with Storm spanned several areas of the organisation' [h2] **Investors happy:** 'It was very comforting to know that we had the support of the biggest bank' [i1,p1,h4] **Storm happy:** 'You trust an institution such as the CBA' [h4]	Can trust the big banks	
Others involved: 'I went into Storm because of my friend up in Townsville' [i5,h2,o1]	Trust the networks	Rationale exists to join Storm
Member of FPA: 'that was an insurance policy for us. We felt that they were accredited' [h2] **Academic credentials:** 'all advisors had a minimum of a masters degree in finance' [i1,p2] **Government licenced:** 'When you get a tick of approval from ASIC, you keep working' [i1,p2,h1]	Trust the accreditations	
Strategy okay?: 'you will never be at risk of losing your house' [i2,p3,h1,o2] **Strategy suits some:** 'The borrowed money is an asset which is used to produce income' [i2,p1] **Storm buy into it themselves:** 'I wasn't flogging a product, I was involved in it' [i4,h2]	Trust the strategy	
We worked it out and were okay: 'We felt we asked the appropriate questions' [i2,p1]	Trust of oneself	

[276] Tables (11a) – (11e) are modified from Anfara et al. (2002) and Neck (2013).

[277] The legend used in tables 11(a) – 11(e) is in the format Xn, where X is the source of the data (i = interview; p = public submission; h = public hearing transcript; o = other) and n is the number of excerpts selected as evidence. For example, [i3, p4] = 7 excerpts altogether, with 3 from interviews and 4 from public submissions.

Table 11b: Coding of statements from data: Personal Impacts

Grouping of quotes into key statements	Identifying key themes	Core findings
Feeling of shock: 'It was just before Christmas. It was horrifying' [i8,h1] **Feeling of numb:** 'I was just numb for probably six months' [i4] **Strong sense of anger:** 'They've got to pay for that. That is just not right.' [i7,p1] **Fear is apparent:** 'The constant fear of the bleak future ahead with absolutely no financial security' [i1,p4,h1] **Frustration:** 'We need to be like a Houdini and get out of it somehow but we don't know where' [i8,p6] **Regret:** 'But if we had done in March 2008, what we intended to do… we could see there was problems' [i6,h1,o1] **Guilt:** 'we also got our adult children and friends to join Storm, leaving us feeling guilty' [i1,p2,h2] **Devastation:** 'I just felt devastated. Totally big hole in your insides. Just totally destroyed' [i6,p2,h1]	Strong emotional reactions to loss	The personal world of an individual is a primary casualty of financial loss
Health now vulnerable: 'possibly the worst part is - our health has suffered. You never get that back' [p2,o1] **Medication and depression:** ' I have been on anti-depressants and sleeping pills for the last 12 months' [i3,p6,h1] **Thoughts of self-harm:** 'I have found myself almost suicidal and understanding why people do commit suicide. These thoughts have absolutely terrified me' [i5,p3]	Health impacts also result	

Table 11c: Coding of statements from data: Social Impacts

Grouping of quotes into key statements	Identifying key themes	Core findings
Marriages impacted: 'the over whelming impact of the reality of our financial situation has nearly destroyed our marriage' [i6,p1,o1] **Social circles and families impacted:** 'It's tested. Our relationship, our friends who you thought were really staunch friends' [i12,p1,o1] **Cultural and familial roles:** 'It also stops us doing all the sorts of things that we had proposed to do like for grandchildren' [i5,p1,h1] **More isolated socially:** 'I have to keep phoning to say no, and I can't have you even for coffee because I haven't the money to buy the food for entertaining. It's so embarrassing' [i4,h2]	Significant impact on relationships and connectedness to immediate social networks	The social world of an individual is another casualty of financial loss
Community contributions: 'I had to give up all charities. I used to work for them. I used to be in a lot' [i1,p2,h2] **Complicated by networks:** 'the concentration of Storm clients in regional communities has led to widespread community and client impacts' [p2,h1] **Community perceptions:** 'So yes, judged very harshly and it was in the paper all the time about people saying what greedy people we were and that' [i6] **Needing to defend oneself:** 'All we were doing was following the Government's advice. We just chose Storm Financial as our financial advisers. We weren't greedy' [i5] **Perceptions matter:** 'Having to live with the knowledge that family and friends believed all the initial media reports about the Storm collapse, that made us clients out to be greedy and deserved of our losses' [i6,p3]	Wider community involvements impacted for a range of reasons	

Table 11d: Coding of statements from data: Losing Trust

Grouping of quotes into key statements	Identifying key themes	Core findings
Doubts about the strategy: 'the way I read it now, just now. If you'd ever make 12 per cent every year, you wouldn't be able to pay the bloody interest back, let alone live' [i4,p1,h1] **Discontent in hindsight with communication:** 'We were persuaded that you never take money out. You never close your portfolio. You never pay your debt and you train your children to take it on after you die' [i1,h2] **Perception of greed:** 'that's just a greedy brazen strategy to have more funds under management, to pick up more fees' [i5,h1] **Post-collapse reactions:** 'almost every other single adviser, scattered like rats exposed to the light' [i4]	Potential loss of trust in what Storm was about, including personnel and strategy	
Other advisers too: 'I will never go to a financial adviser again' [i7,p2,h1]	Trust lost in financial advisers in general	
Poor service: 'I think I was on the phone eight hours one day just ringing different people' [i5] **It's not a fair game:** 'So on one hand we are supporting the banks with our taxes while they act recklessly and wipe out the life savings of thousands' [p3,h2] **Strong resentment:** 'it can be safely said that all SICAG members now harbour a lasting distrust of the banking system' [i3,p4,h2]	Strong sense of distrust in bank(s)	
Not helped by helpers?: 'the solicitors didn't give a stuff. They were getting their money and that's all they cared about, you know?' [i11,p1]	Trust in some legal firms impacted	Significant impact on levels of trust in range of associated entities
ASIC's role: 'The law is pretty clear, and we would argue that ASIC needs to be more pre-emptive' [i5,p6,h7,o1] **Regulations:** 'a key problem in our regulatory system – the focus on FORM instead of SUBSTANCE' [p2,o1] **Government responses:** 'I thought that nobody asked the right questions' [i9] **Social Security:** 'don't like Centrelink… they don't understand people' [i2] **Does anyone care?:** 'They are all the same, mate. They do not really care about me, I will tell you' [i2,h1]	Perception of being let down by government, in many forms	
Views of others about investors: 'few are prepared to accept their role in contributing to their own loss' [i5,p5,h1,o2] **Individual shortcomings acknowledged?:** 'I would say I was ignorant' [i10,p1,h2] **Proviso on personal responsibility:** 'If we knew what to do financially we wouldn't have had to go to a financial advisor' [i2,p6,h1] **Impact on oneself:** 'We went from being confident, self-assured to being not at all confident and unsteady with every step' [i4,p1]	Impact on trust in oneself	

Table 11e: Coding of statements from data: A loss of control

Grouping of quotes into key statements	Identifying key themes	Core findings
Centrelink signifies dependence: 'going to Centrelink and to that job provider, that is so soul-destroying.' [i4,p1] **Housing certainty important:** 'This is our house. We've lived here all our lives, all our married life, (nearly 40) years we've been here and to lose that, that hurt' [i7,p2] **Uncertainty is unsettling:** 'My future has been on a thread ever since Storms demise & it doesn't look likely to improve in my lifetime' [i10,o1]	Dependence on others increases, stakes of losing independence are high	A loss of control in various aspects of life eventuates
Health vulnerabilities: 'My other knee…needs replacing as well but I can't afford it now… I can't afford to have my knees done now. But I don't know whether I should pull out of private health fund. It's a catch-22' [i5,p2,h1] **Family vulnerabilities:** 'she's a separated woman with two children and we're – I used that word, but we're stuck with them okay, for how long?... we have no other option' [i2] **Other vulnerabilities:** 'if my car breaks down, I can't fix it. I've had to walk to work because I couldn't get my car fixed, I couldn't get a new tyre when I got a flat one' [i2]	Vastly increased sense of exposure to life's vulnerabilities	

A further breakdown of data sources used in discussing each major point made in chapter six, is presented in table 12.

Table 12: Breakdown of sources for each major point made in chapter six[278]

	Number of excerpts referenced				
Major discussion point	Interviews	Public submissions	Public hearings	Other correspondence	Total
Rationale for joining Storm	40	21	28	6	95
Emotional impacts	41	15	6	2	64
Health	7	11	1	1	20
Relationships	26	3	3	2	34
Community impacts	13	7	4	0	24
Background to loss of trust	10	10	11	1	32
Loss of trust in Storm	12	1	4	0	17
Loss of trust in financial advisers	8	2	4	1	15
Loss of trust in banks	5	7	4	0	16
Loss of trust in lawyers	9	1	0	0	10
Loss of trust in government	9	8	8	2	27
Loss of trust in oneself	18	14	4	3	39
Loss of control	38	5	2	3	48

The relatively even spread of sources for the initial discussion on 'rationale for joining Storm' is important because this establishes the basis for all later points raised. Indeed, comments and perspectives were frequently linked back to the trust placed in various parties and sources when individuals were considering whether or not to invest.

Comments about emotional impacts are likely to be heavily represented from interviews if there is a reasonable rapport between interview and interviewee, and where suitable scope is given to interviewees to express such impacts. This is reflected in the 64% contribution of interviews to this particular discussion, and similar reasons apply to the discussion regarding impacts on relationships.

[278] The total number of excerpts (441) summarised this table does not sum to the total number of excerpts in chapter six (479), nor to the total of excerpts indicated in tables (11a) to (11e). This is because some excerpts are used to introduce an overall section, rather than a specific point in table 12, and tables (11a) to (11e) indicate the frequency of sources used for main points made, rather than supporting background discussion.

Although five interviewees explicitly described their struggles with self-harm in the discussion on health impacts, we found other sources and in particular the greater potential anonymity of public submissions to also be informative.

In most of the discussions around trust, the reliance across data sources were reasonably similar. However, similar to the 'rationale for joining Storm' discussion, the foundational discussion of 'background to loss of trust' highlights a more uniform spread across the three major data sources.

6.2.2 Dealing with intersections of themes

It is a considerable challenge to illustrate points as distinct and separate aspects associated with loss. For example, frustration with financial loss can eventuate because of the motivation to provide for children and grandchildren, which in turn leads to depressive episodes. Attempting to categorise this as primarily concerning 'tempered expectations' as an impact distinct from that of 'health' is quite artificial and does not give justice to the interplay between the two (and indeed the numerous other factors that are associated with one's personal experiences, perceptions and aspirations). Similarly, the loss of one's house has obvious emotional and financial implications, together with other associated impacts concerning health, social isolation, and the ability to have control over one's life. Making sense of such interactions is of course a challenge that is not unique to this thesis, but our approach in dealing with it is to illustrate all impacts where possible within the wider context of the individual's circumstances. Although no one quote will be used multiple times, the similarity across some impacts for various individual experiences may give the appearance of repetition in some cases. This risk of repetition is considered a palatable trade-off with the alternative of providing a more limited context for specific points being made.

6.2.3 Visual representation

Given the substantial written data available to us, it can also be useful to consider such volumes through a visualisation tool such as that provided through Wordle™ [279], used to

[279] http://www.wordle.net/.

generate word clouds. For each of the main sections in this chapter, we offer a word cloud as an indication of what phrases and expressions were common across the main data sources used to present each section. This is used merely as a reminder of main points made in a particular section in a visual way, rather than relying on it as a tool of analysis.

6.3 Rationale for joining Storm

In order to examine what has been lost, it is informative to first consider what was relied upon when joining Storm. In this context, for many investors the decision to join Storm was based on what most people base most decisions on – a combination of working it out by yourself, relying on the advice of others, and then simply making a decision. In a financial decision making context, there are of course additional influences at play – namely, the professional credibility assigned to the adviser themselves and as such the advice that they give, the reputation of related institutions, any other accreditations (professional or otherwise) that are presented to the potential client, the tendency for safety or caution, and the limited knowledge most individuals have of particular financial strategies. Thus, we first examine the influences that were part of the decision making process for many of Storm's investors.

6.3.1 Motivation

The motivation to invest with Storm, at least as attested from comments made in interviews and a reading of public data sources, generally concerns a desire to provide more than what the age pension would deliver, and to deliver it in a manner where one has control over one's destiny. The desire for self-reliance in retirement comes from both a belief that the coffers of government will not provide more than minimal assistance in the long term, and also that such self-reliance has the potential for a much better long term financial position than otherwise would be the case.

6.3.1.1 Beliefs about the age pension

One interviewee concisely summarised the perception of many about what messages have been sent out in recent times concerning the age pension. Continuing policy concern and public interest in the 'ageing' population, but particularly relating to the size of the baby-boomer cohort now approaching retirement, has shaped the views of many concerning this 'pillar' of their retirement expectation.

> [1] The Federal Government made it quite clear back in the early 90s I think it was that there wouldn't be enough money in the coffers to sustain all us baby boomers when we retired, so we should do our own thing. [interview with Storm investor]

Variations of this particular interviewee's view are shared by other Storm investors. Either the age pension will not be sufficiently worthwhile, or it will not be available at all. The latter view may be associated with the perception that for fiscal reasons the provision of an age pension will be severely compromised in the future, or it may reflect acceptance that tightening means tests of the age pension will mean limited provision of the age pension for their personal situation.

> [2] There have been consistent reports that the age pension would not be worth very much when I retire. [public submission 147 from Storm Investor]

> [3] In 2006 we were in a position to do some investing as we had all but paid off our family home and had a substantial amount of good quality stocks. We had saved and sacrificed for 20 years to get to this position and were looking to invest to prepare for our retirement which was years away, but we always believed that we needed to take care of our situation as the pension was not going to be available for us later on in life. [public submission 199 from Storm Investor]

6.3.1.2 Superannuation and self-sufficiency

Excerpt [3] above hints at a further motivation to consider engaging with Storm – this being taking 'care of our situation', or in other words, deliberately seeking self-sufficiency and independence from government provision. One interviewee also picked up on this aspect.

[4] My Government has said to me all along, "You have to be able to provide for yourself. You need to get financial advice to be independent of the Government. That's a good thing to do". [interview with Storm investor]

Others further link this push for self-sufficiency to the introduction of compulsory superannuation. This second pillar, they believe, sent a clear message about the need to provide for oneself in the future.

[5] My parents were then enticed to become financial independent through retirement and to do their bit not to be a burden on the Australian Government or the tax payers of the future. It also seemed to be the right thing to do with superannuation only becoming a reality half way through my Dads working life and the direction from the Government to become self-sufficient. Storm Financial would look after this financial independence for the future to come. [public submission 16 from child of Storm Investors]

[6] They made superannuation compulsory and then towards the end of the late 90s, towards the end of the 90s, there was a push for people to do just that; to go out and get their own managed funds so that they could be self-sustained when they retire. Well, we took that advice. [interview with Storm investor]

Such views are not just those of investors either – for example, the CEO of the Investment and Financial Services Association (IFSA) highlighted the following.

[7] It is now a well-established policy of successive governments to encourage as many Australians as possible to provide for themselves in their retirement. This policy goal was most clearly expressed in the decision 17 years ago to mandate compulsory superannuation contributions by all working Australians. [public hearing [3], p.49]

6.3.1.3 Doing a bit better

Not only did belief about limitations in government provision and a desire for self-sufficiency motivate many investors, but as a natural human trait there was also the hope and expectation that investing with Storm could serve investors better than alternative courses of action. However, this was not necessarily a push or drive for extravagant living, as many have stated relatively modest goals for their future financial affairs when engaging with Storm. Excerpts from three different interviews highlight these points.

[8] We said (to our adviser), "Look, we don't want a lavish lifestyle, we just want enough money that we can have food on our table, go out to dinner once a fortnight or so and maybe a holiday every – a local holiday once every 12 months and maybe an overseas trip every few years sort of thing" ...we've never been one for flash cars.... [interview with Storm investor]

[9] *Wife:* Even when we were on an allocated pension and even when you were in business, we weren't extravagant; basic type weren't we?
Husband: No, I...
Wife: Just worked hard. [interview with Storm investor]

[10] *Wife:* And it wasn't as if we ever spent a lot of money or lived the high life.
Husband: Well, the whole situation was ... we wanted to be completely independent of any Government requirements. We didn't want to be on the pension. We wanted to live a better lifestyle than being a pensioner. [interview with Storm investor]

One Storm adviser also highlighted that for many people, there was almost a more hopeful element to their rationale, in that the Storm model might present an opportunity to make a small amount of superannuation go a long way.

[11] Well, a lot of people, Aaron, didn't have much in the way of cash or super and so the figures didn't create them much of an income for quite a long time and a lot of these people were either pre-retirement or had just retired and didn't want to live on the old age pension, the pension and their meagre $75,000 or $100,000 wasn't going to bring them an income for a long time, you know, before it built up... oldies are different nowadays than they were 20 years ago when I first went into the industry. They want to live a good life because they're usually not too bad in their 60s... so you are looking at a long retirement. People don't want to sit at home and just live on the pension. So these dream spinners, as I probably call Storm now, make them realise they can take a little bit and possibly make it into a lot, so they can live like their friends who retired big, you know? So instead of living

on the smell of a shoe or an oily rag or whatever, they could live with a better income and do some travelling and do all the things they want to do while they're young. [interview with ex-Storm adviser]

For others, there was a straightforward desire to have a better income than the pension would provide for both them, and for resultant legacy purposes as well.

[12] I used Storm as a tool to supposedly better my financial future; being a physical worker in the Australian workforce, I did not want to be on the age pension. I would rather earn more than the age pension. Take a look in this room and have a look at the average age of everybody here. We are all baby boomers. We do not really want the pension. This whole thing was to set up, for every one of us, a fund that we would be able to survive on and then pass on to children, for those who have them. [Storm investor, public hearing [5], p.67]

[13] We were encouraged by the opportunity to do other things in our retirement... like do a bit more travel overseas. Do a lot more things for the kids, etcetera, etcetera. Those sorts of things. Most of the things we're doing and wanted to do were mainly for family rather than for ourselves. [interview with Storm investor]

Naturally enough, some investors had given explicit thought to and were motivated by all three reasons of perceived limitations with the age pension, seeking self-sufficiency, and desiring an income higher than they were otherwise likely to have.

[14] Now our idea when we retired was that we wanted to be a little bit better than being on a pension and you know, what (Storm) were saying was that the average person would not live on a pension… so you've got to build up your portfolio that you can be self-funded and that's what was our ambition. [interview with Storm investor]

6.3.1.4 Other reasons

The legacy issue also was apparent for other investors, but more urgently in terms of need to also provide some security for lifetime dependents.

> [15] People were investing for the benefit of their own financial security or the security of other family members. This was the position that we were in as we have an adult aged daughter with disabilities that we have to provide for and we were trying to ensure that she would have financial security when we're no longer here. [email from Storm investor, August 2012]

Another motivation concerned that of fear or worry. For some, this arose from seeing their own parents struggle on meagre incomes.

> [16] *Investor:* We both watched our mums...
> *Interviewer:* Struggle?
> *Investor:* Struggle on pensions… I just wanted a good Government job that I was interested in, so I could always provide for my future and be independent of the Government when I came to retire. [interview with Storm investor]

Fear or worry also arose from what others would say over time, particularly about the perceived (in)adequacy of existing and more standard retirement income strategies such as purchasing and managing an allocated pension.

> [17] The only reason we (didn't put the super into a bank earning 6%) in the beginning, because that was where the money was anyway before we transferred it all over the Storm, was the fact that we had seen a (Queensland) Government financial adviser and he said, "Oh, by the time you're 80, you'll have no money left." You know, we would have gone through all that money because just with the cost of living. [interview with Storm investor]

> [18] He kept saying to me, "If you leave your money in allocated pension, the Government don't want you to ever leave your kids anything." That's what he kept saying. He said, "Take it out and put it in – you could control your own money, you'll never have to worry about a pension. You'll never have to scourge on the Government" didn't he? He kept saying... [interview with Storm investor]

Of particular note is that in the excerpt above it was a Storm adviser who was persistently raising concerns.

6.3.1.5 Visual representation of Motivation

A word cloud representation of the motivation to join Storm is as follows:

6.3.2 Trust in the adviser

The fundamental basis underlying all successful business (and indeed personal) relationships is trust. In the context of managing one's financial affairs, as discussed in chapter 2 many people either need or choose to seek professional financial advice. As such, for people to pursue any advice offered, there needs to be a level of trust both in the advice offered, but particularly in the person who is offering that advice. This section gives an overview of the rationale investors had to trust the adviser who they were engaged with.

6.3.2.1 A need for trust

Firstly, many individuals have highlighted their need for financial advice that they could trust. This is attested to by several public submissions which highlight such a need arising from their own lack of relevant knowledge and experience.

> [19] Again I had this overwhelming lack of confidence of my ability and my knowledge. They were the experts and they knew what they were doing. And I must trust them. [public submission 266 from Storm Investor]

> [20] 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." [public submission 305 from Storm Investor]

One interviewee highlighted their own need to seek advice, but interestingly this was not so much for a lack of capability to understand their options. Rather, it was from a lack of interest in doing so.

> [21] The reason that most of us did go to get advice – I know for myself, I am more of a creative person; I've never been that great at looking at the financial side. I don't like to. I think if I had to, I would be fine, but I don't like to. [interview with Storm investor]

6.3.2.2 Trust in the relationship

A first and foremost reason to trust one's adviser is due to the expected professionalism with which advice is dispatched. Several excerpts make this very clear as a foundational basis for trust with the adviser.

> [22] *Senator Williams*: So you just trusted Storm, the banks or whoever did these applications?
> *Storm investor*: We trusted (our adviser) and his staff, yes. We had no reason not to at that stage.
> *Senator Mason*: So you had no relationship with the bank? You said you trusted your financial adviser to give you financial advice.
> *Storm investor*: Yes. That is what they get paid for.
> *Senator Williams*: ...would I be correct in saying that you just totally put your faith in your financial adviser and trusted him and that was the road you went along?
> *Storm investor*: That is correct, yes. [public hearing [4], pp.40,43]

[23] It was my belief that just like going to a doctor, solicitor or accountant for specialist advice, going to a financial planner would give me similar protection from unscrupulous practices. [public submission 147 from Storm Investor]

[24] Many times we have been asked why we trusted Storm. We were ordinary people who trusted professional businesses, belonging to their professional bodies, who did a job for us. We never asked the dentist why he was drilling our teeth, or questioned the doctor why he gave us a certain type of medicine or questioned our accountant. We paid them to do a professional job and we thought we would get the same from Storm as our financial advisor.[public submission 260 from Storm Investor]

[25] We liked our financial advisor and we had what we believed to be a good client/advisor relationship developed over the last 12 years or more years. Over a significant period of time she had advised our immediate and close family members and so we had every reason to believe and have confidence that her advice would always be tempered by a continued fiduciary duty to us. [public submission 307 from Storm Investor]

[26] I mean you've got a broken leg, you go to a doctor. You have car troubles, you go to a mechanic and if you've got financial worries, you to a financial adviser and you hope that they're going to do the job. [interview with Storm investor]

The primacy of trust in such contexts is a powerful influence. As the following excerpts highlight, this trust can even override one's lack of understanding of what was being entered into, and/or also override any concerns held.

[27] He promised me three times that I would not be in a position to lose my home and at one stage I was tempted to say, 'How can you make a promise as grand as that?' I thought, 'He knows what he's doing. He's in the position he's in.' I had faith in his credibility and a belief that he was professional and had a moral code and that he would not lie to me. He promised me three times. [Storm investor, public hearing [5], p.46]

[28] *Senator Williams:* Did you have an understanding of how the whole Storm double geared investment worked?
Husband: No.
Wife: No.

Senator Williams: So you are telling me that - as an analogy - if I was to sell you something like a Kenworth truck you were never taught how to drive it but you still bought it. If we can use that analogy, you went into an investment plan and you never had a clear understanding of how it actually worked. Is that true?
Husband: This is right. We trusted our adviser and we thought his advice was well founded. [public hearing [4], p.58]

[29] This just was too good to be true and I was very uncertain of the sales pitch (the adviser) was giving us. (My husband) said we have to trust someone with our finances, He knew (our advisor and) had a very good rapport with him. Just completely trusted him. He had come to our house on numerous occasions just to chat about Storm, to gain our confidence. [email correspondence from Storm investor, November 2011]

The excerpt above highlights a further interesting aspect of trust, which was that regardless of doubts and even regardless of professional credentials and responsibility, the issue of trust sometimes boiled down to a trust in the personal relationship as well. The investors above confirmed this in an interview, as have others also.

[30] *Investor:* (In the end) I just trusted (our adviser).
Interviewer: Just an adviser trust thing?
Investor: Yeah, because I've known him for 20-odd years before it. [interview with Storm investor]

[31] We were confident with (our existing adviser). We had a very strong relationship we thought with (our existing adviser). [interview with Storm investor]

[32] *Senator Williams:* Surely many of those Storm clients had long-term relationships with their Storm broker. They knew them personally and had confidence in them and trust had been built up. You probably would not blame the Storm client for trusting the broker if they had known them for many years. [public hearing [2], p.93]

The main outcome of trust in this context was the belief that the investors' best interests would be the primary concern of the adviser, and that due to this, one could have confidence in following the advice.

[33] *Bernie Ripoll MP*: How did you feel about the relationship between you and your adviser? You said it was family-like.
Storm investor: Yes… he was also the adviser for my mother… I felt that we had a relationship of protection, that the bottom line was that he would always look after our interests. [public hearing [6], p.67]

[34] Essential to our relationship was complete trust and belief that her advice and judgement in relation to our financial affairs had been and always would be in our best interests. We believed that she had always sought and provided solutions that were in our best long-term financial interests and had no reason to think that the 'new strategy' would not fall into the same category. [public submission 307 from Storm Investor]

Notably, this trust did only relate to the initial decision to invest, but also to ongoing advice and persuasion to continue on with a process of borrowing more over time, as leverage against increasing asset values.

[35] *Investor:* We were always of the belief that we would maintain that (level of) debt… but it didn't happen though.
Interviewer: Did you know when it was being cranked up over time?
Investor: We would go and see them and yeah, they would say...
Interviewer: Get you to sign stuff?
Investor: Sign stuff; we would sign – it sounds so stupid now but we had been there for so long, you'd sign the blank documents, they'd fill them in and send them in. Because they got us to trust them. And (my financial adviser) was, in all honesty, almost like a friend. So it was very difficult to believe that she would do something that was not okay, you know? [interview with Storm investor]

6.3.2.3 Trust in Storm

Not only was trust being placed in a particular adviser, but this trust could either be helped or hindered by the wider association with Storm itself. To this end, for those that did continue on and participate in the strategy being offered, there were various factors which assured investors as to Storm's capability and trustworthiness. The main one was the substantial education process that all prospective investors had to go through.

[36] We did eight months due diligence which included the Storm education process… which I must admit was better produced and delivered than any other financial planner than I had been to as far as clear, concise well-presented and answered a lot of questions. It was a detailed process… we had been to several other financial planners in an attempt to find someone offering something else. We were looking at changing financial planners and none of them had impressed at all. Their education processes were lackluster, half-hearted and more of an inconvenience to them than anything else. We got a lot of sales pitches but scant detail from most of them and a lot of them really did come across as nothing more than the old National Mutual salesmen type person. [interview with Storm investor]

[37] It is a big part of the whole process that you go through the educational – they showed us the software that they had and they used. They showed statistical information. It was very impressive. The premises gave you confidence, (the speakers) gave you confidence. [interview with Storm investor]

[38] So it took four or five months from woe to go. It was six months. They're very careful. They were careful how they went into it. You went into different groups learning about the different structures but a lot of it they talked about being on a computer and I'm not a technically orientated person to be going and finding much out but I accepted what they were telling me. [interview with Storm investor]

Ex-employees of Storm have also made the point that this education process itself was not working towards a pressured point of sale, but rather was aimed as a meaningful way to give prospective investors awareness of what was being offered. Prospective investors could then go away, investigate it further in their own time, and determine for themselves whether they trusted and had confidence in Storm's strategy.

[39] Despite the things that have been publicly stated in the media, Storm and its staff were very ethical and the directors believed in education and transparency. The Storm process was not a hard sell, nor a quick process. On average clients took 180 to 200 days to complete their first investment. Some clients took as long as two years before proceeding. During this

period they had many opportunities to discuss their strategy and have their questions answered. No fees were levied for this. The fees were only payable when the investments were placed. [ex-Storm employee, public hearing [5], p.28]

[40] I understand that only about 25 per cent of the people who approached Storm eventually became clients, and usually only after many meetings and about six months of prior contact. [ex-Storm employee, public hearing [5], p.4]

Additional factors that could engineer trust were mentioned by another investor.

[41] It was just the history of their progress and their status in the business community. I am not in that field. I have no cause to challenge, except to believe. When you saw the office that was a big factor, and all these cruises that they had taken people on. All that indicated that they really did have the viability and the credibility they espoused they did. [Storm investor, public hearing [5], p.46]

6.3.3 Trust in the associated institutions

The aspect of trust in the case of Storm also extended to those institutions that were associated with the overall strategy on offer. This was primarily seen to be the CBA and its subsidiaries, Colonial Margin Lending (CML) and Colonial Geared Investments (CGI), however as noted in chapter 3 there were a range of other banks and service providers also. In presenting the points that follow, we pick up on comments made which are most illustrative, not necessarily because they refer to any institution in particular.

6.3.3.1 Connection with banks

The association between some institutions and Storm were clearly more than a casual or run-of-the-mill business relationship. This is attested to by CBA's Group General Counsel.

[42] I think it is fair to say that the association we had with Storm spanned a number of areas of our business. As you have heard, there was clearly strong involvement in our CGI business and our home loan business, and thirdly in our wealth management arm, which managed the index funds - these were specific, Storm-badged index funds. So the association with

> Storm spanned several areas of the organisation. I would say that that is not an absolutely standard arrangement. It is quite common for large organisations to have relationships with us in more than one area, but, in this particular case, Storm did have relationships across three areas. Fourthly - and, again, this is probably a little bit unusual - Storm was also a corporate borrower from the organisation. [public hearing [7], p.83]

Although the relationship with Storm differed to a 'standard model', CBA's CEO gave his perspective that despite this, the relationship with Storm was not a significant one in terms of the bank's overall operations.

> [43] My view is that this was not a tight relationship. From the organisation's perspective - from my perspective, from the board of the bank's perspective - we are talking about an organisation where the revenue from Storm itself was less than $10 million per annum and, when we look at that in the context of around $14 billion of revenue per annum, this was relatively, in relation to the overall bank operations, quite small. [public hearing [9], p.27]

Interestingly for a bank the size of CBA which has over 4 million active on-line customers alone[280], by the CEO's numbers it would take just 1,400 Storm-sized relationships to generate CBA's overall revenue. In other words, although contributing a seemingly meagre contribution of approximately 0.07% to CBA's income, given the vast diversity of CBA operations the significance of a single relationship like that of Storm could be understood as one of many millions, or one of the more significant individual ones.

6.3.3.2 Trusted by investors

Undoubtedly, the perceived backing or connection of Storm's approach to major and trusted institutions was a major factor that influenced investors to proceed with Storm or not. The perception of a very strong association is highlighted by one investor who themselves was a former employee of the CBA.

> [44] I was not investing in Storm Financial; I was investing in Colonial First State. That was the Commonwealth Bank, which I had worked for for 40 years. I totally trusted the bank and

280 http://www.commbank.com.au/about-us/our-company/overview.html, accessed 28 June 2013.

Colonial First State. I knew who had set up the thing. I even went to my own financial planner in my branch and said, 'Can I buy this product through you rather than go through Storm, because I won't have to pay the seven per cent?' 'Sorry... can't do it.' The reason he could not do it was that it was exclusively badged to Storm Financial, so obviously this product had been set up by them exclusively for them. If the Commonwealth Bank or Colonial First State is going to have a product which is exclusively for this particular client, they must think they are a fairly good sort of operator to be able to do that for them. That is huge. I was investing not in Storm but in Colonial First State. [public hearing [6], p.86]

Such associations are well known to provide additional selling points for investors who would otherwise not be quite as sure about what they were doing, as attested to by the managing director of ANZ's investment and insurance division.

[45] In practice we find that virtually all customers of our financial planning business are originally ANZ customers, because it is the relationship of trust that they have with the bank that causes them to seek out financial advice from us. [public hearing [2], p.52]

For investors in Storm, the result of such associations was, firstly, the additional and vital aspect of security and safety to the option being considered.

[46] And because we had a contract with Colonial Mutual... we would be protected by being with strong well known financial organisations. [interview with Storm investor]

[47] Because we were dealing with such large trusted companies as the Commonwealth Bank and the ANZ bank, we assumed that what we were entering was all above board and safe. [public submission 220 from Storm Investor]

[48] Anybody with any knowledge of investing in managed funds would have been aware that Colonial First State had been a stand-out performer over any number of years. When I found that the investment in Storm was associated with First State then a lot of my apprehensions regarding the safety of my portfolio were dispelled. [Storm investor, public hearing [6], p.75]

As well as safety, three associated C's (comfort, courage and confidence) were highlighted by the co-chairman of SICAG. This suggests that not only did associations with these institutions give rise to feelings of assurance regarding the initial decision to invest, but also to buy in totally to the Storm model which would include a continuing commitment to additional loans / leverage over time.

[49] *Senator Mason:* You say in your opening submission that a key factor in the decision by the majority of your members to engage in the Storm strategy was the strength of Storm's connection to the Commonwealth Bank and its margin-lending division, Colonial. So it was a key factor in fact in choosing to engage with Storm. Is that right?
SICAG co-chairman: It was very comforting to know that we had the support of the biggest bank, basically. [public hearing [6], p.75]
SICAG co-chairman: ...(The CBA) gave me courage and confidence that I had the implicit backing of Australia's biggest bank. Storm's partnership with the CBA allowed me to sleep at night, a luxury that I have not enjoyed now for eight months. I was proud to tell my family and friends that our money was safe because Storm had the backing of CBA, Australia's biggest bank. [Storm investor, public hearing [6], p.89]

6.3.3.3 Trusted by Storm

It was not only investors whose trust in Storm was enhanced on the basis of the associated institutions. Various employees of Storm also noted this as a significant factor in the confidence of their strategy. Storm's founder, Emmanuel Cassimatis, highlighted this in an exchange with PJCI chairman Bernie Ripoll.

[50] *Bernie Ripoll MP*: So you trusted other people's money with somebody else's trust?
Mr Cassimatis: Of course. That is what you do.
Bernie Ripoll MP: No documents, no legal contracts? I am just not sure - you based your trust on what? Normally we base our trust in documents. We sign a contract and understand exactly what happens at what point. You based your trust on what?
Mr Cassimatis: You trust an institution such as the CBA. If you cannot trust that type of institution, which institution can you trust? [public hearing [6], p.32]

Similar thoughts were also expressed by various administrative staff and advisers. The associated institutions not only provided comfort as to the fidelity of the strategy being taken, but also added confidence to the subsequent offering of that strategy to investors.

> [51] One of my key selling points was the strength of the relationship with Australia's biggest bank. They manufactured our products, they did the insurance, they did the margin lending and they did the retail lending. It was something that I had a lot of pride in. [ex-Storm adviser, public hearing [6], p.99]

> [52] We are all expected to understand that banks are pillars of society. When the pillars of society come to you and they state that this is what they can do, we are expected to believe that. [ex-Storm adviser, public hearing [4], p.29]

> [53] Given that the major banks and a lot of others were actively seeking the Storm lending business we had no reason to believe that it was not considered sound and there was added comfort in the fact that they were willing to provide these loans. [ex-Storm employee, public hearing [5], p.28]

6.3.4 Trust in the networks

Hoffmann and Broekhuizen (2009, p.499) claim that "consumers are especially susceptible to interpersonal influences when they lack necessary investment-related knowledge". This may explain, in part, the finding in this section which is the value placed in the experiences of others known to a prospective investor. However, it does not seem that the advice and experience of others' is sought out to better understand the detail of a particular course of action, but rather it is to gain general comfort that what is being considered is reasonable in a general sense. Furthermore, such influences may well be a factor for both higher- and lower- knowledgeable networks, as most people would place value on the opinions of others in some shape or form.

Where such influence is influential in a lower-knowledge network, an obvious problem is the possibility that nobody within that network actually has the knowledge required to make a truly informed decision. Hence only one and potentially misinformed view may preside throughout an entire network.

Regardless of whether investors are considered lower- or higher- knowledge in the case of Storm[281], the insight discussed in this section is that placing trust in one's networks was an important factor in getting involved.

> [54] *Bernie Ripoll MP*: Obviously there was a customer base for Storm. There are people at the least sophisticated end but there are also people at the most sophisticated end. How does that work in terms of understanding? It seems that everyone got caught in the same problem. People have quite clearly told us: 'I really didn't know what was happening; I just trusted them' and others were qualified financial planners themselves.
> *Financial planner*: I do not honestly know how that would happen. In some ways - and someone mentioned it - it was about that network thing; you passed it on. [public hearing [4], p.99]

Such trust could arise because of the perception that a friend themselves were knowledgeable about such things.

> [55] *Interviewer:* So you guys getting into Storm originally, would you like to talk about that?
> *Wife:* I did not want to do it.
> *Husband:* ...we had a friend who had gone into it and she'd gone around all the investment organisations and she felt that this was probably the best of what she could see of the lot of them and she was pretty switched on...we went along to a seminar and we spoke to a couple of guys and before we went into it. [interview with Storm investor]

In other cases, friends may or may not have been knowledgeable about the details of the strategy (or notably, the risks involved), but they were definitely happy with their experience to date with Storm. These cases too were an important aspect of developing trust.

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281 Such generalisations about a relative state of knowledge are not intended as a universal judgment on all investors, nor even necessarily the majority – but one obvious fact of life is that for a particular context, some people will know more than others about it. One example is that 'very-low-knowledge' would accurately describe the author in the context of understanding how a car engine works. For clarification in terms of Storm's context, our impression from interviews is that some investors seemed to have a good understanding of the Storm strategy when initially getting involved, some knew a lot of the detail of the Storm strategy but mainly in hindsight, and others still knew very little about the Storm strategy even with hindsight.

[56] I went into Storm because my friend up in Townsville… she talked about shares and at that stage, I wasn't worried about doing anything like that. But then when I knew what had happened, I had sold a house, two houses, I had some money. So I thought well I'd been to two financial advisers already and they had showed me this graph that went down instead of making my investment go up and so I rang my friend in Townsville and said, "What's this share thing that you're in?" She had been with them for 12 years. So I felt quite confident knowing that she had tripled her investment in the 12 years and her daughter had done it too and they were managing and it was going really well. So I thought, well it sounds fairly confident to go into that. [interview with Storm investor]

[57] My brother had been going to this bloke for years but he wasn't with Storm then… my brother was quite happy with him. He was impressed with him and he was making money. But anyway, this bloke apparently joined up with this Cassimatis and he's brainwashed himself into believing whatever he had been told, you know?... Anyway, I asked a lot of blokes I knew… a half a dozen blokes I know real good, had been with him for years. You know, five, six, seven years and I know a bloke, a bloke I used to play football with many years ago. I've seen him and he said he can't go wrong... I remember we went for a dinner… at this place and over a period of probably 12 months I suppose – maybe not quite 12 months but somewhere around that 12 months, we probably went to half a dozen meetings… and we thought, oh well everybody is bloody making money so we may as well do it too. [interview with Storm investor]

[58] I had a friend who had been in it, only had joined up with them and was really impressed and very happy with the profitability of it for them and she approached me about it and I sort of hummed and harred and hummed and harred because I'm not a gambler, I'm really not a gambler. Anyway, long story short, I went to one of their seminars. It was so very convincing. [interview with Storm investor]

[59] *Investor*: In talking to other people there, they had family and friends who were with Storm Financial, very happily, that they felt that they had been given very good advice.
Interviewer: A lot of positive referral from those who you knew or were associated with it?
Investor: Yes. [interview with Storm investor]

[60] Trust was a big factor, and the recommendations of friends and family contributed to many joining… I believe most or all of the Storm investors did not know they were in such a high loan, risk product. [email from individual who did not invest with Storm, September 2011]

However, the influence of networks and referrals from others is not a factor which is unique to the case of Storm, as attested in the following.

[61] *Bernie Ripoll MP*: We have certainly got plenty of evidence and submissions to say that in fact the majority of advice that was given to Storm investors was actually from their friends or neighbours. That is how they actually got in. It was not from an adviser. The adviser's role was more just to sign them up. Is that your view?
Mr Black: It is very much my view of what happens in the industry, yes. [Mr Stuart Black, Director/Board Member, Accounting Professional and Ethical Standards Board, public hearing [2], p.81]

In Storm's case, however, its dramatic collapse and the significant influence of trusting others leads directly into personal impacts of such a collapse. This is discussed shortly.

6.3.5 Trust in the accreditations

The value of having some sort of professional, educational or regulatory-related endorsement was also perceived as a key source of trust.

[62] We went into these investments simply to provide a more comfortable retirement and we trusted Storm and the banks and margin lenders to provide us with the right advice and to guide our decisions in providing for our future and the future of our family. These people and institutions were licensed and qualified to do this. [public submission 92 from Storm Investor]

[63] *Wife:* But yeah, it's just the trust, trusting.
Husband: …Well, that he kept going and doing all the courses. He kept telling us.
Wife: I know that. I know.
Husband: All the certificates he had. [interview with Storm investor]

[64] We realised we knew nothing of investing, and that is why we had gone to an accredited investment adviser for advice. We go to a mechanic when our car plays up, a lawyer when we are seeking legal advice, etc. One goes to the person with the correct bit of paper when wanting advice about stuff one knows nothing about. [public submission 21 from Storm Investor]

The major formal endorsements mentioned as being influential were membership of the Financial Planning Association of Australia (FPA), academic credentials, and being licenced with ASIC.

6.3.5.1 FPA membership

The FPA is "the peak professional association for financial planners in Australia with nearly 12,000 members representing both individual financial planners, and Australian Financial Services Licensees (AFSLs)" (public submission 277 to the PJCI). It "provides the leadership and professional framework that enables members to deliver quality financial advice to their clients"[282]. As such, any member carrying its accreditation is expected to offer assurances to those who are engaging with it. The CEO of the FPA attested to this expectation on behalf of Storm investors.

[65] *Senator Williams:* If I am a mechanic and I become a member of the Motor Trades Association, I can hang a badge outside my shop and people will have confidence in me. That is similar to your association as well, I would imagination. How long was Storm a member of the association?

FPA CEO: For 10 years.

Senator Williams: ...Did Storm's publicity materials proudly have the FPA logo on them? Have you seen any of that material? Did they use their management of the FPA as a marketing tool?

FPA CEO: I think they did. A number of the clients we met with certainly recognised the logo—principal member of the FPA—on the front of their office. One of the issues that has been raised with us is that there was a perception—and you cannot argue with this—that all

[282] http://www.fpa.com.au/default.asp?action=article&ID=22382, accessed 28 June 2013.

financial planners working for Storm were members of the FPA and, therefore, there was confidence and trust in the brand. [public hearing [3], pp.41-42]

The perception was certainly shared by those investors who were cognisant of that membership, with a typical view being that this provided some safety in itself.

[66] Initially, because they were members of the financial planners association, that was an insurance policy for us. We felt that they were accredited. [Storm investor, public hearing [4], p.55]

6.3.5.2 Academic credentials

Academic as well as professional credentials were also seen as important for developing trust, with one couple making this clear in an interview.

[67] *Husband:* But people that weren't involved in it, had never been to the school of thought that we were all taken to, never been or saw that a plane was on the wall of everybody in the University rigs and so forth and all the happy little family and this one had a Bachelor of Accountancy and you know, you looked at all this and it's like going into your doctor's office and you see all these School of Surgeons, school of this and school of that and you think, oh well, okay this bloke must know what he's talking about.
Interviewer: ...Does something hanging on your wall make you trust someone or not?
Wife: Well, that's true. Well, that's what Cassimatis' mob had. They had a list of dilpomas.
Husband: ...Yeah, they had them all on the wall, the whole wall and they paid for these people to go through to get their degrees and so forth, you know?... so they're not silly. [interview with Storm investor]

Others highlighted that the actual academic credentials were in relevant subjects, at a postgraduate level, and from reputable tertiary institutions.

[68] We went along in blind trust that these people knew just what they were doing as all advisors had a minimum of a masters degree in finance. [public submission 244 from Storm Investor]

[69] We relied totally upon the experience and credentials of our financial adviser who after all has a *Master of Applied Finance Degree from the University of West Sydney.* [public submission 263 from Storm Investor]

6.3.5.3 Licensed with ASIC

The fact that Storm was a licensed financial provider also gave the impression credibility to investors, and indeed this was a point not lost on Storm itself.

[70] From the very first time I was advised, I was told, by my adviser that they were accountable to ASIC. [public submission 203 from Storm Investor]

[71] When you get a tick of approval from ASIC, you keep working… that's supposed to be the watchdog. [interview with ex-Storm adviser]

[72] We just assumed that bodies such as ASIC and the FPA would be our watchdogs. [public submission 220 from Storm Investor]

The chair of the PJCI, Bernie Ripoll MP, also confirmed this overall perception of what licensing can mean in terms of a signal to investors.

[73] There certainly is the impression that if somebody has got a license they have met certain standards and therefore can actually deliver a quality service and quality product through models that are approved. [public hearing [1], p.8][283]

6.3.6 Trust in the strategy

This section further explores some features and other aspects of Storm's strategy which further engineered trust. In particular, one factor emphasised to many investors was that many Storm employees themselves were investors, which was portrayed and perceived as an additional basis for credibility.

[283] And by way of further, foreboding commentary: "I understand that is obviously not the case. ASIC does not actually approve those" (public hearing [1], p.8).

6.3.6.1 Emphasised features

An overview of the Storm model was presented in chapter 3. A very brief summary of Storm's advice would be to build assets, generate income, and do this by borrowing against assets, but with sufficient safeguards in place. Each of these four elements were mentioned in various sources, and just a brief collection of excerpts is presented here to keep the overview brief. It is useful to note at this stage some of the language used by Storm – in particular, references to chickens (assets, though funded by borrowings) and eggs (income) were prevalent in many investors' recollections.

Firstly, it was portrayed as important to not reduce holdings of equity assets (and thereby not reduce debt as well) because this would mean fewer eggs (income) in the future. The shortcomings of this approach were understood by some individuals who did not proceed with Storm and as such, was an element of Storm's presented strategy that they recalled.

[74] Don't eat your chickens or you will have no eggs. [public submission 162 from individual who considered but did not invest with Storm]

[75] Storm (gave) a well presented reason to take a position in the top 200 businesses or companies in Australia and receive benefits and dividends that exceeded inflation and gave better returns than the banks. Most attending were impressed. The follow up was over a period of months before you could invest in the Storm Product. I could say it was a very good brain wash of "keep your eggs so as you will have chickens scenario" [email from individual who did not invest with Storm, September 2011]

For those that did proceed, the chicken and egg analogy played out on various occasions over time.

[76] *Husband*: They encouraged you not to just take the money out. It was always, 'Keep it topped up.'
Stuart Robert MP: How did they encourage you to do that? We have heard this quite often.
Husband: Mainly by saying that it was to our advantage to not reduce the amount we had in the market.

> *Wife*: It might be in the first statement of advice that it says that if you take money out and do not replace it then you are eating your chickens; you need to keep all your chickens and not eat them—I do not know if you can follow that—meaning that whenever you took money out, if you did not replace it, then slowly your capital would deplete. If you wanted to keep that same level then you needed to keep it replaced.
>
> *Stuart Robert MP:* Out of interest is 'eating the chickens' your words or theirs?
>
> *Wife*: Their words. It is actually on that statement of advice.
>
> *Stuart Robert MP:* They actually wrote down 'You're eating the chickens' on that document?
>
> *Wife*: Yes. [public hearing [5], p.65]

The funds for increasing exposure to the Storm-badged equity index would come from many sources, including investment properties, re-mortgaging the family home, and also by drawing down superannuation funds. This seems to have been done in many instances even when penalties would apply for early withdrawal of the superannuation funds.

> [77] In late 2003 our advisor encouraged my husband to retire early and add his super to the portfolio even though he would pay a large amount of tax - the extra shares we could purchase would quickly make up for it. [public submission 160 from Storm Investor]

Indeed, from the AEC / SICAG survey of SICAG members, 44% of respondents invested their superannuation with Storm, and of these, 16% invested more than $500,000 of superannuation and a further 36% invested between $200,000 and $500,000. So substantial amounts of superannuation were invested with Storm, which is not surprising given the prevalence of more mature Australians as investors. The AEC / SICAG survey gives an indicative breakdown of the demographic profile.

> [78] o 30-49 years (22.7%);
> o 50-59 years (29.5%);
> o 60-69 years (38.3 %);
> o Over 70 years (8%). [AEC / SICAG survey, public submission 154]

In terms of borrowing against the family home, Storm's approach was to make this asset 'work' for the investor by tapping into (borrowing against) its capital value. The AEC /

SICAG survey indicated that 88% of those surveyed had advice to utilise their home's capital value to invest further in equities. For many, it was a struggle to come to terms with this.

> [79] *Husband:* This is the only house we've ever owned. We've been sitting here (for nearly 50 years). It's the only property we've ever owned.
> *Wife:* We built it. That was the biggest – when we first went into it, (Storm) said, "Oh, well your biggest asset is your house."
> *Husband:* We owned the house.
> *Wife:* We own it.
> *Husband:* It's sitting there doing nothing for you.
> *Wife:* It took me months to come to grips with doing that with the house.
> *Husband:* Going back into debt because you know, we owned it by this stage. [interview with Storm investor]

In terms of the safeguards within Storm's strategy, investors were assured that things were in place, in particular to protect their house.

> [80] If the share market dropped tomorrow and we lost money on that, that was part of being in shares, you know? But every time we'd go in and we'd say you know, "How safe?" "You will not use your house. We've got things in place to – you know, you won't lose your house." [interview with Storm investor]

> [81] (The presentations did promote) the investment as a 'safe product' managed by Storm and accepted by the major banks of Australia. Margins would be at a safe leverage and 'you will never be at risk of losing your house.' [email from individual who did not invest with Storm, September 2011]

6.3.6.2 Okay for some

Many investors, even with hindsight, can recall their eventual comfort with the overall strategy, which often came about after much investigation and thought. Thus, it is reasonable to say that for them, there was comfort with proceeding and as such they trusted the strategy being offered. One investor referred to a lack of public criticism of the strategy as one factor in confirming that they could embark on this investment.

> [82] Were we comfortable with the Storm plan? One of the things we were comfortable with was we were investing in the top 300 companies in Australia… we could no longer find any reason not to go ahead with it…no one could criticise what (Storm) was selling and no one did criticise what (Storm) was selling. [interview with Storm investor]

Another investor considered that for his view of the risks involved, his overall financial situation with other assets being owned, and the approach to use index funds, meant that additional exposure to the markets via margin lending was well within his risk tolerance.

> [83] (From being involved in running several businesses) I know more than a little bit about business. This appeared to be a method of enhancing our income in a safe way – index funds are the safest – and some well controlled cautious margin lending… look, nothing in life is without risk but we were convinced that – and had done enough research to say that index funds are very, very safe and very, very conservative. We're not trying to be greedy about this. We're not going into a scheme which is offering 55 per cent return or any crazy things that you see advertised from time to time. You know, if it sounds too good to be true, it usually is. It was nothing like that. It was to produce a return that… would be at market level. It wasn't going to be below the market or above the market, but we were assured of that because that's how funds work. Now, the risk factor that we took of course, was borrowing against the house and we borrowed heavily to do that and put money in to bolster up the margin lending element… that was a big step for us because we were absolutely free of debt at the time that we went into all of that and I suppose that you could argue today and people are arguing it today, that for self-funded retirees, that it's not a smart idea to put your only asset 'on the line'. But we were – well, we thought we were - safe in the knowledge that we had other assets; that this wasn't our only asset, which is probably our biggest asset but it wasn't our only asset. We felt reasonably safe in doing that. [interview with Storm investor]

Another investor in writing a public submission still perceived the strategy as legitimate, and therefore had no qualms about entering it (in 2001) and continuing to follow it.

[84] Something that escapes most people, especially the media is the self-funding nature of such an investment. If you borrow to invest say $100,000 and the interest rate on the borrowings is 6.5% ($6,500 p.a.), if you then receive dividends of 3.5% (usually about 4%) p.a. and a tax break on the borrowings of 30c in the dollar depending on the clients marginal tax rate, that means that the investment is neutrally geared (self-funding). All the fuss about retirees having no income but being able to borrow money anyway is nonsense. The borrowed money is an asset which is used to produce income, passive income, the best kind. THAT is the whole idea, to invest money that will produce a passive income. [public submission 269 from Storm Investor]

6.3.6.3 Not for everyone

However, plenty of criticisms of the overall strategy have emerged and these are picked up in more detail shortly. But at this point, a useful balance can be presented by referring to two examples of individuals who did not proceed with Storm's strategy. Both of these individuals were concerned about what would happen under Storm's model, should the value of equities drop by a larger amount than what they were being presented with.

[85] I had strong reservations of what they did not present. I did not attend any further presentations but did follow up with a intended interview. (At this interview I asked) "how does Storm handle a down trending market for the benefit of those who have come in at 6000 to 7000 of the index".... we did not proceed with the Storm Model. [email from individual who did not invest with Storm, September 2011][284]

[86] Anyway, (our financial adviser) went up and saw (our son in law)... (our son in law) said what happened in 1980... whenever it was; was it '87 when the crash was? (The adviser) said, "Oh, I can't put that up." (Our son in law) says, "Well, I want to see what happened." So he went back the next day and he must have got the material together and went back. (Our son in law asked) "what happens, when that happens"... (the adviser) said, "Oh, you lose everything." (Our son in law) said, "well, on your way." [interview with Storm investor]

[284] This individual is also referred to in excerpts [75] and [81].

6.3.6.4 Storm's own buy in

A significant aspect of building trust in the strategy was the fact that many of Storm's employees were themselves investors as well. This feature was discussed in section 3.2.2.5, and here we present evidence of how this provided trust for investors to get involved. One ex-Storm employee confirmed that all Storm staff had significant buy-in about the strategy being offered.

> [87] The Storm investment strategy was something we all believed in, and staff and advisers followed it to the same degree as the clients. [public hearing [5], p.28]

An ex-Storm adviser further highlighted the belief that their own personal acceptance of Storm's strategy gave it extra credibility to investors, a point echoed by Bernie Ripoll as part of the evidence and hearings they encountered throughout the PJCI.

> [88] They know that I wasn't just flogging a product, they know I wasn't flogging a product, I was involved in it, I'm an investor as well and I think they thought because I was, that it would be alright for them as well. I mean I was an investor a year or two before a lot of them were investors, you know?... but I don't know if there would be such a creature; an adviser who wasn't an investor because they could show wisdom perhaps of not going in it themselves. But then I would have questioned their motivation. I would have said, "Were you okaying a flawed product but weren't going into it yourself?" [interview with ex-Storm adviser]

> [89] Everywhere I look I see clients saying, 'No, I do not want to take that much risk; I do not want that much; I do not need that much.' But it is the advisers who are actually pushing for that—almost as if they are pushing their own value and belief set onto their clients. That would make some sense: they are advising others on what they believe in... How do we deal with the transfer of belief from the adviser to the client? [Bernie Ripoll MP, public hearing [7], p.109]

Such involvement and acceptance from within Storm clearly had an impact on increasing trust amongst investors, as attested by the following excerpts.

[90] I always asked the question, "Have you involved yourself in this yourself? You know, have you got all your family in it?" "Oh, yes, yes, we've got you know, our kids and all that are all in it" sort of thing because if they're not prepared to go into it themselves, well you go, well what's going on here, you know? But you know, we were comfortable with it. [interview with Storm investor]

[91] Then when we went back, the second stage is meeting with a financial adviser… and he had involved a number of his friends in Storm Financial, too, and himself. So then was another layer of respectability, accountability, credibility and it would comfort that this was going on. [interview with Storm investor]

[92] *Investor:* You know other things that came into play was (that my financial planner) put his family into it… he put himself into it. He put a heap of other people into it. That was very, very close to him. Closer than I am. His parents.
Interviewer: Into you mean the Storm product as well?
Investor: Into Storm. If he had any doubts whatsoever about what was going on, he would not have done that. [interview with Storm investor]

6.3.7 Trust in oneself

All the previous elements of trust are highly significant, influential and important to consider. Indeed, they all give context to the following section which considers a final element of trust in joining Storm, that being the trust of one's own judgement. Indeed, an individual or couple still has to make the ultimate decision to join with Storm or not, and as such, an element of trusting one's own investigations, impressions, and judgement is paramount. One investor emphasised the reliance on their own extensive questioning of their adviser, to generate trust of their understanding of Storm's approach.

[93] Over a period of eight months of – at some stage, would have been almost weekly meetings with my financial planner, I would deliver questions to him and he would respond to them and answer them. If I wasn't satisfied with that answer, we would go again and approach it from a direct direction until we did get an answer that was either satisfactory or otherwise. [interview with Storm investor]

Another investor similarly conducted extensive investigations, and came to a point where they were happy to commit as well.

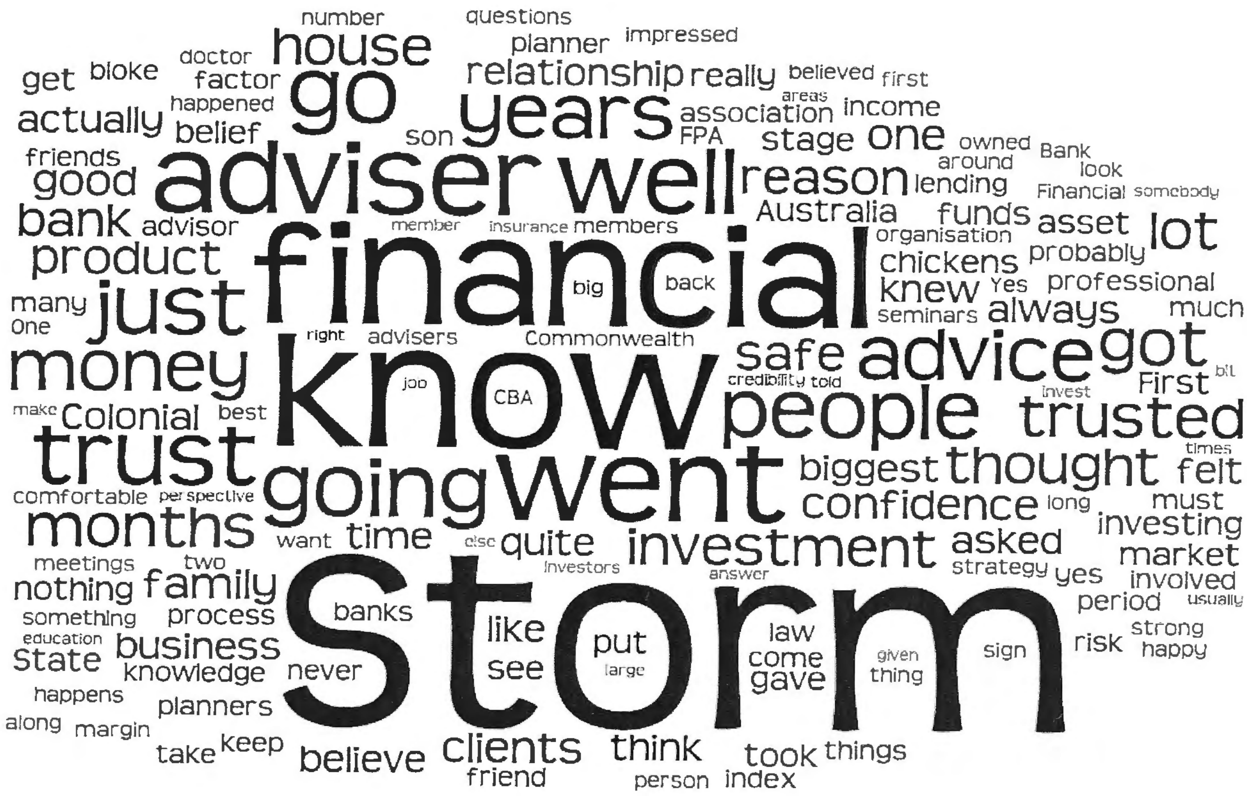
> [94] We felt we asked the appropriate questions to verify their professionalism, such as their affiliation to a professional body, indemnity insurance, auditors, advisors, Legal Registration and their backing and involvement with other financial institutions. At no time were we given any reason to doubt this company and their ability to manage our financial affairs. All appeared in order. [public submission 305 from Storm Investor]

Finally, one interviewee simply expressed their contentment with making a judgement call on what they were presented with. Notably, this investor had also followed the recommendations of many observers of the industry by consulting other advisers as well, (albeit about their own strategies rather than getting other opinions on Storm).

> [95] We were heading towards retirement and we searched around for a few – went to a few financial advisers and it just happened to be the Storm scheme that we chose… we just went along to the seminars. They conducted a couple of seminars before they actually take you on. That was one of their requirements and we went along to the seminars and we were quite happy with the plan and that's why we chose them. [interview with Storm investor]

6.3.8 Visual representation of Trust

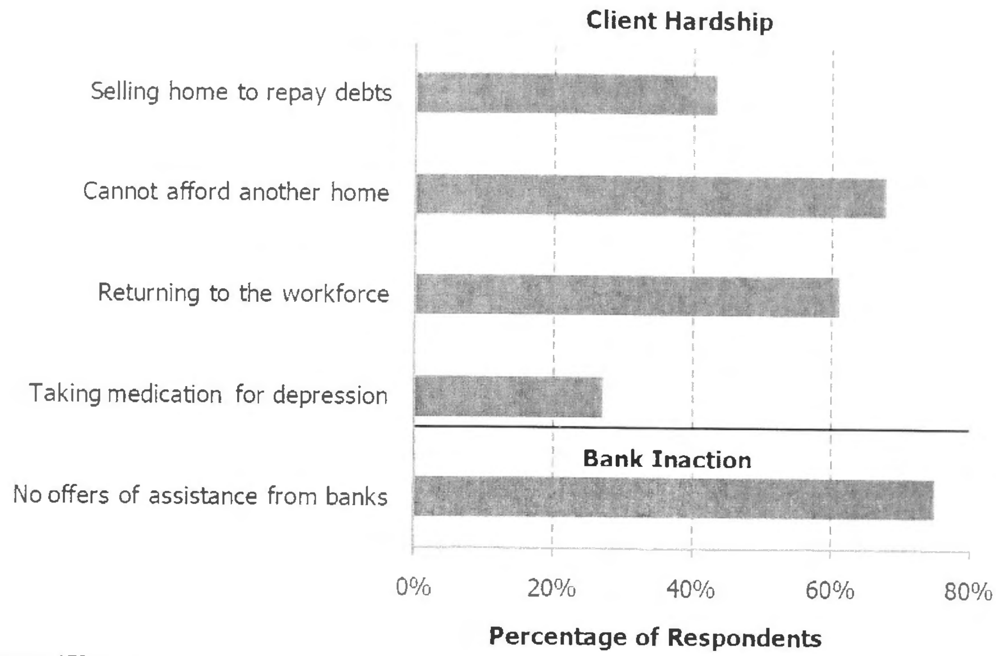
A word cloud representation of the trust involved when joining Storm is overleaf:



6.4 What happens when people experience a significant financial shock?

It was suggested in section 2.4.5 that there are three realms or sources of influence on individuals when making decisions. These sources are those from within (an individual's personal world), those from social contexts (an individual's external world), and those from the nature of the system as a whole (the societal or cultural world). Analogous to this, we consider the impacts upon an individual in terms of a similar framework. Firstly, the impact on the personal world, which is seen to primarily be the emotive and health impacts upon an individual. Secondly, the impact on the social world, which is primarily concerned with the numerous social relationships and activities people engage in. Thirdly, and by way also of drawing the first two points together, we consider the impact on how an individual perceives, and reacts to the wider world around them. This gives particular attention to the framework of financial provision that all citizens exist within, but as will be discussed, the impact also goes beyond the cultural context of one particular industry. Significantly, this does suggest that the influence of the financial services industry is more than merely money – the impact of financial loss goes well beyond an individual's financial affairs.

As such, this represents an attempt to indicate the breadth and depth of what happens when significant financial trauma occurs. An informative overview of potential impacts is given by AEC / SICAG 2009 survey results[285]:



Source: AECgroup

Nevertheless, three further excerpts highlight the impossibility of being able to measure such human impacts.

[96] While the financial toll has been widely acknowledged, the human toll is impossible to accurately measure. [public submission 276 from SICAG]

[97] Regrettably it will probably not be possible to measure the magnitude of human destruction these events have caused. Despite whatever financial redress those involved may receive, they will never be compensated fully for the pain and suffering and will carry the scars to their grave. [public submission 280 from Storm Investor]

[98] The toll this has taken on ex-Storm clients will never be measured. [public submission 296 from Storm Investor]

[285] Available as table 2.3 in public submission 154, but reproduced here with SICAG's permission.

6.4.1 Overview of financial impact

We would expect that the nature and size of actual (or potential) loss suffered would have an influence on any non-financial impacts as well. To that end, some information is available about some of the detail of the actual, direct and immediate financial losses that occurred. In terms of individual impact rather than a statement of monetary losses across all investors collectively, the AEC / SICAG 2009 survey revealed that 31% of respondents estimated their losses at more than $1m, 59% estimated their losses as between $200,000 and $1m, and 10% at less than $200,000.

The source of financial losses are varied, including:

- Clients suddenly finding themselves with low values of investments and high values of liabilities;
- The likelihood of foreclosure on a family home loan due to an inability to service mortgage payments;
- A compounding of both home- and investment- loan liabilities because the income previously used to service them itself depended on investments rather than other income; and
- The pre-paying of interest on investment loans and not having funds invested means potential tax liabilities (modified from public submission 277 from the FPA).

Hence, the backdrop of all impacts discussed is that significant financial losses have occurred but their nature in terms of absolute size, relative size, source of loss, timing of pending liabilities, and means to meet any liabilities, will differ from investor to investor. Thus, interspersed with the presentation and discussion of various areas of impact are details of such losses – both the size, and the way in which that loss was perceived to come about.

6.4.2 Impacts on an Individual's personal world

An indication of the variety of impacts on an individual's personal world is given by one Storm investor, who stated the following in an open letter to ex-Storm investors:

[99] The most important issue is to acknowledge the pain, distress and anxiety that many, if not all of your members have felt over what has occurred to them. I am sure some people have suffered and may still be suffering and it would not surprise me if a significant share of your members have turned to alcohol and medication to try to help themselves through. For myself, I went from being a very cock-sure barrister to a very shattered person. It took me some months to substantially overcome my depression. (Goodridge 2010)

This highlights two striking features that emerged from all interviews, and also what was readily apparent from the public submissions and transcripts of public hearings: the emotional impact of financial loss, and the impact upon one's mental health. Each of these are picked up as separate features is the following discussion.

6.4.2.1 Emotional

It is difficult to disagree with the earlier observation regarding the primacy and extent of emotional trauma that results from personal financial crises[286]. A reading of even a small selection of public submissions, or transcripts of impacted investors appearing before the PJCI, conveys a strong emotional impact which leaves little doubt that the initial loss was met with strong, yet often varied emotional responses. Some 98 of the 168 public submissions made to the PJCI by Storm investors referred to some aspect of emotional harm or trauma[287]. The prevalence of emotional harm was also the case amongst interviewees, with all 15 initial interviews giving rise to descriptions of how interviewees were, and still are impacted on an emotional level. Naturally enough some interviewees described this in more detail than others.

6.4.2.1.1 Shock

A most obvious and expected reaction has been that of shock. This was particularly evident as an initial reaction when many investors found out, directly from the credit provider

[286] From section 4.3.2.3: "a personal financial crisis is first an emotional blow…it is tremendously disorienting, it is frightening" (Mundis, cited in MacDonald 2002).

[287] The strong and extensive emotional reaction to financial trauma is further indicated by submissions made to the PJCI made by non-Storm investors: 21 of those 74 submissions described some level of adverse emotional reaction.

rather than via Storm, that their position in the market had been sold. This was often either without their knowledge and after the event, or even against what they perceived as prior instructions and actions to convert their positions in the index funds to cash (thereby insulating themselves against any further losses). Indeed, 83% of AEC / SICAG survey respondents expected their margin loan would be covered when signing an authority in October 2008 (to Storm) to sell shares into cash, and that they would have some remaining balance left over to re-enter the market at a later date.

Particularly galling for many was that had they been notified of the need for a margin call as they felt they were entitled to (whether via Storm or directly from the margin loan provider), then they had the means to meet that call and thereby preserve not only an element of their investment position, but also avoid the subsequent debt that would arise from being sold in a position of negative equity.

The fact that for many this protective action was not done and that they were now facing the loss of significant savings (and for many more leaving a significant debt and no further assets), was met with a sense of bewilderment and disbelief. This is attested to in the following five excerpts.

[100] *Wife*: When he rang. He said, "Well, how much do I need to put in?" He said, "Oh, you don't understand..."
Husband: "We've sold out. You're in margin call." "Righto mate, how much do I need to chip in?" "I don't think you understand. We sold you out two weeks ago."
Wife: Oh what? Is this some sort of prank? [interview with Storm investor]

[101] *Interviewer:* So did you get a call with the option of meeting the margin call or just you got a call saying...?
Investor: No. We got a call saying, "We've sold you down, you still owe us money."
Interviewer: And that was from the bank?
Investor: Yes.
Interviewer: It must have been a shock.
Investor: It was just before Christmas. It was horrifying. [interview with Storm investor]

[102] *Investor*: I honestly believed when we signed those bits of paper in October to do the sell down to put us into cash that it was doing the right thing. I do my banking on my internet. I looked at my accounts there and said, 'Oops.' There was a cash accelerator account that had been opened in my name. When I looked at it there was almost $600,000 in it. I thought, 'Oh, they're doing the right thing by me.' A few weeks later I looked there and there was almost $1.8 million in it. I thought, 'Jeez; they've salted away a hell of a lot more.' So I thought they were doing the right thing and keeping me safe. When I got that phone call on 8 December, I almost fell out of the chair. I just could not believe what I was being told.

Senator Williams: What did the phone call tell you?

Investor: 'You're in negative equity. You're gone.' So my life savings had just shattered. My superannuation of some $800,000 and half of my house had just gone down the chute, and I was not told. It was like that for everybody. [public hearing [6], p.86]

[103] *Interviewer:* Did you get a phone call to tell you it all collapsed? Like you didn't even get that?

Husband: Nothing.

Wife: Nothing.

Interviewer: Sorry, just go back then. When did you first hear that everything had gone? How did you find that out?

Wife: Because (my husband) was quite on the ball with what was happening in the world of finance and he would keep ringing (our adviser) and saying, what was happening? We actually made I think, three trips in about five days (to our financial adviser in another town) face to face and he still wouldn't tell us. He still told us everything was going good.

Husband: You haven't got a worry.

Wife: Not to worry. He said, "If anything is going to slide, you're on the top of the hill. You won't – no worries." Anyway, we finally ended up going up – it was a Friday and we walked in and that was when (our adviser) told us, yeah, that everything had gone… we didn't know what to do, where to go. [interview with Storm investor]

[104] *Wife:* I can still remember opening that first statement that came in (the mail) that everything had been sold and you know, that will never leave my mind I don't think and just standing there just being so devastated.

Husband: Because we didn't know. We thought – well, I can recall my comment, "Oh, here's a (statement). This will be interesting to see just where we are." Boof, all gone. [interview with Storm investor]

As well as shock being a direct reaction to sudden and clearly very devastating news, this also was associated with the details of what the sell-down of assets entailed for them in terms of the size of debt now applying. For many, this was a total unknown up until the point of loss. Understandably, this added significantly to the extent of shock being experienced.

[105] I told them all along I'm a cautious investor… they kept coming back and they're saying, "Oh, you've earned this much money. You can borrow more, borrow more, borrow more" and then I accidentally found out I was in $800,000-something debt that I didn't know about. [interview with Storm investor]

[106] *Investor:* When we found out how much debt we carried, we were horrified because it was near $800,000 by the time they sold us down.
Interviewer: And that's when you found out how much it was?
Investor: How much we owed, yeah.
Interviewer: You didn't know up until that point in time?
Investor: No.
Interviewer: No?
Investor: Didn't really understand it I guess, that's the trouble. We didn't understand what margin lending was, as such. [interview with Storm investor]

Another aspect to the emotional response of shock was the realisation of what this loss might mean for the individual. This aspect of shock, however, could arise some time later when the gravity of one's personal situation would sink in.

[107] For the first 12 months, I think I was just – I was probably in shock I think. It didn't hit me for probably 12 months. [interview with Storm investor]

[108] It was such a huge shock that it's hard to get over. Do you know what I'm saying? That by the time you got over the being shell-shocked and the ringing stops in your ears like after the blast, it was the emotional downside then, you know, that hit you, oh my god, you know? I have lost like $700,000, $800,000, $900,000 of my superannuation, it's just gone up and my husband has lost, you know… it will never be recouped. [interview with ex-Storm adviser]

6.4.2.1.2 Numb

One predominately short term reaction to shock is the feeling of numbness to what has occurred. The following interview excerpts highlight that this occurred for various investors, arising for some from the fact they were facing a seemingly insurmountable crisis, and for others that it meant significant challenges and changes ahead that they were not looking forward to facing.

> [109] It was both an emotional and financial crisis point I suppose that happens and when it hits you, you get a little bit numb. [interview with ex-Storm adviser]

> [110] When it first happened is you know, it just lays you out cold and you don't think there's anything to live for. [interview with Storm investor]

> [111] I was just numb for probably six months. I wasn't even going to go and play golf because... it was going to cost $10 for competition fees and then you have a – if you wanted to have a drink or something, you know, you couldn't even afford that so I didn't go. [interview with Storm investor]

The excerpt above indicates an important point that is discussed in more detail later on, as it is not as trivial as a first impression might indicate. Importantly, loss is also associated with what a lifetime of work was intended to bring about – a certain standard of living and options to engage in those activities and outlets which are important to them. It also illustrates that the initial period following a loss is traumatic in the sense it also impacts many other aspects of life.

Additionally, feeling numb is not exclusively a reaction only in the short term, as another interview excerpt attests to. Notably, this also relates to ongoing perceptions about a lack of justice being done.

> [112] I'm more numb than anything. I just cannot believe (Storm) were allowed to get away with it and still have not been called to task. [interview with Storm investor]

6.4.2.1.3 Anger

Another reaction to initial shock is that of anger. Not all interview respondents indicated in an explicit manner that they felt angry about what had unfolded, but for those that did, this emotion was palpable. Anger was firstly manifested in the short term, as an immediate reaction to their loss, and the circumstances of that loss.

> [113] I can remember ringing (our adviser) up one night as (my wife) was just distraught, sobbing bitterly and inconsolable, just inconsolable and I can remember ringing him up and basically yelling down the phone, "What the f--- have you done? Listen, what the f--- have you done to us?" That was a knee jerk reaction. I can say now in hindsight definitely not one of my finest hours. [interview with Storm investor]

> [114] (My wife) spends many hours crying and getting angry as we feel we have been completely and utterly conned by the banks and by Storm. [public submission 21 from Storm Investor]

> [115] When it first happened, (my husband) was ropable. If he had been able to put his hand on a gun that weekend and I was absolutely petrified that he would have, he would have gone up and shot – at that stage, he was blaming (our adviser) for it, for everything and he would have shot (our adviser) and shot himself and for that whole weekend – for three days, I was just on – like living on a knife edge. Anyway, eventually he calmed down. [interview with Storm investor]

The feeling of anger also appears to be a far longer-lasting reaction than that of feeling numb. This is possibly because anger is such a strong emotional reaction in itself, and as such, for some situations and events it is a difficult emotion reaction to move on from. The following excerpt refers to the same investor as excerpt [115] above.

> [116] *Husband:* I tell you what, if I go to a doctor and they say, "...you've got six months to live and you're full of cancer mate"; these fellows want to leave the country. I'm telling you now. That's how dirty I am. Same as with... any of these blokes ...and then the law is absolutely s---. And then you've got ASIC there a couple of months ago they said, "We don't know whether we can spend public money on fighting this case." Now what a stupid bloody thing to say...

Interviewer: Others have said the same thing, it's okay. I want to know where you're at, so it's okay.

Husband: Mate, I'm dirty mate and I won't forget them mate. No way in the world... I'll be dirty for the rest of my life. I'm getting dirtier as I get older. It's not a good feeling, I tell you. [interview with Storm investor]

A further reason for a continuing emotional reaction of anger concerns subsequent actions of others associated with Storm's demise. This is particularly so for those who have had problems in dealing with their own bank(s) post-collapse.

[117] *Wife:* ...I would come off the phone (to the bank). I would have to psyche myself up to ring again and then I would be...

Husband: And I would be in tears almost listening to her in there because I couldn't do it.

Wife: And then I would come off the phone in tears.

Husband: ...They've got to pay for that. That is just not right. Whether we owe them the money or not, that is not the way to handle what's going on. [interview with Storm investor]

As well as anger being fuelled by ongoing experiences, it has also been sustained as more information has come out over time about Storm and its collapse. Where this information has been perceived to cast fault on various parties, this has brought back and consolidated the earlier reactions of anger. The investor in excerpt [113] gives a very honest account of his ongoing realisation of how it has impacted him.

[118] *Interviewer:* So up until about 12 months ago – six to 12 months ago, this was really dictating your life to a degree and really...

Husband: Still does really, doesn't it, I suppose? Not as much.

Wife: I must admit every minute of the day, there's a – it's always on your mind.

Husband: You wake up, think about it and go and (describes further anger at other parties involved).

Husband: ...I'd like to think I was big enough to get on with it, but I think I'll be honest enough to say that I don't let go of stuff real easy. I don't. Once someone has wronged me, they've wronged me for life. What I want is enough that my wife can move on, but I will never, ever have any respect for anyone in that industry again. That is a filthy industry. [interview with Storm investor]

Another investor, who was also a Storm adviser, describes their anger from finding out additional information regarding Storm's collapse.

[119] What I've got left, I suppose, is anger and frustration and looking back in hindsight, at some of the things that could have happened differently... I honestly believed, you know, the fact that the bank pulled the pin at that time, was so unfair because for years they have made millions out of the Storm model, out of the buyers... they were there throwing money left, right and centre and of course, as soon as things got tight, what do they do? They pull a $20 million loan, which is like chicken feed. [interview with ex-Storm adviser]

Significantly, this adviser also expressed angst at discovering what was perceived as clear fault in the process around home loans.

[120] What makes me so angry when I see now that some clients who got their paperwork back, like their bank fact find for home loans weren't – somebody else had filled them in, they... weren't even close. They had wrong incomes, they had built in incomes that they may get from Storm in the future as a done deal as an income. [interview with ex-Storm adviser]

6.4.2.1.4 Fear

One emotion related to that of anger is fear, and this emotional reaction too has been apparent. In fact, one investor was concerned because of their lack of anger, but then perceived this lack of anger as a cover for the more debilitating emotion of fear.

[121] I had often asked myself – "Where is my anger". I almost feared for my sanity because I wasn't feeling 'angry'. Until a wise confidante helped me identify that anger is also a mask for fear and terror. [public submission 320 from Storm Investor]

Perhaps the most obvious rationale for fear relates to the direct financial consequence that have resulted, whereby future financial security is now threatened. One couple, aged 63 and 62 and facing the loss of their home of 28 years, succinctly describe this source of fear.

[122] The constant fear of the bleak future ahead with absolutely no financial security.... The fear of 'how long can we continue to work and work effectively to hold down a job"?...we have no future to look forward to – the thought of what lays ahead fills us with despair and we are very frightened constantly. [public submission 202 from Storm Investor]

The consequent lack of security from Storm's collapse is not necessarily the domain of the more mature investor however, as one investor in their forties attests.

[123] What's this matter done to us in summary? It's introduced fear. It's introduced insecurity. [interview with Storm investor]

A significant element of fear that it can be exacerbated when there is some degree of isolation in other areas of life as well. Two submissions make this clear whereby as solo parents, their ability to cope with the realities of life after such a financial shock is severely compromised.

[124] I was sick with anxiety and grief, and having no partner to share or discuss my options, I felt scared and alone. The thought of losing my home, that I had worked 2 jobs to keep, as well as trying to keep up a brave front for my children and try and carry on at work as though nothing had happened, had taken its toll on me. I was medicated and in tears every day with worry on how I was going to cope, and what eventually would be the outcome. [public submission 283 from Storm Investor]

[125] I have always been an independent person who was willing to work hard to support my 4 children and myself. I only sought Social Security for one short period when there was no work available. None one of the most frightening aspects of this whole situation is that I have found my personal strength being eroded. I always prided myself that no matter what happened in my life I was able to be strong. [public submission 403 from Storm Investor]

Isolation is also a potential factor for many who have some dependence on others for needs of living, for any number of reasons. One investor describes how their son has been impacted, suggesting that the impact of financial loss goes well beyond 'merely money'.

[126] I am talking on behalf of my son (who) had an accident 11 years ago and, of course, he is on a disabled pension. He is 29 years old now. …The sad thing about it is that it has wiped out his whole portfolio. The margin loan has wiped that out. He had to pay an extra $15,000 in cash to Storm. As was the case with that other lady, we do not know where that has gone. In other words, he is a very frightened boy. He does not know where he is going to go. [Mother of Storm investor, public hearing [5], p.106]

6.4.2.1.5 Frustration

Many reasons for feeling significantly frustrated have been indicated by investors. A first reason is simply because of what has happened and what this represents in return for a lifetime of working and saving.

[127] But to have been so frugal all my life and then have somebody just come in. I took all my life to save what I had and they managed to get rid of it in 14 months. So it hurts. [interview with Storm investor]

Not only is there frustration due to the manner of the loss, but the sense of powerlessness over being able to have any control over what was unfolding.

[128] We now have to watch every cent we spend and are now always wondering whether it is even worth living once we can't work any more, as our quality of life will not be as we had planned and invested for. All the totally foreign feelings we experience every day and will do so forever, wondering incessantly, where we went wrong. What could we have done differently? What should we have done differently? And we know that there are no answers. That leads to even more frustration. We now sleep less and sleep less soundly, worrying about what is going to happen to us and what we could have done to prevent this from happening. The frustrating part is that we can think of nothing we could have done to prevent all this, as we were kept completely in the dark, and given no opportunity to fix anything. [public submission 21 from Storm Investor]

Two major motivations to invest in Storm were discussed in section 6.3.1. One of these was the desire to be self-sufficient in retirement. As such, with the scale of financial losses involved, what has been lost is that ability to be self-sufficient, which when being a motivation to engage with Storm in the first place, gives rise to significant frustration.

> [129] I have applied for the pension and will now have to rely on money from the government to live on for the rest of our lives, something I hoped I would never have had to do. [public submission 288 from Storm Investor]

> [130] We can work for 85 years between us, never relying on any government handouts, never asking for anything extra, hardly ever having even a sick day, and be left now totally reliant on having to work until we simply are physically unable to, and then being totally reliant on handouts from welfare. This is not what we worked so hard for. [public submission 21 from Storm Investor]

> [131] *Interviewer:* What's the main frustration?
> *Wife:* Having to rely on the Government. Our parents went through it. We saw our parents go through this type of thing; being on pensions and we sort of...we knew we were only going to be basic wage earners ourselves ...we said, "Well look, let's do something so we aren't going to be living on a measly pension."
> *Husband:*...we were trying to not be a burden on the pension scheme later on because everything you looked at and we're pre-baby boomers, we're ahead of them, we've got the baby boomers coming up our backside and it's not going to make it any easier for us either. [interview with Storm investor]

For the couple immediately above, the frustration being experienced is even more galling given their own need and choice to be self-reliant over their lifetimes, in other areas of their life.

> [132] *Interviewer:* So from planning to be in a position where you didn't have to rely, now having to rely is a big thing?
> *Husband:* Oh, yeah. And whether it's the lack of – in my case and probably my wife's too, but I didn't have a very good education. I left school in grade six...
> *Wife:* ...I joined another organisation socially that helped me convince myself that I could self-teach; that I could teach myself so I could public speak, that I could do things
> *Interviewer:* So to be very self-made in all those sort of ways?
> *Husband:* Sure. [interview with Storm investor]

Arguably then, their loss is not merely money, but also a way of engaging with the world and having a say in their fortunes that has been representative of their lives and identity up to this point of time.

A further major motivation discussed in section 6.3.1 was wanting the ability to derive an income that exceeded the age pension. The purpose of this was to give some control and say in one's life, and in particular give substance to hopes and dreams that one could then aspire to and plan for. Thus, when losses occur, it is once again not so much that money has gone, but more the ability to deliver and enjoy those dreams or to fulfil/continue those plans. One such aspiration concerned an expectation of a certain lifestyle in retirement.

[133] Oh, terrible, terrible. … we were in debt, well and truly… the impact was huge, mate. To be retired for three years and doing quite well and living the dream was our plan for retirement and that was to live just a comfortable lifestyle which we've always just lived. A modest, but comfortable lifestyle and to be able to travel to some extent, both in Australia and overseas because we had (family overseas)... So to be slugged with that, to be slugged with all our money, all our superannuation gone. In my case, 44 years worth of superannuation all gone. Gone, never to be seen again... We had nothing and we'd also lost our house because our house had been mortgaged for the plan and so we were in debt to the (bank) for $280,000. So mate, that hurt. That hurt real bad. [interview with Storm investor]

[134] We'd never been anywhere. Never been out of Queensland. So when we had to retire I said, okay – by this time we'd bought the caravan. We'll start seeing our holidays and so forth and we were going away – go away for two or three months and look we had a home to come back home to all the time and that was our ambition. No ambition ever to go overseas. … And so that was our lifestyle… that was something for ourselves for working so bloody hard… that all went out the window. [interview with Storm investor]

[135] *Wife:* It gets a bit damn boring and disappointing and negative to know that you can't do these things. If someone suddenly says, "Oh look, so-and-so is on" at some theatre or whatever, show or whatever, and normally I would have just said, "Oh yeah, let's go" and you don't do that anymore. I mean you just don't. I mean even to go to the movies doesn't happen very often. As far as going to the expensive things, you just don't do it. So that's all

a big disappointment for me anyway and I get very cranky about that because it really has changed the life I believe that we should have been able to live at this stage of our life.
Husband: …It changed the life that we were living.
Wife: We've always worked. You know, they say you work all your life and work hard and save your money and you know, you'll be able to do all these good things in your old age and that ain't gonna happen. I mean, even once we sell this house and once we do move, we're still going to be very restricted in what we can do compared to what we would have liked to have done and I find that very disappointing at this stage of life because that ain't what it was supposed to be like. [interview with Storm investor]

Others commented more on issues of security, particularly associated with home ownership.

[136] I've got a mortgage I'll never pay off, I'll have to work until I die if I want to keep my home. I might have to sell my home very soon because I just can't keep the payments up… yeah, it was awful. I lost – shattered, I can't retire. I was going to retire 18 months ago, I will never retire now. If I want to have my own home or have a roof over my head, I will never retire. [interview with Storm investor]

[137] Thanks to Storm and the banks involved in this fiasco our lives, dreams and comfort have now been destroyed. Instead there is worry and lots of hard work ahead just to own our home again let alone anything else. [public submission 209 from Storm Investor]

Another aspect of feeling frustrated concerns the motivation to provide for family and in particular children, which now also is compromised.

[138] It absolutely galls us when people say they know how we must feel – until it happens to them – they will never know the feeling of despair, to lose all sense of security, to lose the freedom of choice, the hurt, the heartache, to lose everything we have worked a lifetime for, the embarrassment, any mega inheritance we had accumulated hoping to pass on to our family has all gone - we are just gutted. There is not a day goes by we don't feel the hurt. Waking every morning in our surroundings reminds us of our demise. [public submission 267 from Storm Investor]

[139] The hardest thing as parents was to disclose our demise to our young daughters, having to tell them of the loss of not only our home and plans for the future but how the opportunities we had planned and hoped for them must change and be completely rethought. [public submission 306 from Storm Investor]

A final reason for frustration was not so much what has been lost in terms of self-sufficiency, but more immediately, knowing where to go and what to do now. This also conveys a sense of powerlessness – where control has gone, options are limited, and as such frustration increases.

[140] So at the moment, we've got no income or anything now. No income whatsoever… and every door shuts, we – you know, I've always found I've been able to get a break through somewhere to get some income in some respect, but every door just seems to shut… because we've got no income, so we've got to meet all these commitments and we've got no income. So what we were doing was the little bit of reserves that we do have, is just eaten away. We can't keep going… yeah, we're strangled. We're just in a – we're strangled and we can't get out of the strangle. We need to be like a Houdini and get out of it somehow but we don't know where. [interview with Storm investor]

6.4.2.1.6 Regret

There are two main aspects to the feeling of regret experienced by investors. Firstly in relation to the decision to invest initially, and secondly in relation to not exiting from Storm as time went on. In terms of initially getting involved, there were two major elements which seemed to cause regret – one being the recommendations to get others involved, and the other being to not heed the advice of others to not get involved.

[141] I cannot speak for other Storm investors, but I also got my family into it and some work colleagues, which I obviously totally regret now. [public hearing [6], p.58]

[142] I went and (saw) a relation there, I think he's a solicitor. So I went down and had a yarn with him and I'm sorry I never listened to him now. He said, "Well, why would you want to go into debt at your age? So I never heeded him enough, you know, and like I say, (I

was) still talking to other people and everybody was happy (with Storm). [interview with Storm investor]

One couple reflected on the poor outcome that they had had by engaging with Storm, despite their perception that paying significant fees ($180,000) over a short period of time would have generated some benefit. The regret expressed concerned the alternative use of some of the funds invested, which had come from superannuation savings over an entire working career.

[143] *Husband:* All the super I put in and I thought I could have spent the whole bloody lot instead of just taking it and blown it… I know that their fees were enormously high.
Wife: I know what fees we paid, all up $180,000-odd over the time.
Husband: We weren't in it long.
Wife: We were only in it from 2006 and that's how much we paid.
Husband: We thought at first, the fees are big, this is what you pay for a really good scheme and it's going to be looked after and those fees won't continue all the time, they're sort of more as up front at first… that was another thing, you know, you pay for what you get. Oh well. [interview with Storm investor]

In this case, perhaps a shrug of the shoulders and taking a fairly fatalistic approach to the loss of funds is the best coping strategy available at that time. However, other investors expressed at not having the opportunity, wherewithal and catalyst to exit from Storm earlier, or at least to stop putting in extra funds when feeling pressured to do so.

[144] We were confident about what we were told and for many years it worked very well and very safely, very good reporting systems, you know, all of that. And I mean and again, hindsight is a wonderful thing, but…we were away for about five weeks and just before we went, my wife and I were looking at the whole thing and said, "Look, it's time for us to sell down the debt on the house because it is not going to make one iota of difference to our lifestyle now. We've built up the assets further through the Storm investments – and in other ways - and we should do that" and then the market started to get a bit wobbly so we said we'll do it when we get back. Too late, she cried. Yeah, it was all over then, yeah. [interview with Storm investor]

[145] *Husband:* In May 2008, our margin loan at that stage was something like $1.9 million and the portfolio was worth $3.3, $3.4 and we borrowed another $197,000 which was our prepayment of interest for 2008, 2009 and that was put straight onto the top of the margin loan so that changes your LVR to start with. Now that took it up three or four points and you know, we looked at it and (my wife) was not totally comfortable with it.

Wife: That was the one I didn't want to do.

Husband: Oh, it's not that you didn't want to do it. You never said you didn't want to do it. It was just we weren't as comfortable – you weren't as comfortable by borrowing so much to prepay that much interest… the thought was okay, well you've got to sell $200,000 worth of stock to prepay that interest if you do it that way. But the way the market was going, it was still going up... So you would think that okay, well you know, one more step is not going to be all that difficult to handle. No one envisaged what was going to happen. So yeah okay, in my mind that was the last one that we were going to – because that put our loan above $2 million and I thought well that's getting too big to be able to cough up $200,000 every year just to keep the loan going. [interview with Storm investor]

[146] *Wife*: But if we had done in March 2008, what we intended to do… we could see there was problems listening to radios and that and we said, "Well, let's go home, close it all up, take what we've got and get out." We went in, with this in mind to do it, the sweet talk that they do... then when it all crashed in 2008 and December came and we went in and said, "Okay, this is it. We want out completely." We were doing the wrong thing. They said we have to sign a letter to say...

Husband: I had to even sign a statement saying what we were doing was...

Wife: Against their decision.

Husband:... against their advice.

Wife:… because we wanted to get out, when we wanted to get out and yeah...

Husband: We didn't have enough tissues or hankies at the time to mop up the tears either, you know. [interview with Storm investor]

[147] I felt that if I had not signed the Cheque for the $(XXX,000) to give to (our adviser) to put into (the bank) we would have been a lot better off… things would have been safer. Then (my husband) blamed himself and went into a depression for 12 Months. [email correspondence from Storm investor, November 2011]

The damaging aspect of regret was acknowledged by an ex-Storm adviser who also was an investor, who outlined their choice to try to put it behind them.

[148] I think life is too short. I'm not going to worry about what might have been because regret is a stupid thing really... What we did and bought and then and what you think now are two different things... I feel, to a certain degree, you can't look back, you can't all the time, you can't be jumping at shadows and so on. You did what you thought was okay at the time. [interview with ex-Storm adviser]

6.4.2.1.7 Guilt

Closely related to regret is guilt, with this reaction corresponding to a perceived responsibility for the fate of others. This could arise where the involvement of others in Storm came about from an individual's own endorsement of the strategy[288]. This was mentioned as a source of significant guilt by some investors.

[149] (Many) family members and friends trusted my judgement and also put their money into Storm. I do not think that you can imagine how difficult it is for me to look these people in the eye after the events of December 2008. [Storm investor, public hearing [6], p.89]

[150] The effect on us had been major as we also got our adult children and friends to join Storm, leaving us feeling guilty. [public submission 187 from Storm Investor]

[151] People feel morally devastated to have brought their beloved family and friends into such a terrible situation. This cross of financial loss is a big enough one to bear without additional concerns about having recommended it to others. [Storm client, public hearing [4], p.86]

[152] Perhaps one of the greatest tragedies of the failure of Storm Financial was that it was a business which depended very largely on "word of mouth" recommendations. Parents recommended it to their children and vice versa. Investors recommended it to their family and friends. I recommended it to my brother who became involved, and though him to my step-mother. My wife recommended it to her two brothers who almost became involved

[288] Indeed, some 75% of Storm's client base was via referrals (public hearing [5], p.33).

right at the very last minute when Storm Financial was still accepting clients. In this way people have developed deep senses of failed responsibility in their care of family and friends. [public submission 115 from Storm Investor]

One ex-Storm advisers also expressed concerns about guilt, in response to the article at Appendix D appearing in the Australian Journal of Financial Planning.

[153] Your article hit home about guilt, trust etc. I also encouraged family and friends to invest and some relationships will never heal/be the same. [email from ex-Storm adviser, April 2013]

One other investor even took a quite empathetic stance towards a friend that had encouraged them to invest with Storm.

[154] The friend that sort of advised me, I don't ring her very much now because it upset her to talk to me because she knows when I first started talking to her, she felt so guilty, that had she not done that, I wouldn't have lost my money. [interview with Storm investor]

Such excerpts highlight the guilt factor being prevalent in an environment like that associated with Storm, where word of mouth recommendations and assurances were common.

6.4.2.1.8 Overall devastation

Perhaps the primary overall emotive reaction has been the feeling of devastation. Rather than being left truly destitute in an absolute sense of the word, devastation encompasses a shattering of plans, dreams, hopes and aspirations for the future, which has been the case for many investors. Such aspects include the goals of self-sufficiency and moderately comfortable lifestyle expectations (discussed in sections 6.3.1 and 6.4.2.1.5), but it also conveys a much stronger response than unfulfilled motivations and goals.

[155] I have met many ex-clients who are now emotionally and financially destroyed. [ex-Storm adviser, public hearing [5], p.8]

[156] It is emotional devastating to lose all our life savings, our plans and dreams for the future and our financial commitment to our five children. It is difficult to sleep at night knowing what we had worked so hard for, is no longer there. [public submission 207 from Storm Investor]

[157] I didn't feel angry, I just felt devastated. Totally big hole in your insides. Just totally destroyed. [interview with Storm investor]

[158] It's just ruined your life. Ruined the rest of your life virtually. [interview with Storm investor]

[159] We worked really hard for what we had and then all of sudden to have it just stolen away from you just overnight was just devastating and people say, "Oh, but there's worse things in life. You have your health and you don't have no illness or whatever" but at the time, when you've worked 20 years of saving… to get ahead and to do quite well for ourselves so we could provide a nice future for ourselves and our (family), and to have somebody just tear it away from you because of some silly greed and some stupid mistake, yeah, I was... [interview with Storm investor]

[160] These people and institutions were licensed and qualified to do this but collectively they have failed and in the process have ruined us financially and emotionally. The feelings of complete and utter despair from losing most of our assets accumulated over our working life are with us every waking moment and trying to pick up the pieces and continue on seems to be harder each day when you can see no light at the end of the tunnel. [public submission 92 from Storm Investor]

One investor who had previously battled cancer gave an interesting comparison of that challenge with that now being faced through financial trauma.

[161] *Husband:* Very similar from my point of view because when I was diagnosed with the cancer, I found it very hard to tell people that I had cancer. The moment that I started to talk about it, I was just a blubbering idiot. Similar situation with this wasn't it?

Wife: M'hm.

Husband: With this financial thing. Very similar, very emotional, very traumatic. Played on your mind. I'd lie awake when I was told I had the cancer. I'd lie awake half the night and wondering what the hell was going to happen. Where would I go next? What was going to happen with the family? What was (my wife) going to do? How was she going to manage? How were the kids going to – and the same thing with this other situation. Very, very similar. [interview with Storm investor]

One further aspect to the emotional fallout is its temporal nature. The fact that anger, frustration , guilt and regret can be responses which persist beyond the short term highlights that victims of traumatic financial loss do not or cannot simply roll up their sleeves and put things behind them in an emotional sense. One investor demonstrated this in an interview.

[162] *Interviewer:* Most people haven't liked going back and talking about this. I do appreciate that you've done it.
Husband: Well, I must admit, I'm a bit shaky at the moment as a result of what happened. It's underneath all the time. It's there. [interview with Storm investor][289]

However, none of this is to underplay or underestimate the enormous financial strain and circumstances facing many investors which may well be more akin to true destitution, as alluded to in another interview.

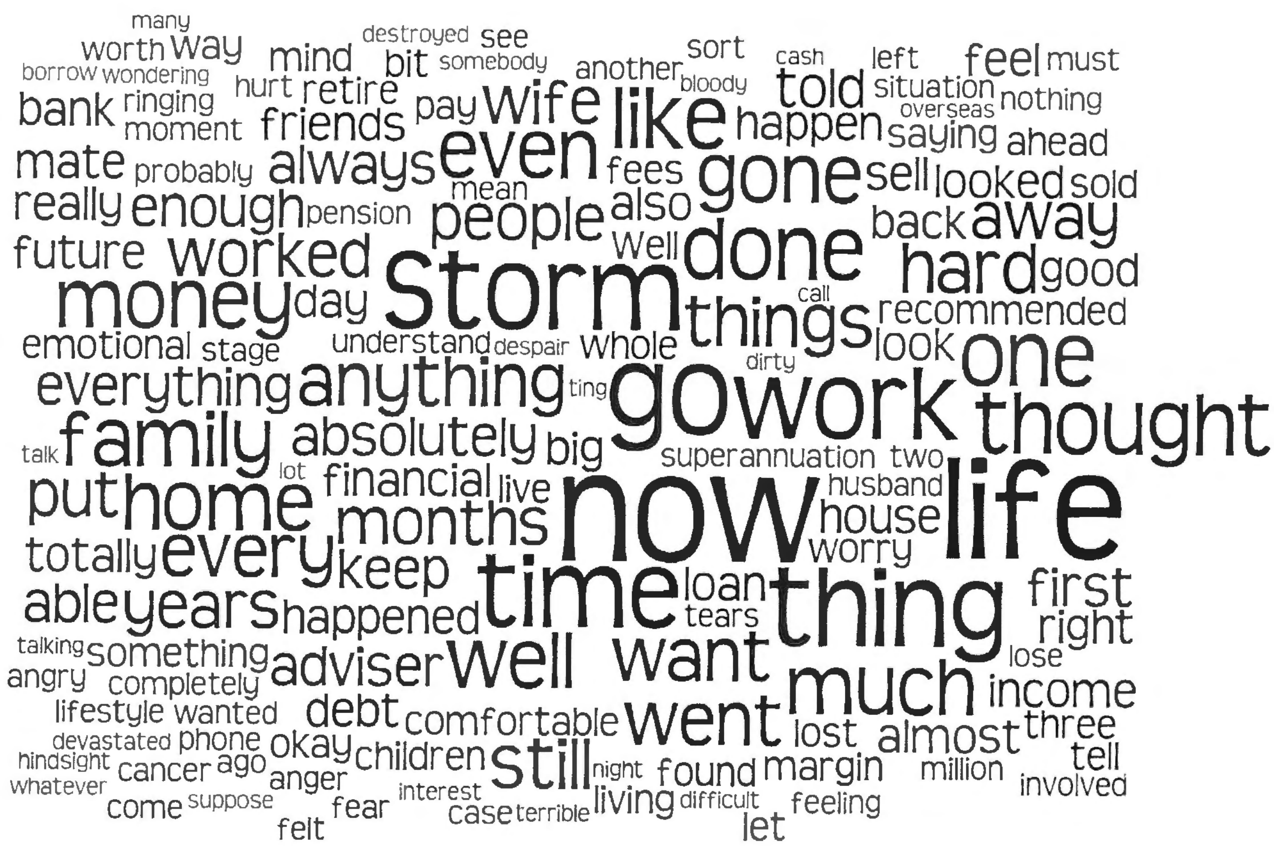
[163] *Interviewee:* (At a senate inquiry) an elderly lady in her 70s was crying on my shoulder.
Interviewee's partner: ...And that lady had absolutely zero possessions. She said she had to sell absolutely everything because she moved into her daughter's garage and she said her daughter wanted nothing in the house because she had enough of her own stuff so she said, "I don't even have anything. I don't own absolutely anything."
Interviewee: It was the stripping of the dignity, of the values, that most decent people were brought up with. [interview with ex-Storm adviser]

However, although many investors may not be destitute in the sense of lacking life's essentials in an absolute sense, neither should this be expected in a developed nation with a relatively advanced welfare system. Rather, the worst outcome that could be expected is that of devastation, which appears to be the overall emotional outcome of Storm's collapse. In other words, it is close to as bad as it could get in an Australian context.

[289] We observe that this interview ended soon thereafter.

6.4.2.1.9 Visual representation of emotional impacts

A word cloud representation of the emotional impacts of significant financial losses is as follows:



6.4.2.2 Health

The impact on people's health is, by any interpretation and rationale, a prime area of significance and concern. One investor highlights the connection between financial loss, subsequent activity to deal with that loss, and overall health.

[164] We are now facing a debt of $600,000 together with the loss of our cash to the sum of $200,000. At our ages (64 and 57) it is impossible for us to recover this amount of funds and due to the personal stress of ongoing negotiations, our health is deteriorating. [public submission 298 from Storm Investor]

Not only is the direct impact on health important for its own sake, but additionally a meaningful participation in one's individual and social worlds also depends on health. Thus if health is compromised, other areas of someone's life can also be compromised.

> [165] Health is now the very most important thing to me. (My husband) with his health problems have to be addressed before we can have some life together. [email correspondence from Storm investor, January 2013]

There is an additional dependency between health and one's financial means, due to the fact that partaking in the health system costs money. Therefore any financial loss can also impact health in a less direct manner as well, via less engagement with health services or at least involving a greater stress in being able to do so.

> [166] I guess in all of this, not only have our lives and plans been ruined, our healthy financial situation crumbled, but possibly the worst part is - our health has suffered. You never get that back, it just means more doctor's visits and increased costs for more prescriptions. [public submission 260 from Storm Investor]

Sadly but as a consistently recurring feature, adverse impacts are particularly prevalent in the area of mental health. Much of what follows makes for extremely poignant reading. As such, the various issues associated with health aspects are presented in as empathetic and straightforward way as possible.

6.4.2.2.1 Medication and depression

Although it is difficult to quantify exactly how many Storm investors have or are battling depression, and/or have taken medication to alleviate health concerns as a result of their financial loss, the variety of data available gives at least some indication of the impact. The AEC / SICAG 2009 survey reported that 27% of respondents were taking medication for depression, and 19% (32 of the 168) submissions made to the PJCI by Storm investors chose to indicate some impact on their personal health or reported the need for medication. In terms of interview findings, the use of medication was brought up in nine of the 15 initial interviews, and in eight of the 15 initial interviews the issue of severe depression and anxiety was broached.

By way of comparison, according to the Australian Bureau of Statistics (ABS), approximately 13.5% of the general population reportedly suffered from depression or anxiety-related problems in 2011-12[290]. Notwithstanding the many shortcomings of comparing the AEC / SICAG survey figures with the ABS figures[291], what is obvious is that mental health is a significant issue arising from traumatic financial loss. Indeed, from the interviews, medication relating to blood pressure, sleeping and anti-depressants were the required treatments, and where the issue of mental health was broached in an interview, some respondents spent some time discussing their symptoms and difficulties associated with such debilitating conditions.

One investor described how it took some time to realise that both he and his wife were suffering in this manner.

> [167] It took a few months for it to be diagnosed; my wife was suffering very badly over those first few months of 2009. She was having these turns which she didn't really know what it was. She thought it was a heart attack at first. But anyway, in the end and that was about March or so, I suppose, she was diagnosed with anxiety because she had a real bad turn here one day… and she ended up in hospital. No, I tell a lie. She'd already been to hospital a few times before then, carted off in the ambulance. Once she was finally diagnosed, I rushed her to the GP and she didn't end up in hospital that time because she was straight away put on medication and visits to a psychologist which continued for quite a while and she's on the medication to this day… I had moments and I've never suffered a moment of depression in my life up until then. I never understood depression. Now I know. But I got through it okay. So yeah, huge impact. [interview with Storm investor]

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[290] Sourced from http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4338.0~2011-13~Main%20Features~Mental%20and%20behavioural%20conditions~19, accessed 29 June 2013. The figure of 13.5% for 2011-12 was up from 11.2% in 2007-08. With the AEC/SICAG survey being conducted in April 2009, basic linear interpolation suggests that 12.5% might be a reasonable indication of the prevalence in the general population around the time the AER / SICAG survey was conducted.

[291] Not least of which involves selection and reporting biases, differences in data collection, likely definitional differences, an older age cohort with SICAG when compared to the general population, and so on.

An important aspect of mental health is how it impacts the ability to engage in other areas of life. In particular, investors have described a decrease in their ability or willingness to engage socially.

[168] Worry & depression set in we sit around for days trying to fathom it, my wife cannot bring herself to go to work for fear of breaking down, every time she looks at me or talks to me she breaks down and starts taking valium to get through the day and more at night to get to sleep, still waking up at 3:30am sobbing and crying. [public submission 223 from Storm Investor]

[169] I have been completely destroyed financially and emotionally. I have been on anti-depressants and sleeping pills for the last 12 months. My family and social life have been destroyed. [public submission 265 from non-Storm investor]

[170] *Investor:* Nobody comes to visit and I have been on anti-depressants from the doctor.
Interviewer: Since it all collapsed?
Investor: Yeah. I didn't need them before. But even though I don't think about it all the time, it must be one of the reasons that I'm not sort of motivated and focused as I was before. [interview with Storm investor]

The associated stress and need for medication also gives rise to more physical symptoms for other investors, but clearly is still related to underlying and significant stress.

[171] My partner is now on blood pressure medication and has had to visit the doctor a number of times. He is not eating properly. I am kind of grateful that I am not working, really, because he needs someone there. He wakes up in the middle of the night with a nervous rash, and he just scratches into his skin. [Storm investor, public hearing [4], p.91]

Another feature is how different people react in different ways over time, and the various testimonies found in public submissions allows an overview of such different outcomes. A selection of three Storm investors highlights the difficulties associated with coping with mental health impacts.

[172] No peace of mind or quality of life. Constant feeling of dread, unhappiness, worry, sadness and betrayal completely overwhelms us. Spending more hours awake than asleep and our health is suffering. Feeling of unworthiness, exhaustion both from all the above and our jobs which are physically difficult at our ages. [public submission 202 from Storm Investor]

[173] My health has deteriorated as a consequence of what has happened. At a time in my life when I should be looking forward to a well-deserved rest I find myself struggling on despite overwhelming feelings of rejection and lack of support. It is as though a dark cloud has descended over my whole life... I have endured 10 months of absolute hell, overwhelmed feelings of despair, and feelings of worthlessness. [public submission 403 from Storm Investor]

[174] I have constant panic attacks and have to have anti depression tablets. To make things worse my husband has had open heart surgery and lost his job in May. We are trying to put food on the table from his small pension and my pay (I work 3 days casual a week, even though I have had breast cancer I do physical work so I come home crying with pain and at times I just feel like jumping off our patio, as long as I miss the floors beneath me I think I can do a good job). [public submission 236 from Storm Investor]

In contrast, another investor too has most definitely struggled but at the time of writing a submission, suggested some hope for their future.

[175] My depressive condition lasted for a little over 6 months. Thanks to my wife and medical advisors I am now recovered sufficiently to compile this brief submission. Only those who have ever had 'the lived experience' can know how bad and debilitating this illness can be. The related issues will be with me for years and in so many ways our quality of life has been significantly diminished. I am just one of hundreds whose health has been seriously comprised arising directly from this matter. [public submission 211 from Storm Investor]

With the benefit of a longer time period, one interviewed investor suggested that although recovery over time is possible, it is a slow journey and requires application in order to continue to improve.

[176] *Investor:* I just wanted to go to sleep and not wake up and then I went through the whole emotions of how selfish I was because I had a (family) to look after. But that was the only way; if I was asleep, there was no pain. But every time I was awake, there was that constant pain whereas if I was asleep and so I was sort of drugged out for the first little while.
Interviewer: How is it now?
Investor: Well, I've gone off the sleeping tablets and I'm still on the anti-depressants and I think now that I can see (some hope)... but every day, you wake up and you're just trying to think, okay today is going to be a positive day. [interview with Storm investor]

6.4.2.2.2 Self harm

The AEC / SICAG survey did not indicate any insights into the prevalence and risk of self-harm behaviours within the SICAG membership, but SICAG testified to the following in its submission to the PJCI.

[177] SICAG is directly aware that hundreds of its members have suffered psychologically from the collapse of Storm Financial. Hundreds of our members have sought treatment for depression, anxiety and related ailments and have been prescribed anti-depressant medication. Sadly, a significant number of SICAG members have talked openly of committing suicide. In one case, a couple who had lost their considerable life savings contemplated a scenario where they would disappear while on a snorkelling trip, leaving their only remaining asset – a life insurance policy – to their children. In another case, a young man wrestled a rifle from his father and talked him out of shooting himself. [public submission 276, from SICAG]

Nine of the 168 submissions made to the PJCI by Storm investors chose to indicate that self-harm was an option that they had considered, or were struggling with at the time of writing the submission. Two of these submissions are presented to give further indication of the extent, and variety of the potential tragedies associated with Storm's collapse.

[178] I am a semi-retired carpenter and could not even think about work, I could not bring myself to leave my wife alone for fear of what might be waiting on my return. It is a very scary thought to admit to a complete stranger that you have thought about opting out of the whole thing. [public submission 223 from Storm Investor]

[179] Living alone, at times I have felt so desperate and in such despair that I have found myself almost suicidal and understanding why people do commit suicide. These thoughts have absolutely terrified me. With each day it is harder to function in the way I must, going to work and generally looking after myself. This whole situation affects you mentally, physically and emotionally and rocks the very foundations of your life. [public submission 403 from Storm Investor]

In five of the 15 initial interviews, thoughts pertaining to suicide and other harmful possibilities were raised as the extreme reaction to one's circumstances[292]. The relevant excerpts from all five relevant interviews are presented below as self-explanatory accounts of each case.

[180] We had you know, not a good place to be for five or six weeks, maybe longer. Depression. I've got down to the stage, the only place that I – the only way out of it I could see was self-harm and I think that was in my thinking. That was the only thing I could see out it; was self-harm. There was no other way. I just couldn't see how we could survive and live any sort of life other than sit there and watch the telly and it's in the dark because you can't have lights on because it's running your power bill up and all the rest of the bloody nonsense. And the only way out of it I could see was to end it all. [interview with Storm investor]

[181] *Wife:* You're sort of in a state of shock you know, you're teary, you can't sleep and I ended up, for the first time in my life, with high blood pressure.

Husband: Yeah, I'm still on blood pressure tablets.

Wife: Which I'm now off... we went to a psychologist who was very good. Yeah, we didn't end up having all the visits which he said we didn't need.

Husband: No, but I definitely needed that because I was looking for a way out. [interview with Storm investor]

[182] *Investor*: I'm on anti-depressants ever since. I can't go off them.

Interviewer: ...How do you keep going at work? Is that a good outlet for you?

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[292] To specify this further and clarify the link to the interview numbers presented in section 6.4.2.2.1: of the 15 initial interviews, 4 involved the discussion of both medication and depression/anxiety, 1 involved the discussion of both medication and thoughts of suicide, and 4 involved the discussion of all three of medication, depression/anxiety and thoughts of suicide.

Investor: Anti-depressants… and put on a good front… you just put on a good front no matter how you're feeling inside… but I have been suicidal.
Interviewer: Was that early on, the first sort of six months?
Investor: …and at times later when you come home absolutely exhausted and know you can't have a break, you can't retire…there were times I used to think, I would love to get a terminal disease and I would do nothing about it. That's how bad it was to think I can't do it myself but I wished a terminal disease upon myself. [interview with Storm investor]

[183] I was very ill….I was clinically depressed and under – had it not been for a very good doctor and a good wife, I wouldn't be sitting here talking to you now. I was suicidal and I've never been like that in my life before. But to see those millions just fly out the door after you've worked for them for about 50 years in the marketplace and all the things that you're going to do, particularly for family, and the other impact was you know, I was very ill. Very ill for about six months and eventually got through that…I am still on a low dose – much lower than during my 'black hole' period – a very low dose of anti-depressant – and probably will be for the rest of my life. This simply holds 'at bay' as it were – the panic attacks in the middle of the night when the thoughts of what you have lost hits you. It is a long grieving process. [interview with Storm investor]

[184] (When) this first happened to us, I had very clear and compelling suicidal ideology and worse relating to my family which obviously is not a thing anyone says proudly or openly. They actively thought about not only killing themselves, their family as well. My wife was suicidal for months. [interview with Storm investor]

6.4.2.2.3 Visual representation of health impacts

A word cloud representation of the health impacts of significant financial losses is as follows:

6.4.3 Impacts on an Individual's social world

An individual's social and personal worlds are not independent compartments of their life – there are obvious connections between one's emotional state or health status, and how each of these influences interactions with other people. Nevertheless, this section focuses on findings more directly relating to how an individual participates in and is influenced by their social world, in the aftermath of sudden and traumatic financial loss. The relationships within marriages, families, and circles of friends are considered, together with wider cultural and familial roles. The impact on and of the wider community is then also discussed, which in the case of Storm presents features which may have an impact that is stronger than those with other sources of financial loss[293].

[293] For example, the publicity and perception surrounding the collapse given its scale, and the fact that many investors were encouraged by others to join, giving rise to concentrations of investors in some localities.

6.4.3.1 Relationships

Relationships are a fundamental cornerstone of human experience[294]. The stress and fallout of financial loss influences all relationships, some positively and some negatively. We do not attempt to resolve the questions of how and why different impacts occur in any detail, but instead focus on what the range and detail of some of those impacts are.

6.4.3.1.1 Marriages

Amongst interviewees, there were various (volunteered) admissions of marriage stress as a result of Storm's demise. One investor indicated that associated stress of the financial upheaval, whilst not the sole cause of a marriage breakdown, was nevertheless a significant contributing factor.

> [185] *Interviewer:* So since the time of December '08 to January '09, this is the big question; what's happened in your life since then and...
> *Investor:* I've been divorced. Lots of stress.
> *Interviewer:* Related to...?
> *Investor:* Probably the final thing our marriage could manage, yes. So there were other issues but the final thing our marriage could manage was ...the extra stress of this. [interview with Storm investor]

Submissions to the PJCI have also indicated similar stresses[295].

> [186] Our life has changed immeasurably – the over whelming impact of the reality of our financial situation has nearly destroyed our marriage. [public submission 306 from Storm Investor]

Other marriage situations, whilst not ending in separation or divorce, have nevertheless also been impacted in an adverse manner.

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[294] Indeed, "humans are fundamentally motivated to create and maintain meaningful and rewarding social relationships" (Maslow 1954, cited in Hoffmann and Broekhuizen 2009, p.492).
[295] Another investor also highlighted their various losses from Opes Prime, including "a substantial amount of money… a fiancé…my job" (public submission [93]).

[187] *Husband:* We've never talked to each other so less.

Interviewer: Just both totally gutted? It's a pretty common thing.

Husband: (My wife) uses her computer a bit. Like I might say, "Why don't you get on the computer and see what's going on?" It's such an argument. She just doesn't want to know about it. [interview with Storm investor]

What followed the above interview excerpt was a conversation about what further actions could have or should have been taken since Storm's collapse, with the husband and wife taking quite different views. It would seem that the ongoing need to stay on top of what is happening, and make decisions about what restorative action should be pursued or not, has its own share of stresses and strains. This is also attested by another investor, who in their efforts to consider a range of options post-collapse, paid a price in terms of a diminished relationship for some length of time.

[188] *Husband:* It is a fact, not boast, but a fact that my wife was neglected more or less for months… even when I was there and she was talking to me, I was thinking about other things.

Wife: …luckily I suppose for (my husband) and I; we've managed to stay together because I just – I needed – and (my husband), I suppose, was my rock especially with (adverse reactions from our children to seeing me constantly upset).

Husband: …the dynamic of our relationship has changed. Our levels of intimacy were virtually non-existent for a couple of years at least. We had gone from a couple that were every bloke's dream as far as intimacy goes. We had a very strong physical relationship and both of us just not interested, dropped off the perch, didn't happen. [interview with Storm investor]

Rather than being impacted due to the pursuit of restorative actions, another marriage situation has been adversely impacted due to unresolved issues around allocation of blame for the initial decision to proceed with Storm.

[189] And you know, it caused a bit of a family rift because I went off at (my husband when it collapsed) and then the girls said, "Oh you know, you can't blame dad" and I said, "Well, he shouldn't have listened to (our adviser). He should have listened..." – you know how the

wife gets on, "You should have listened to my thoughts because I was always sceptical of..." – it was too good to be true. [interview with Storm investor]

This topic was broached several times in this particular interview, and as evidenced by the following transcript it was never too far from the surface.

[190] *Interviewer:* ...You said you were sort of totally numb and stuff for six months afterwards. What sort of helped getting out of that? Or was it just as time thing? Just the time passing?
Wife: Me. I shouted at him.
Husband: (Laughs).
Wife: Well, yeah... I mean it really destroys your relationship, really. It really does and even to this day, I will have a bad dig at him and – because I get frustrated, I get very frustrated because...
Husband: Yeah, you get depressed. You do get depressed. [interview with Storm investor]

Various email correspondence also highlighted further issues and described the pain of one party in more detail. The general point made was that:

[191] We went from relaxed folks to a couple of people playing the if only & the blame game not good for 2 people who had shared (over 50) years together. [email correspondence from Storm investor, October 2011]

In the course of the interviews, for those that were married little explicit indication was given that a relationship had been strengthened through adversity[296], but another investor did highlight that because they had a strong marriage beforehand, it remained strong now.

[192] Fortuitously our marriage was pretty strong before and it's just as strong now where in a lot of other cases, marriages have broken up and divorces have taken place… and you know, all that sort of stuff. [interview with Storm investor]

[296] Some marriages may well have strengthened significantly, but nothing specific was stated to this end. And, of course, given the size of the financial shock it is still relatively early days in terms of the post-collapse events and recovery.

6.4.3.1.2 Friends and family

What stood out from interviews in terms of the impact on relationships with friends and family was the vast differences in experiences. Obviously there are differences between every individual, but what was just as striking was that every relationship has differences too, and therefore each one of those relationships could be impacted in different ways. Some impacts could be categorised as relatively indifferent, including the impact on one father-children relationship. In this case, the father did regard his relationships with his children as very good, and this was stated as a very important factor in his life.

[193] *Father:* Our relationship is very strong with my boys. But you know... they'd be confused. I'm sure they're not sure what's happened and you know, dad's taken a hit.
Partner: They've probably had to adjust their lifestyle.
Father: Oh, a lot.
Partner: Because they had a lot easier before than they have it now. So it's been having to sort of stand on their own.
Father: Yeah, and that's probably a good thing, right? [interview with ex-Storm adviser]

Another interviewee's relationship with their children could be said to be 'neutrally' impacted, but mainly because it appears that the children are not involved in the impact anyway – either financially or possibly even emotionally as well.

[194] My kids don't even understand, you know, that – they don't want to know mum's business, you know. Kids are like that these days... I've told them it's happened, but they don't understand... you can't burden them with it. [interview with Storm investor]

A variety of very positive experiences have also occurred.

[195] *Husband:* We've had some family who, my god, have been kinder to us than you would ever hope. It is how I would expect that we would react, but I wouldn't expect anyone else to act that way. An example of it is being able to ring up my young brother-in-law and say, "Mate, my car's just blown up on the highway. I don't want to spend that money because I might need that... can I borrow your ute until I get another?" "Mate, you can have the ute. I've got the spare one." And the ute you see out there? In his mind, he has given that to us.

Once we sort this out, I will make it more than worth his while. But in his mind, he's given that to us and he doesn't want anything for it… he knows we don't spend money on ourselves anymore… I've got a sister-in-law that would show up – would just show up here with bags of food. She's a single mother with her own world and problems to deal with. She would show up here with bags of groceries. Like it was nothing. She was just doing it.
Wife: And we were all – (we) were always the ones who were helping the other members of the family, financially or emotionally or landscaping or renovating. We were the ones who always...
Husband: So the roles have changed.
Wife: Yeah, like we'd always give hand-me-downs, our old saucepans and we got new ones. Things like that and then all of a sudden, it's really hard when your younger brothers and sisters are doing that to you. You feel like...
Interviewer: You find it hard to accept that without conditions sort of stuff?
Wife: Yeah.
Husband: I find it humbling. Really humbling.
Wife: Oh, we learned to accept it because they – yeah, but really emotionally you just feel like when this is all through, you just want to – oh, I don't know how – what you can give them to...
Husband: We will – it will be made up. [interview with Storm investor]

Notably, the husband in the excerpt above summarises his overall appreciation for support based not just on the physical assistance above, but also and importantly, the overall emotional support and lack of judgement.

[196] There are a select number of people that need to be thanked for what they've done over the last little while and it can be as little as not judging us, not making us feel like we are idiots, right through to acts of kindness … Because it's such a big thing when you've been kicked in the guts, when someone looks at you like, "oh, you were a goose or you were greedy." [interview with Storm investor]

Other positive impacts have included very direct offers of financial support.

[197] *Wife:* (My husband's brother) said, "Don't give the house away. I'll pay your mortgage until you can get a decent price for it."

Husband: Her father who was still alive then, it wasn't a lot of money there, but I could have used anything, I know.

Wife: You know, he said, "Use dad's money if you need it." You know, we couldn't have – you really find out who your friends are at a time like that. You know, they were absolutely fantastic. [interview with Storm investor]

On the other side of the ledger however, a range of negative impacts on relationships can and have occurred. Notably in contrast to excerpt [196], negative impacts on relationships have arisen from very obvious and direct judgements being made.

[198] Our family dynamic has suffered as a result of it and one member particularly, but not solely, but one member of our family particularly… was very judgemental and there's been some attempts to rectify that but that's a permanent... divulsion of that relationship that can't be repaired. [interview with Storm investor]

[199] I didn't tell all of my family and I have an aunt, my mother's sister, who is so angry she barely speaks to me…. for getting into Storm Financial… she's just really angry that I did that. [interview with Storm investor]

[200] And here (these friends) are, rubbishing to me… rubbishing Storm people to me and saying what bloody fools they were, you know, and all this and they deserve everything they get, you know? And from that day to this, they've never spoken. Never spoken again because I told (my wife) obviously. [interview with Storm investor]

[201] *Investor:* My mother-in-law at the time even said, "That's what you get for being greedy" and I can remember yelling at her saying you know, "I don't believe it for a second." I said, "Do we live like millionaires? Do we look like millionaires? Did we..." you know, so yeah...

Interviewer: So that made that tough?

Investor: Yeah.

Interviewer: Friends as well?

Investor: Some – yeah, some. Yeah, some are pretty awful. I guess you sort of work out who they are then, don't you? [interview with Storm investor]

This latter point of finding out in the midst of difficult times, who one's friends really are, rings true for the experience of others as well.

[202] *Interviewee's partner:* Like anyone that wasn't real in your life, they disappear.

Interviewee: Yeah, even the relationships, you know. It's tested. Our relationship, our friends who you thought were really staunch friends.

Interviewee's partner: You know who your true friends are.

Interviewee: And it's been an interesting exercise, you know.

Interviewer: Fire tests everything, eh?

Interviewee: It really does, absolutely. Yeah, and it's quite surprising.

Interviewee's partner: Because there were a lot more people there when the good stuff was going on.

Interviewee: Oh yeah, absolutely. Some who I thought were lifelong friends with a lot of character and loyalty and so on, have disappeared and others who I thought were kind of on the fringes have become much closer. [interview with ex-Storm adviser]

[203] The other sad part also was that (so called friends) that we used to be in constantly in touch with are no longer there, it was like you had a rare disease, funny when people think you have money you seem to have friends, when you lose it in bad circumstances you are dropped from the so called friends society. It has been a very lonely 6 years for me. [email correspondence from Storm investor, January 2013]

Changes in relationships also arise from the pressures of money and in this sense can be circumstances-driven, as distinct from the judgement calls and potentially convenience-related reasons above. Changes can arise through a lesser ability to engage with former networks now, or from irritability towards wastage when money is tight, or from a need to divert time away from key relationships (for example, with children) for urgent financial reasons. Examples supporting each of these respective points are below.

[204] *Interviewer:* Any changes with relationships with friends and the community at large and stuff?

Wife: Possibly yes, because they can still do things because they're probably more financially better off. We were (holidaying) with them but it sort of...

Interviewer: Too hard?

Wife:...came to a dead end because we said no, we can't do that.
Husband: We had to cut back. [interview with Storm investor]

[205] (My daughter and her husband stayed with me and) they were naughty with power… they go out of their bedroom and leave a light on. I've had to be so careful and I've literally eaten beans on toast for meals because food wise I've had to be careful what I buy. [interview with Storm investor]

[206] I cannot begin to express the emotion and physical toll this has taken which all could have been averted with a 30 cent phone call. I couldn't even get a car loan now if I tried. My young family now does not have the advantage of my continual care as I now need to start again. [public submission 243 from Storm Investor]

6.4.3.1.3 Cultural and familial roles

A common disappointment amongst many of the more mature investors is the perceived inability to now fulfil roles as grandparents in the way they were hoping to. This social role was clearly of much importance to those who had plans in place to provide financially, emotionally and also with time commitments to subsequent generations. The primary reason that this role could not now be fulfilled was due to financial pressures.

[207] I still enjoy my grandchildren but I – look, I've just had a grandson born last month. I didn't have any money, I couldn't send him any money in an envelope. I bought him some cheap little clothes but I felt terrible, I couldn't afford to put money in the envelope. I'm actually into my shrapnel change now, that's what I'm buying a drink with or whatever; it's change because I – it sounds terrible, it's like Mother Hubbard's cupboard. [interview with Storm investor]

[208] It's certainly not what we aimed to do. We had other aims too to try and set the… grandchildren off into good educations and pay, you know, and get stuff put away for them so that when they're into their 18, 21 or time to go to uni or something like that, they you know had a good thing but that's all collapsed. We had to pull out of that. [interview with Storm investor]

[209] My wife is heartbroken and sick with worry about the future for us - but more so because of the inability to do the things parents and grandparents like to do, want to do and carefully planned their finances so they could do - and that is be there for their children and grandchildren. [public submission 211 from Storm Investor]

[210] It also stops us doing all the sorts of things that we had proposed to do like for grandchildren. We had proposed to set up trusts… for secondary education and University education and we're unable to do that and all those sorts of things we're just not able to do now… it's been pretty traumatic, yeah. But so for (my wife), yeah, it's been a very, very difficult time. Probably in some ways, more difficult… all the things that we had together planned for (the grandchildren), is not going to happen so that's pretty devastating for her. [interview with Storm investor]

[211] How does a nanna explain to her grandson, while on an excursion to the beach, that she cannot afford to offer the small ice-cream treat that has always been a normal part of outings with nanna because she might need that dollar to keep the roof over her head? [ex-Storm client, public hearing [4], p.86]

Similar comments were made about the parental role as well as the grandparent role. However, it is not just financial reasons that make these roles more difficult. For one investor who still retains some anger to Storm and the banks, his emotional state, by his own admission, makes it harder to fulfil such roles.

[212] *Interviewer:* Has it impacted things like with the kids and grandkids; your whole thoughts about what can you do with them and that sort of thing?
Wife: Absolutely, absolutely it has. Because you know...
Husband: It's turned me into a cranky bastard.
Wife: And it has too. It has. His whole personality has changed. [interview with Storm investor]

Of course, it is not just the cultural role of grandparent that is important to all investors. Other simply feel the frustration at their lack of options to assist the family members that they do have.

[213] *Wife:* We've no family. I have no children. My parents, you know, are dead.

Husband: Yeah, mine are all gone.

Wife: (He) has no family.

Husband: I've got a couple of (older) cousins.

Wife: Yeah. I mean he has cousins and things, I don't.

Husband: Yeah, second cousins and third and all that sort of thing.

Wife: Second cousins. I mean they're there. But none of them...

Husband: They're not in a position to, you know...

Wife: They're not in a position and also (he) will...

Husband: The boot should be on the other foot; we should be helping them. [interview with Storm investor]

6.4.3.1.4 Social isolation

The helplessness felt by one investor has had implications for their involvement in wider, social and formerly therapeutic activities.

[214] We never received a letter. As a matter of fact, we do not know if we ever went into margin call. We do not know what happened. We do not know who sold our shares, when they were sold or why. We know that it was left until everything was at the bottom of the market. So our shares, which were worth over a couple of million dollars, ended up being worth $800,000—nowhere near enough to pay both loans. Even if we were to pay one loan, we would still be left with $800,000 worth of debt, no properties and no money to live on. Since this has all happened, my partner, who is 60 and very, very proudly played touch football every year until this year, has given up playing football for fear that he might injure himself and not be able to work. [public hearing [4], pp.90-91]

Whilst such an implication may seem a slightly trivial or simple thing to some, the social interactions and involvement through hobbies, passions or other outlets provides an essential part of any human's overall wellbeing[297]. As well as some social limitations arising from a greater sense of vulnerability to mishaps, more direct reasons for greater social isolation clearly came through several interviews. For example, the loss of money

[297] Similar to that in excerpt [111].

results in direct financial restrictions which limit participation in any manner of social aspects of human experience.

[215] *Husband:* Some people don't believe us and, you know, it's just quite embarrassing actually.
Husband: We are confined to barracks.
Wife: We are confined. I have to keep phoning to say no, and I can't have you even for coffee because I haven't the money to buy the food for entertaining. It's so embarrassing.
Husband: We've made a decision we're not even going to send Christmas cards this year because we can't afford to. [interview with Storm investor]

[216] *Interviewer:* So since that time, so since December '08, January '09, what's happened… in your life since then?
Wife: Nothing much.
Husband: Well, we've virtually been a prisoner in your own house.
Wife: …I don't have as many friends as I used to probably because I don't go out.
Husband: Well, we don't go anywhere. The last time we went out to have a meal is for our (anniversary).
Wife: Yeah, and the kids shouted us that out too. [interview with Storm investor]

Another factor in increased social isolation also arises from financial implications, but not just due to personal shocks – but more the fact that the 'network' factor of one family member or friend getting others into Storm, has meant widespread impact amongst such networks. What this means, significantly, is that there is now less ability for that network itself to lend support to others as needed, especially in the context of maintaining necessary and important social involvement[298].

[217] My brother and his partner were also in the early stages of looking into Storm Financial and investing. My parents were Storm Financial clients and are still working hard to try to keep ownership of their home. They were retired and both have had to return to work in their late 60s. My father's brother and his partner were Storm Financial investment clients. They are also working hard to try to keep hold of their home. My step-grandmother, who lives in

[298] In other words, assuming independence between investors is not realistic. There are clear dependencies between different people and this is important when considering how they react to, and recover from, such losses.

Sydney and is in her 80s, was a Storm Financial investment client. We do not know how we will get her to meet her brand new great-granddaughter, born in July. We do not know how to continue to get her to be a meaningful part of my own children's lives. [ex-Storm client, public hearing [4], pp.85-86]

For others, a further and even stronger factor in increased social isolation has related to emotional implications of Storm's collapse.

[218] *Investor:* I haven't got close friends. I've got friends where I used to go dancing (but) I just haven't been focused to go dancing anymore. There's only one band I really enjoy dancing to and I do make an effort in going to see them... But I haven't felt focused in enjoying going out. I've had to force myself to go out.

Interviewer: Because of the financial thing?

Investor: ... It doesn't cost me anything when I go dancing. I just don't feel happy enough... it's made me miserable so I'm not going out and about and doing what I generally would have done. [interview with Storm investor]

[219] *Wife:* I just hibernated. I was too ashamed to go out... your lack of self-esteem; like I've put on 20 kilos in weight just through eating for comfort because chocolate will make something - just reaching for anything that will make me feel better and then the depression and then you feel like you're... the overweight and then that doesn't help the way you feel because none of your clothes fit. You don't want to go to any functions because you feel people are judging by, "Oh god, have you seen how much weight she's put on?"

Husband: You do; you hibernate.

Wife: Yeah, your lack of self-esteem. [interview with Storm investor]

6.4.3.2 Community impacts

Within the interviews there was not a big emphasis on community-level impacts, but rather the focus was more on personal, family and immediate network-related impacts. This is understandable in the light of the significant personal angst being experienced, and still being worked through. Similarly, this was generally the case emerging from other data sources as well. In response to one ex-Storm client detailing such impacts (see excerpt

[217] above and excerpts [222] and [226] below), a PJCI member noted this lack of emphasis on community impacts within public submissions and public hearings.

> [220] I think you used the words 'the network nature' of the impact of the financial crash. We have not really heard evidence about that, but… no doubt hear more about it—the fact that friends and neighbours and families recommended Storm to each other. That will generate, I suspect, other tensions. [Senator Mason, public hearing [4], p.88]

Nevertheless, those insights that were made in relation to the community impacts are considered here for four main reasons. Firstly, it is clearly important for those who raised such issues, whether that be for their own sense of welfare in being able to contribute, or more altruistic motivations, or both. Secondly, it is an issue that is exacerbated by the 'network' effect that is a feature of Storm and this echoes and supports previous discussion in sections 6.4.2.1.7 and 6.4.3.1.4. Thirdly, impacts at the level of the wider community may well become a more important and noticeable feature as time goes on, if there is a lack of meaningful recovery for individuals - whether that be financial, emotional, health or social-related recovery. Fourthly, it also provides additional context for discussion in chapter seven, especially when examining the Australian system of financial provision.

6.4.3.2.1 Contributions reduced

The previous discussion in section 6.4.3.1.4 considered how a greater sense of social isolation can occur. However in the discussion below, the emphasis is more how on how contributions to the community can change as well. Although changes to contributions are not always necessarily adverse in terms of reductions, the more adverse changes are the focus of discussion here. One investor highlighted what their new financial circumstances has meant for them.

> [221] I had to give up all charities. I used to work for them. I used to be in a lot. I mean, we gave a lot and the people phoning to say, "Have you got any money yet?" you know? And I'm saying no and I've written to them all to say, "Take my name off" because you know, I cannot contribute and you're wasting money writing and asking. [interview with Storm investor]

The ex-Storm client from excerpt [217] above also detailed the likelihood of reduced volunteer effort across a range of organisations that could now be expected.

[222] Now I would ask you to consider the cost of this tragedy to the community. One of the things that has not come through... is the ruin that this has forced upon community organisations. I have an illustration of my point. My father is a vet. He has worked for many years in this field and he was and still is extremely well regarded in his profession. He had finally chosen to retire and devote a considerable amount of volunteer—that is, underpaid—time to the community as an executive member of the Queensland branch of the Australian Veterinary Association. At the time of the collapse of Storm Financial he was within weeks of stepping up as the president of the Queensland AVA. He had already invested a huge amount of time and energy in working with that organisation with government, councils, other members of animal industries and the public. Very early in 2009, my dad, with a huge weight on his heart, had to apologise to the organisation he had given a commitment to and tell them that he could not fulfil his commitment as he could not afford the financial impost nor the time that the position entailed as he needed to use that time to return to work and earn money to keep living. My dad was not the only one in this position. I know of Red Cross volunteers and community members who were readers in schools. I strongly suspect that there would be very few volunteer organisations in Queensland that are not touched by this through the loss of volunteer capacity. [ex-Storm client, public hearing [4], p.85]

From their perspective of consistently being in touch with hundreds of ex-Storm investors, statements by SICAG have also attested to this community impact, as well as statements from other investors and financial planners.

[223] The community will be carrying the burden and counting the cost of this unconscionable conduct for years to come. [Co-Chairman of SICAG, public hearing [6], p.70]

[224] The life we have worked for all our lives up to very recently is shattered – that life as we knew it is finished. After 16 plus years of working with Rotary for and in a community of my birth and of which I love is over – no longer can I afford weekly meetings let alone yearly dues... No longer can xxxx take up a volunteering position as he had to return to the workforce after a short 4 month retirement . [public submission 202 from Storm Investor]

[225] The ensuing pain and suffering for those investors, their families and their local communities has been enormous and will continue perhaps for generations. [public submission 324 from Financial planning company]

6.4.3.2.2 Exacerbation from network effects

Individuals can of course choose to reduce personal contributions to the community for all manner of reasons, even in the course of more 'normal' life circumstances. And, even when large financial losses have occurred for many people in other contexts, there can also be large impacts on the broader community as well. However, in Storm's case, an additional factor is that the 'network' effect of friends, neighbours and family encouraging one another into the scheme. This can accentuate any resultant community impacts more severely, due to the concentration of investors in particular communities[299]. This is again attested to by the ex-Storm client seen previously in excerpts [217] and [222].

[226] I know of an entire family on the tablelands—a retired mother and father, three of their adult children and their own children's families—who were Storm clients. They are facing ruin, their farms for sale. Storm asked people considering them to talk to others who were current clients. People like to share prosperity and they talked positively, even in glowing terms, about how they felt when they were securing their future. Now, after the fact, there are whole families who are caught up together. They have very few financial reserves that are not caught up in this to use to keep roofs over their heads. [ex-Storm client, public hearing [4], p.86]

Others also highlight how a concentrated impact can arise from the particular features of Storm.

[227] This whole debacle has been a nightmare for us for the last 8 months. It has affected our extended family and friends, some of whom were also in Storm. [public submission 220 from Storm Investor]

[299] To further echo earlier points, not only should investors not be considered as independent agents, but this further implies that at a societal rather than individual level, there is far less social and geographic diversification of the impact of losses than might otherwise be the case.

[228] In addition, the concentration of Storm clients in regional communities has led to widespread community and client impacts, affecting people's retirement, lifestyles, housing prices, and employment decisions. [public submission 277 from the FPA]

6.4.3.3 Community perceptions

Linked to both social isolation and community impacts is how the perceptions of the community at large has impacted on investors. We have already seen the occurrence of voluntary social withdrawal arising from embarrassment, and also how relationships can be impacted. The impact arising from community perceptions is often an emotional one, but where it arises from the social culture at large, the way in which it impacts an individual is subtly different to emotional reactions discussed earlier. The main difference is that community reactions are perceived as being laden with significant and negative judgement, and as a result, reactions from investors are aligned with a defence of their position, and a degree of indignation at others casting judgement on them when they are already having to deal with significant hardship and emotional turmoil. Reactions to adverse community perceptions are not insignificant, with 11 of the 15 initial interviews giving some time to this issue.

How investors have perceived wider community reactions is indicated in the following.

[229] The thing that disturbs us psychologically I guess; is that people think you're a pack of dills or they think you were greedy or you know and some people do think that... the media initially tended to pick up on the line, "Oh, you're greedy people and stupid to be involved in it" you know, and – well, that's the other thing that everybody – a lot of people including the media thought; that this was a whole bunch of totally and utterly unsophisticated mums and dads who didn't have a clue, who got sucked into this scheme and again, that wasn't the case. [interview with Storm investor]

[230] (There were suggestions from politicians) that we were in there to make as much money as we could. We were all bloody gambling away all our investments and that's not what it was. It was a superannuation scheme as far as I was concerned. [interview with Storm investor]

[231] Yeah, because a lot of the media reports that we read said that we were greedy and we certainly weren't greedy. We didn't do it for that. As I said, we were really naive. We'd never done anything like this before, you know… [interview with Storm investor]

[232] So yes, judged very harshly and it was in the paper all the time about people saying what greedy people we were and that. I don't know how we were greedy but they were saying what greedy people we were. [interview with Storm investor]

The awareness of community perceptions has been driven in part by media coverage, which in the early days following Storm's collapse was indicated as being quite adverse, but also through the influence of that media on other social circles much closer to home.

[233] *Interviewer:* Do you feel quite judged too for making the decisions you've made? The media I think has taken a particular side to it.
Husband: Oh yeah, they just said they thought you were greedy. Well, I was far from being greedy.
Wife: Yeah, and we've got friends that… ring me up and say, "Oh you know, that's what happens when you want too much money" and all that. [interview with Storm investor]

[234] *Investor:* Even still in Townsville, there's a lot of misunderstanding. If you say that you were part of the Storm...
Interviewer: There's a Storm and a non-Storm crowd now, is there?
Investor: Yeah, and if they see the Storm thing, you can almost see the walls go up. Like oh god, that mob….so yeah, you try and not to sort of let too many know.
Partner of investor: There's definitely a stigma around it.
Investor: It is.
Partner of investor: Oh, they were greedy.
Investor: Yep, we're all put in the greedy basket.
Partner of investor: Yeah, because we're all greedy.
Investor: …because of how it was sold in the media too, I mean some of the first headlines were about greed and that sort of stuff, so people just have sucked that up and they think, oh, they went in knowing that it was high risk. We didn't know it was high risk and we really didn't know what it was, you know? [interview with Storm investor]

6.4.3.3.1 A defence

Various interviewees considered it important to indicate a defence to those public perceptions. Given that the main negative perception has that investors were greedy, unsurprisingly it is this element that interviewees felt important to address.

[235] *Wife*: It wasn't the fact that we wanted...
Interviewer: Excessive things and stuff?
Wife: Yeah... It was all grandiose. You know, go and buy jewellery. Well, I don't wear jewellery... but that's me. You know, yeah and the only things we've got on our walls is mainly photographs.
Husband: All our kids.
Wife: Kids and stuff. You know, we're sort of not extravagant people really... material items aren't my forte. [interview with Storm investor]

[236] All we were doing was following the Government's advice. We just chose Storm Financial as our financial advisers. We weren't greedy. All we were after was the same lifestyle we'd been living all those years. We weren't greedy. We've never owned a new car in our life. Never. Even when we were with Storm, we never owned a new car; always second-hand cars. We've had the same house for (nearly 40) years. We've never gone out looking for new flash houses, you know? When we go on holidays, we stay in three star hotels, you know? We don't live a flash lifestyle. We weren't greedy, you know? [interview with Storm investor]

[237] One of the other financial – so-called gurus who I think is a lightweight; I can't remember his name... when it first happened he said, "You know, well these people deserve what they get. They shouldn't be bailed out. They were greedy and stupid to go into a scheme like that." And that wasn't us. We weren't greedy. [interview with Storm investor]

Others felt it important to address another major public critique – that to enter Storm, one would have to ignore well-known (albeit colloquialised) principles concerning diversification such as not putting 'all your eggs in one basket'.

[238] The returns were – the returns on an index fund, you will never beat the market, but you will never be below the market… some people say, "Oh, you had too many eggs in one basket." Well, we might have had all our advisers in one basket but how many advisers do you have, you know? But we certainly didn't have all our eggs in one basket. They might have been in index funds, but there were a number of them and they are the most diversified form of investing you can possibly do, you know? [interview with Storm investor]

This same interviewee went on to defend a further critique, that being to partake in Storm's strategy, one would have to dispense with common sense.

[239] You know, I certainly don't consider myself unsophisticated and there were bank managers, there was at least one or two lawyers I believe, there were many senior professionals, there was at least one, if not more financial advisers from other companies, who were involved, who saw this as a good thing and I mean, Emmanuel… it always used to pain him to see that people had this huge asset in their home and were not able to do anything with it… he said, "there's got to be a better way that people can get a better life and don't have to be on the pension" and this is a way forward to do it, you know? And I think the media – some of the media – I mean the original Four Corners program was, I thought, almost a disaster because that's exactly what they tried to do… but then subsequently, Four Corners did another programme which was very good, because I think they woke up to the fact that we were not a bunch of unsophisticated mums and dads who had been duped into a poor investment scheme. [interview with Storm investor]

6.4.3.3.2 Influence of perceptions

One reaction to such perceptions is indignation from investors, concerning why others feel they can make judgement on them. Primarily, this indignation arises because of the view that others simply cannot know or appreciate what situation investors are left in now, and that indeed it is not 'all their own fault'. Thus, if others cannot know, why should they judge?

[240] What we actually contributed over the years by reinvestment of dividends and our cash that we put up at odd occasions, was $535,000. Now I find it almost offensive to hear some of the comments by people outside of the Storm group who think that we are some type of

smart Alec, greedy money hungry people. You know, you put up that much money, watch it all go away overnight and try not to feel angry at someone the next day. [interview with Storm investor]

[241] It hasn't been very good when the media write up saying, oh we're selfish and we were stupid to get involved; that didn't help at all... I don't think the public realise just how devastating it's been and neither they should, it's not their experience. You know, you don't know what it's like to get wet until you stand in the rain do you? [interview with Storm investor]

[242] Australians have no sympathy whatsoever for a financial disaster victim. It's the one area of sport where we're all competitors and there is no sympathy whatsoever for anyone who hits a financial hurdle in this country. No collective sympathy at least and you know, until you start explaining to people the individual wrongs that have occurred, most people are quite happily going to read whatever they read in the Courier Mail and take it as gospel. [interview with Storm investor]

The range of impacts other than the sense of indignation include further shame and embarrassment leading to a further sense of isolation, a sense of ridicule and humiliation, and an overall sense of being hurt above and beyond what has already been endured. Excerpts relating to each of these respective points follows.

[243] Being ashamed and embarrassed to move about in a community of your birth as now find ourselves judged as greedy, naïve, stupid and worse. [public submission 202 from Storm Investor]

[244] Public opinion has been cruel, implying that the Storm investors were greedy. The effect of these comments has been utterly debilitating, to the point where we feel that nobody gives a damn about how this situation imploded, leaving trusting, hard-working people in the depths of financial ruin – through no fault of their own. Comments such as: - We should have known better; We were greedy and deserve everything we get; How could we be so stupid and reckless! [public submission 306 from Storm Investor]

[245] *Investor:* Copping an absolute barrage of abuse via the print media.
Interviewer: Did you feel quite judged?

Investor: Absolutely… (we) get ridiculed by the Australian public… humiliated in the press and in the media as being greedy and stupid. [interview with Storm investor]

[246] There was a perception out there which is very, very painful and hurtful, that we were greedy and that is so far from the truth. What we were trying to avoid was what I have just gone and done with Centrelink and that's what everyone was trying to – they were all trying to be self-funded retirees, that's what we were all wanting to do, and have a quality of life. [interview with Storm investor]

[247] *Wife:* But we didn't - I know with (Storm), a lot of their clients went on these big holidays, but I...

Husband: We didn't do anything.

Wife: We were raised that you don't spend money for the sake of doing that and I couldn't justify going and spending $20,000 on a holiday overseas with all this just for it. So we never spent our money on...

Husband: We didn't lead the Life of Riley. You know, if you read in the paper everybody was on the pig's back and eating the hide and the hog and all the rest of it and we were just a mob of greedy so-and-so's and that's the part that's hurt. [interview with Storm investor]

Perhaps the overall impact resulting from negative community perceptions is best described simply as a change in life – and not for the better.

[248] Our lives have changed completely…Having to live with the knowledge that family and friends believed all the initial media reports about the Storm collapse, that made us clients out to be greedy and deserved of our losses. [public submission 21 from Storm Investor]

6.4.3.4 Visual representation of social impacts

A word cloud representation of the social impacts of significant financial losses is as follows:

6.4.4 The loss of Trust

Trust is foundational to conducting one's life affairs. Firstly; because humans are social they need trust in themselves, others close to them, and wider societal connections in order to function effectively and happily in the world. Secondly; because institutions, professions and collective organisations of various kinds are needed to assist individuals in their navigation of life's various uncertainties, trust in such entities is also essential. This certainly applies to the context of one's financial affairs, but significantly, impacts on the financial realm have an influence well beyond just this aspect of one's life.

The preceding findings lead us to claim that the core things that are lost when a significant financial shock is experienced are trust and control. Whether through emotional trauma, monetary losses themselves, severe direct and indirect health impacts, changes to relationships, or factors relating to broader social influences, it seems to be the case that investors generally lose trust in many aspects of their formerly trusted world. As well as that, the ability to have some control on one's fortunes and life is compromised.

This section details how an individual's level of trust in various facets of their life has changed as a result of Storm's collapse, and the next section (6.4.5) discusses in more detail the issue of having control in one's life.

Perhaps the simplest overview of the loss of trust is given by one investor.

> [249] I have learned not to trust people when it comes to financial circumstances. [email correspondence from Storm investor, January 2013]

However, as the following discussion will highlight, the objects of distrust are many and varied, including Storm itself, the wider financial advisory industry, the banking sector, other professionals such as lawyers, government as the ultimate provider of collective protection and provision, and perhaps most damagingly of all, an impact on trust of oneself.

In order to address each of these however, we first need to divert slightly to indicate a selection of views and perception on key areas of dispute, and therefore angst, for many Storm investors. These are the provision of loans to investors, the various issues around margin lending and margin calls, and the decisions to close the Storm-indexed funds. Examining each of these provides additional context for impacted areas of trusted which will follow, and allow a stronger link to the research question of determining the impact on individuals.

6.4.4.1 The provision of loans

It is generally now acknowledged that in many cases, there were some deficiencies on behalf of the banks in lending to Storm investors. This section briefly details these deficiencies, and indicates the perspectives that investors hold as a result.

6.4.4.1.1 Claims of loan deficiencies

Three main claims have arisen in regard to loans being granted under generous credit provisions to Storm investors: the practice of lending on investment earnings; the lack of in-person checks of investors and/or on-site checks of homes when approving loans; and a general 'massaging' of loan applications.

In terms of lending solely on investment earnings, this was an issue raised by SICAG and also claimed by ex-employees of Storm to be a responsibility that ultimately resided with the banks.

[250] Their prudential lending was more or less based on whatever security was available to give the loan, rather than the ability to service the loan. They relied heavily on the actual income from the investments, especially for people who were retirees. You can see the application forms, where they actually say, 'The income is zero. Independent means.' On the other side it is actually showing the margin loan as being a commitment but on the servicing side, again, it has got zero. How can this be? That is not prudential lending. [Secretary/Treasurer of SICAG, public hearing [6], p.83]

[251] I wasn't earning, I didn't have an income when I signed up with Storm and that was one of the big things. The bank knew I didn't have an income. …they knew I wasn't working and yet they gave me this loan and they were just taking the repayments from my investments with Storm which were all in shares and they shouldn't give loans on shares. [interview with Storm investor]

[252] *Wife:* They shouldn't have lent us that money. That is the argument. We should never have been loaned that money.
Husband: That's exactly right and they shouldn't have. No, look back there because it was all based on what we had in the shares. [interview with Storm investor]

[253] We wish to emphasise that if the borrowings were reliant on income from the investments to support the borrowings, this was clearly made known to the Banks and they again made the final decision. [public submission 386 from ex-employees of Storm]

One investor also highlighted the fact that over time, as risks with such an approach were becoming tangible, this did not stop the practice from continuing.

> [254] As for the banks, where was their duty of care to their customers? They were still approving investment loans to be serviced by income from shares, even as the market continued its downward spiral. [Storm investor, public hearing [5], p.54]

In terms of the lack of physical inspection of a home prior to a home loan being approved, this has also been raised as an issue by investors.

> [255] Nobody ever came out and did a valuation on the house. They wouldn't know the value. You know, it was obviously over-valuated and so forth and they loaned more than what the place was worth and if it had burned down, we would have been in big trouble... the buck stops with the (bank). They were the ones loaning the money and as far as I was concerned, you know, if you go along and you do your own conveyancing and you go along to the bank and want money, you know, they decide whether they're going to give it to you or not regardless of what I say or what my next door neighbour says or something like this. So as far as I was concerned, the buck stopped with the bank albeit that they may have been in bed with (Storm). [interview with Storm investor]

A broader claim was the lack of knowledge banks would have of the individual customer who rather than Storm itself, was actually the ultimate customer. Often this was due to no contact at all between the bank and the investor, a practice that was defended as not unreasonable by one bank, who were happy to receive information on clients directly from Storm.

> [256] Customers were dealing with someone that they trusted, that they were prepared to provide their personal information to—both their financial information and other information—and asked the bank to rely on that information. I do not think that is out of the ordinary. [MD and CEO of Bank of Queensland, public hearing [8], p.39]

Such practice has not sat well with many investors in hindsight, as they felt that the approval of a loan in itself was a degree of assurance from the bank, and that an in-person interview would have provided a far more prudential and appropriate approach. As such, many lay blame at the feet of the credit providers.

[257] *Wife:* The fact that they did lend us the money influenced when we went into Storm because...
Husband: That was one of the reasons again, we decided the bank...
Wife: The bank wouldn't lend money.
Husband: Wouldn't lend, it's a safeguard. To me, it was a... I mean I remember how we used to get a house loan here, what you had to go through.
Wife: … jump through so many hoops. [interview with Storm investor]

[258] *Investor*: We never saw anyone from the bank. It was all done through Storm. We never saw one anyone from the bank. You go along to the bank and say, "Oh, I'm going to retire in a year's time but I want a $280,000 home loan" you know? Oh actually, the last loan we took out, we were retired. We were two years into our retirement. I'm retired, I want a $280,000 home loan. You think you'd get it?
Interviewer: Mmm, not really.
Investor: No. So yes, the banks were the biggest culprits of the lot. [interview with Storm investor]

[259] I do believe that the banks have some responsibility in our demise, as not once did Colonial meet with us or interview us regarding our loans or how we intended—at our age—to repay approximately $1.6 million... the Bank of Queensland, who mortgaged our home to the sum of $380,000, never ever contacted us to seek any particulars—no background et cetera—and, to this day, we have not met with anybody from the Bank of Queensland. Had they interviewed us when the application was made, they would have known that our income shown on the application was more than double what we were getting for our investments, and we do not know who filled out this amount on the application, but it was definitely not us. [Storm investor, public hearing [4], pp.35-36]

Relating to this last excerpt, various and more serious claims have been made as well. For example, false witnessing of some loan applications, false details regarding employment and income, and increases in loans being actioned without authority.

[260] By that stage, I had the loan application documents (from the bank) and knew that our signatures were on that and witnessed by people that we had never met and that the information on the loan application was wrong and we had never signed that application for the loan. [interview with Storm investor]

[261] (We) went to war with the (bank) and demanded to see our agreements. When the agreements came back, well the pages were just black. There was supposed to be in one group – there was supposed to be five pages, wasn't there, one group of papers. We got two that you could read and the other three were black… when we eventually asked for the unmarked copies, they were unsigned documents and statements on them like that we were retired and had been retired for seven years at the time when they took out this loan and then further down, they said you know, (my wife) had been working for a particular firm for the last seven years, I'd been working... [interview with Storm investor]

[262] *Stuart Robert MP:* You indicated in your statement that your margin loan went from $2½ million to $3 million without your concurrence. Is that correct?

Investor: Yes.

Stuart Robert MP: How did that happen?

Investor: I do not know.

Stuart Robert MP: Did you give Storm Financial any authority to borrow on your behalf?

Investor: No.

Stuart Robert MP: So there is nothing in the (terms and conditions) that you are aware of?

Investor: …No.

Stuart Robert MP: Then the only way would be that they made a loan on your behalf without your concurrence, which may be fraudulent—

Investor: Yes.

Stuart Robert MP: if there is no way that you approved it or signed it, there is nothing in the Ts and Cs that gave them the authority and there is nothing written down that they can present showing they have authority to make a loan on your behalf.

Investor: If I may remind the committee, this was only less than a year ago. I am very, very clear that no authority was given to Storm Financial and no authority was given to the Commonwealth Bank or any of its subsidiaries. [public hearing [6], p.103]

SICAG's public submission summarises most of these concerns.

> [263] Loan applications were routinely massaged to ensure the loans met the banks' approval criteria. SICAG members who have successfully retrieved their loan documents – many of which contain blacked-out sections – have been shocked and alarmed to find serious errors relating to the stated annual income and in many cases personal data. [public submission 276, from SICAG]

6.4.4.1.2 Bank admission: standards not met

ASIC's observation of the above issues is informative here, as is that of the financial services company AXA. Both sets of observations are relatively innocuous (and necessarily vague at that stage of proceedings for ASIC), but do portray the general feeling that normal lending standards were indeed awry.

> [264] Recent retail investor losses have shown that in some cases Australian lending institutions may have failed to apply their usual standards in the bull market. This was particularly so where the retail investor dealt with the financial institution indirectly through an intermediary. In some cases this has resulted in higher risk lending to retail investors and inadequate management of existing loans. [public submission 378 from ASIC][300]

> [265] It appears that some credit providers did not undertake the normal enquiries required for the prudent provision of credit, including reasonable scrutiny of financial information to support the request for credit as well as a proper level of analysis of the borrowers' balance sheet, income and ability to pay. [public submission 385 from AXA]

These shortcomings have been acknowledged by various banks. A selection of such acknowledgements follows.

> [266] Following a two month review, ANZ has currently identified around 160 of our customers who may have borrowed from ANZ to invest through Storm Financial... we have

[300] ASIC expand further in their submission on shortcomings and extra risks associated with relying on an intermediary "who offers a large volume of business to the lending institution". The overall risk is summarised as "the lending institution may fail to focus on the retail borrower as the ultimate borrower".

determined that the lending decisions for a small number of customers did not comply with ANZ's credit policies and we are undertaking further review to assess whether others could also be in that group. [public submission 379 from ANZ][301]

[267] Home Lending practices in relation to Storm's clients were sometimes deficient… we believe our home lending policy to be broadly consistent with our peers. Regrettably, these policies and practices were not always followed in our Townsville area office in lending to Storm customers… the fact that a relatively small financial planner group, in terms of adviser numbers, could have a disproportionately large, and, in some cases, devastating impact on some of our customers, is deeply regretted. That one of our relatively small offices could write a disproportionately large amount of home loan business without attracting further scrutiny is a disappointing operational concern. [public submission 357 from CBA][302]

Furthermore, despite the Bank of Queensland's defence of its practice with Storm in excerpt [256] above, it nevertheless also conceded that it too could operate differently in the future.

[268] *BoQ CEO*: Policies and procedures are put down as mitigants to manage risks. The preferred model across the bank, as I mentioned to the chairman earlier, is that lending managers meet face to face with their clients. In respect of Storm clients, we had a written authority to deal directly with their financial adviser.

Stuart Robert MP: Did that make you uneasy…?

BoQ CEO: We are reviewing our policy as a result of these findings and I am sure that we will want face to face. [public hearing [8], p.48]

[301] ANZ acknowledged further in public hearing [2] that the ideal situation is that "you want to be able to understand the client's needs and what they are doing with the funds that they are borrowing… we would say there is a broader responsibility to the client to make sure that we do not give clients funds where we do not think it is appropriate" [Deputy CEO, ANZ Banking Group, public hearing [2], p.44].

[302] Such claims were rejected by former CBA employees in public hearing [5], stating that "these staff (in Townsville)… simply followed the process that was approved and referred to appropriate areas when required" (p.79).

6.4.4.2 The margin issue

The issue of who should have made a margin call, when it should have been made, and why in the vast majority of cases it wasn't made, is a significant one and is given much attention across all data sources. For example, in public hearings [7] and [9] there is extensive discussion of the margin call issue with the CBA, and in public hearing [9], there is extensive discussion with the Macquarie Bank.

We cannot do justice to the full coverage of this issue here, but instead give selected examples to provide various perspectives, and importantly for our research questions, set the scene for describing the impact of Storm's collapse. As such this section briefly considers perceptions towards the credit provider(s), perceptions towards Storm, and the implications for individuals caught in the middle.

6.4.4.2.1 Perceptions of the role of credit providers

According to the AEC / SICAG 2009 survey, 93% of respondents believed that their margin lender had a had a duty of care to contact them for the purposes of making a margin call. Furthermore, 25% of respondents had previously experienced a margin call, and of those, 63% were advised of this margin call via the bank, 33% via Storm, and 4% through both. As such, there is a strong sense of disdain held towards the credit providers in respect of margin calls not being made, and the significant losses that followed.

The breadth of blame allocated to the credit providers in this issue is evidenced across all data sources, and various public submissions from Storm investors indicate the depth of feeling about the issues as well (for example, public submissions [91], [129], [207], [211], [269], and [356]). Public submission [281] gives the perspective of an ex-Storm employee, as do the testimonies of ex-Storm employees at public hearings [4] and [5]. The perspective of Storm's founder Emmanuel Cassimatis is apparent at public hearing [6], where he indicates his trust in the credit provider to contact him at the appropriate time with regards to his own margin loan.

Furthermore, the FPA infers a degree of responsibility on the credit providers as well.

> [269] There was a significant role played by banks with regard to the daily management of the portfolio at the point of margin call, the subsequent extent of exposure of Storm clients and the consequent impact on them as a result of market shifts... While we certainly acknowledge the role of advisers and have responded in recognition of the failure of our professional expectations, lenders must plausibly account for their activities with regard to these collapses. [public submission 277 from the FPA]

A selection of interview excerpts also demonstrates where a strong sense of blame is perceived to lie.

> [270] My husband has always blamed the banks. He reckons... (the margin lenders also) should have had more duty of care with his money. [interview with ex-Storm adviser]

> [271] We had a negative equity of about $320,000 - $350,000 on the (margin) loan. We were able to find the funds to do that but that pretty well wiped out any cash reserves we had and so all of (the margin lender) was satisfied and of course they sold us down at the worst possible time in the investment cycle without any consultation – in spite of the fact we have a document saying they would provide us with 5 days' notice before taking any action. [interview with Storm investor]

> [272] As far as I feel, I just think that for us, the (bank) was the entity that caused all our problems... they, through their... contract with us which was that when the LVR got to a certain point, they would contact us, which they never did. [interview with Storm investor]

A further concern to investors has not just been the lack of a margin call *per se*, but also the nature of contact with the credit provider immediately following the sell down of an individual position. Such contact has strengthened impressions as to where operational failures occurred.

> [273] Not once did they contact us regarding reaching a margin call, and we were given no opportunity or say in the matter. The first contact we had with Colonial was on 8 December, and by that time everything had been sold down. That, consequently, left us

> with nothing. We had a phone call from Colonial on 8 December telling us that we owed them $16,000. The gentleman on the other end of the line said, 'We want that cheque by the weekend or by Friday,' and I said 'Well, I am not going to pay any money until such time as I get this in writing.' I received an email shortly afterwards. I looked at the email and saw that the $16,000 was not even in my name; it was in the name of another Storm customer. So, obviously, Colonial were not sure who owed whom what. We did find out, when we received our bank statement on 12 December, that they had a debit of $15,000 on one statement and a credit of $15,000 on the other statement, so in fact we owed them nothing. It had been paid out and we were all square, but they were still chasing $15,000; they could not even look at their two accounts to see that one had a credit and one had a debit. [public hearing [4], pp.35-36]

An additional and related aspect concerns an increase in maximum LVRs on investors' portfolios, which apparently occurred for many investors over time. Such an increase, if utilised by Storm and the investor, clearly gives the investor less room to move should investment values fall suddenly – in other words, a greater risk for investors[303]. A somewhat evasive exchange occurred in one public hearing when discussing this point.

> [274] *Senator Mason:* But the bottom line here is that the risk has changed and the clients—your clients, who have a contractual liability to you—have not been informed. That is a fact, isn't it?
>
> *Mr Narev (Group Executive Manager, Business and Private Banking, CBA)*: I am not sure that the risk has actually changed.
>
> *Senator Mason:* It has. The LVR has changed.
>
> *Mr Narev*: There is a question here—and I expect this will be discussed extensively in the remediation process, because this is a bit of a vexed question—about whether or not in fact a margin call is intended as a stop loss for a customer.
>
> *Senator Mason:* Mr Narev, come on; you can do better than that. Let's be serious. Quite clearly the risk has changed. It is for and against both the lender and the client, the customer, but it has certainly changed and the client has not been advised. I am not sure that is responsible, Mr Narev.

[303] Appendix E highlights the remarkable increase in variability of potential outcomes as LVRs increase.

Mr Cohen (Group General Counsel, CBA): Could I maybe make one point there. We do acknowledge that some of the issues around margin lending are not clear. It would be fair to say that that is exactly the reason why we are taking—

Senator Mason: Mr Cohen, the question is not whether they are clear; the question is whether you acted appropriately and prudently. You may have acted in accordance with the law. I am not making any suggestions there. The question is whether you acted ethically, appropriately, morally and prudently.

Mr Cohen: I think that is an issue that should be and will be dealt with in the resolution scheme. [public hearing [7], p.70][304].

6.4.4.2.2 Perceptions of the role of Storm

However, it is not exclusively the case that all participants lay the responsibility at the door of the credit providers. An interviewee considered that Storm had duty of care over time as equity values tumbled throughout 2008.

[275] Storm's duty of care; they should have been monitoring it more closely when they saw that things were going down. They should have said, "Oh well, we'll see this and put it aside so you have some cash reserve" but they didn't. [interview with Storm investor]

Others allocate responsibility to Storm because of a lack of plans in place to deal with the possibility that real events could undo investor positions, which by definition would only be needed at critical times.

[276] As the market was dropping uncontrollably every day was vital for myself and other Storm clients to be kept informed as to the status of their investments so as to avoid a damaging margin call. Storm failed to acknowledge that the market could drop to such depths, and therefore had no strategies in place for a falling market. I believe this is the main reason why the Storm model failed. [public submission 287 from Storm Investor]

In its defence, CBA claims that it was at Storm's insistence that any margin call should come to them rather than the investor. Furthermore;

[304] For the record, margin calls typically do not provide a stop-loss mechanism for the investor (but this was not the question being asked in the conversation).

> [277] This arrangement and Storm's strong reluctance for us to have direct contact with their clients is consistent with industry practice. While we advised Storm of margin calls, Storm did not action these with its clients on a timely basis. Once we became aware of this, we made direct contact with these customers and learned of their considerable hardship. [public submission 357 from Commonwealth Bank of Australia]

CBA's belief is that due to the severe falls in equity markets between September and December 2008, Storm simply "struggled to deal with the exceedingly volatile times the market was experiencing" (public hearing [7], p.85). Macquarie Bank also was of the opinion that the process for passing on margin calls was breaking down at Storm's end, to the extent that margin calls were not being passed on at all.

> [278] During October 2008, we became aware that there was a breakdown in margin loan call notifications with Storm. Storm was apparently not passing them on to their clients. We responded by immediately investigating the situation and by late October we had commenced direct notification of margin calls to clients. We continued to be in daily contact with Storm to notify them of client margin calls during this period, and daily updates on the website were maintained. The intermediated margin call process continued to operate satisfactorily during this period with other dealer groups that we were dealing with. [MD and CEO of Macquarie Bank Limited, public hearing [9], p.3]

In public hearing [5] (pp.74-75), a Storm investor confirmed to the PJCI that Macquarie Bank did make a margin call to him and as a result he contacted Storm to make arrangements to cover that margin call. However, nothing happened with that instruction and that investor's position was subsequently sold out with everybody else.

6.4.4.2.3 Implications

The difficulty in determining the actual events from such accounts is clearly apparent[305], as attested by PJCI members themselves.

[305] But notably it is deemed by many to be an operational issue rather than a risk management issue *per se*. The Institute of Actuaries of Australia for example stated that "this was probably an operational issue. It was not a risk management issue. I think some of the operational issues fell down" (public hearing [3], p.81).

> [279] What I am saying is that things are vague here. We have had the blame game to this committee all the way through: banks are blaming Storm for not activating the margin calls; Storm are saying it is the banks' fault; and the banks are saying they changed the rules between 2003 and 2008. They are not quite sure when they changed them. [Senator Williams, public hearing [9], p.45][306]

More relevant to the research goals at hand is that in the middle of all this there are real people who as a result, faced significant losses.

> [280] Each party blames the other – CGI say it was Storm's responsibility to advise them of what action they should take in respect of the margin call, while Storm maintain that it was CGI's responsibility to advise us directly. In the meantime we're the poor bunnies caught in the middle of this Teflon-coated argument. [public submission 49 from Storm Investor]

The margin call issue was such that 80% of AEC / SICAG 2009 survey respondents did not get a margin call prior to the sell down of the index fund, and that 60% had LVRs that exceeded 100% before they got a call from their margin lender[307]. This is despite the claim of many that they had agreements with the margin lender that they would be contacted directly as required, and that this assurance itself was a major factor in pursuing the Storm investment.

> [281] *Investor*: We were comforted by the fact that we had a written agreement with (the margin lender).... that if the LVR situation did get a bit tight, we (the margin lender and Storm) will make contact with you and we will give you five days' notice, five business days' notice to rectify any problem.
>
> *Interviewer:* That's (the margin lender's) written advice to you?
>
> *Investor*: That's right, yes, in writing. In writing. A contract if you like between us. An agreement between us. It was signed by us and signed by them that we will give you five days' notice for you to correct that. Now they never did call us and that's what the whole

[306] An interviewee more humorously appreciated his own futility in knowing what actually happened by stating: "rumour has it that the people that were looking after the margin loan sort of thing, was one bloke and a blue heeler dog and he got so far behind, that they just stopped". [interview with Storm investor]

[307] However, some investors who actually did get a margin call, still suffered major losses due to selling near the bottom of the market. For example, one investor lost their "original pre-Storm share portfolio, the extra cash invested into the Storm funds, the fees paid to Storm, huge loan break fees… and the massive interest payments already made in servicing the loans. We are also left with large extra loans to repay (the funds for which have disappeared)" (public submission 157).

> thing was all about. They never did and they pulled the pin and they are now saying that they had come to an arrangement some two years ago – two years before it all hit the fan, with Storm that Storm would in future tell the clients, not (the margin lender). If such a change was made we were never advised by either Storm or (the margin lender) [interview with Storm investor]

What it leaves many investors with is a huge sense of loss and distrust. One investor claimed that their family and friends refuse to ever deal with the their bank and margin lender again (public submission [91]), and the resulting emotional stress and frustration is conveyed by one interviewee.

> [282] (The bank said) we were never going to contact you. We contact Storm. We do not contact you. I had a margin loan with the (bank). Storm didn't have that margin loan, I had it. I had contractual obligations that weren't met. They just sold me up without any notice whatsoever. No buffer call, no margin call, nothing… "We don't have to." So for the sake of a 30-cent phone call, you sat there watching me slide into oblivion and didn't ring me, despite the fact that our contract says you will give me a buffer call. It says you will give me a margin call. For the sake of a 30-cent phone call, you couldn't be bothered to contact me, even though you knew that the Storm Financial product was geared in such a way that if I didn't correct it, I would be catastrophically destroyed. [interview with Storm investor]

6.4.4.3 Closing the funds

The final closing of Storm's index funds was described by SICAG as acting in in "undue haste amid the panic that prevailed at that time without any regard for the clients" (public submission [276]). As such, their views towards the bank are naturally very strong.

> [283] It came about because those players in the game who held all of the might and power—and let there be no mistake to whom we are referring here and that is the banking industry—recklessly misused that might and power when the going got tough by ignoring the fundamental rights of their clients. In their omnipotence and arrogance it was as if their clients did not exist. They clearly did not take into account the human consequences of their precipitative action to shut down the Storm indexed funds without warning. We simply became the sacrificial lambs on the altar of their own greed and self-preservation at the very

> time when we needed the support of the institutions that we had trusted so implicitly to exercise a duty of care to their customers. As a consequence they allowed us to be totally destroyed. [Co-Chairman, SICAG, public hearing [6], p.70]

The CBA gives explanations of its decision to terminate the index funds in its public submission [357] to the PJCI and also during the appearance of executives before the PJCI at public hearing [7] (p.95). We do not repeat those explanations here but simply note that no amount of explanation is likely to ease the impact on investors, however justified or otherwise those actions were.

One further frustration has been associated with the perception that the CBA could have just held on for markets to improve.

> [284] If the banks had of held their nerves, the last statement that we had on our investments was the end of September 2008 and the portfolio at that stage was worth $2.65 million and we still owed at that stage, $2.1. So we had still half a million dollars sitting there. The stock market at that stage was down to 34 or 33. The stock market is now at 42 which is you know, 33 per cent up. So if the banks had of held their nerve for another couple of weeks, everything would have turned out alright. [interview with Storm investor]

A response is also given by the CBA to this in public hearing [7] (p.96). Again, we do not repeat it here, but rather note that the sources and reasons for antagonistic views towards credit providers, and Storm, are many and varied.

6.4.4.3.1 Visual representation of loan, margin loan and fund closure issues

A word cloud representation relating to loan, margin loan and fund closure issues is overleaf:

6.4.4.4 Trust in Storm

From earlier discussion regarding about the rationale to invest with Storm, it is evident that trust was a big factor in attaching credibility and deciding to commit to a course of action. One of these objects of trust was Storm itself – as a company, a group of individuals, and a strategy. Post-collapse however, the prevalence of a distrust in 'Storm' in its entirety is obviously high on the minds of those making a public submission to the PJCI, with 118 of the 168 submissions making some adverse observation about their experience with Storm. Significant commentary was also made amongst other submitters: 27 of the 76 submissions from financial planners, non-investing individuals and financial services organisations / institutes / associations felt the need to also provide some comment which was negative about some aspect of Storm.

In this section we describe investors' perceptions specific to Storm after its collapse, and overlay this with various critiques and observations from others – particularly those in the financial services industry. This is done by separately considering perceptions of Storm's strategy, issues associated with communication of risk, the greed factor, and perceptions of what has happened following Storm's collapse.

It is important to note however that a commentary on such perceptions is not necessarily a judgement call on the original motivation behind Storm's approach. Indeed, despite some reservations about the strategy and various behavioural aspects as time went on, some of those interviewed nevertheless felt it important to clarify that Storm obviously did not intend for things to go awry, and also that the genuine motivation was for people to make the most of their situations.

[285] I'm sick of people being bitter at just Storm. It was a circumstance. Do you think someone who was running a company over $4 billion worth and having your own jet planes and everything wanted to go broke or go through this? [interview with ex-Storm adviser]

[286] It always used to pain (Storm's founder) to see that people had this huge asset in their home and were not able to do anything with it, through the MLCs that he worked with, you know, and he said, "There's got to be a better way that people can get a better life and don't have to be on the pension" and this is a way forward to do it, you know? [interview with Storm investor]

6.4.4.4.1 Strategy

Many aspects of Storm's strategy are now met, in hindsight, with some scepticism. In terms of its investment strategy, some investors now see the model as unviable.

[287] Our current situation has left us feeling betrayed and also saddened that someone whom we had trusted and whose advice and expertise we had for long accepted as been reliable, responsible and suitable for us and our client profile, took such a risk with our lives and our future financial wellbeing… the fact is, we now know, the STORM created cash flows were: not sustainable, not viable and did not have the ability to sustain the associated borrowings. [public submission 307 from Storm Investor] [308]

[308] This investor detailed their concern (in hindsight) with the presentation of the LVR. When informed that it was 61.5% (a margin loan of $1.686m and investments of $2.74m), this excluded the fact that their home mortgage of $380k also contributed to their investment position. Thus, their actual LVR in terms of (total borrowings):(investment assets) was (1.686+0.38):2.74 = 75.4%. However the margin lender would have seen an LVR of 61.5%, Storm may well have said that the overall debt:asset ratio was indeed approximately 60% if the home loan was 60% of the house value, but the vulnerability of the investor where they do not see their home as an income-deriving asset is more appropriately given by the LVR of 75.4%. Another investor picked up on this also: "Apparently, nowhere, at any time after we had completed our mortgages did Storm include the mortgage in our LVR, only the margin loan. Flawed from the first mortgage" (public submission 244).

[288] We borrowed money at 9.5 or 9.7 per cent, something like that. That money – and the whole situation was based on paying interest on a loan only. Right, you always had the loan there. But in a couple of years' time, you would pay that off and you know, your money is multiplied, you know. In ten years' time mate, I could have taken all my kids anywhere in the world for six months, you know? But the banks – this is the way I read it now, just now. If you'd ever make 12 per cent every year, you wouldn't be able to pay the bloody interest back, let alone live. At 12 per cent, you pay the interest back and every tax time, we got caught; they would advise us to borrow more money to prepay interest or before June for the next year, you know and so this made the loan worse; more than what you had and all this sort of stuff, you know? And 9.7 would have had to be made to pay the bank back... [interview with Storm investor]

Significantly as well, the investor above realised that some of the unsustainability of what he was considering was due to his adviser pushing for a higher income in retirement than what he was needing, expecting or even wanting.

[289] I think we said we wanted $40,000 a year but it was so good, he said "Oh, take $55,000 and $58,000" or whatever it was. We never had that much money in our lives, you know? [interview with Storm investor]

Another investor documented his disagreements with Storm over their push for higher LVRs on his own position, which he likened to "going to the casino". Yet despite being a strong enough character to resist this continued pressure, he could not or would not address other issues of concern with Storm.

[290] *Senator McLucas:* It sounds like the relationship that you had with Storm was a bit testy. Is that a reasonable descriptor?

Investor: Absolutely. We wanted to draw some money out, but we were afraid to go there because they would say no.

Senator McLucas: It is your money.

Investor: Yes, exactly.

Senator McLucas: Why did you not go and say, 'I don't want to have a relationship with you anymore. I don't like this'?

Investor: Because at the time it was running reasonable...

Senator McLucas: …I find the relationship between many of the investors and the organisation to be different from what I would expect it to be between an investor and a financial adviser.

Investor: These people are meant to know more than we do.

Senator McLucas: You are paying them commission.

Investor: Exactly, and lots of it. I said in my statement, 'If you don't have the brains, buy them.' That has been my motto all the way along. [Storm investor and Senator McLucas, public hearing [5], pp.72-73][309]

Not all investors are disgruntled with the strategy however. Two interviews highlighted a perception that the strategy was appropriate for their particular circumstances, if managed appropriately.

[291] *Husband:* Asked if we would follow the strategy again, I would turn around and say yes. There's nothing wrong with the strategy.

Wife: For us anyway.

Husband: For us.

Wife: For when we were involved and all that. What we don't know and never will know, is some of the people who seemed to get involved with Storm very late in the piece before when I – late in the piece before the crash happened, we read like everybody else – read about what happened to them in Townsville and a variety of other places and little old ladies signing over their lives and stuff like that. I can't imagine the people that we came into contact with, would ever do anything like that and I really mean that, because they seemed to be pretty genuine people and I've worked with a lot of salespeople on and off. But yeah, so whether some of these people were really genuinely ripped off, whether the people involved were people who just recently got involved with the Cassimatis group to make a lot of money or whatever; we will never know that and I think that's why we found it a bit difficult to comprehend and to believe some of the stuff that was written because it just didn't seem feasible. [interview with Storm investor]

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[309] This transcript clearly indicates that the individual continued with the strategy, despite reservations with various aspects of the relationship. However, it also implies something even stronger for trust in the adviser, where despite the investor's reservations and discomfort, nothing seems to have ever been done to address or respond to such concerns. It is indeed a peculiar exchange, and echoes what others have said about the collapse of Westpoint: "Yes, the people… want to get a maximum return, but if they are going to a financial adviser who has a fiduciary duty to them as their client, then what that adviser should do is advise them not to do it, and in fact what they're getting is exploitation" (Kohler, cited in Woolrich 2006).

[292] The only thing is we had some assets but didn't have enough income so we thought we had to pursue an area where we could generate some income and well, it's like any scheme; I still say the scheme wasn't too bad. It provided us - monitored correctly and they liaised with you when the market starts to fall and you'd sell off some of the assets to keep it in cash reserves. But you know, they didn't seem to do that and it was lack of duty of care. That's all. [interview with Storm investor]

Furthermore, one submitter was content with the information and advice provided, and considered that the model itself could handle the fact that markets go up and down. Their main point of contention was with the fidelity of the margin lenders (public submission [147]).

A selection of criticisms regarding the specifics of Storm's strategy from various financial planners and professional institutions is provided in Appendix E.

6.4.4.4.2 Communication of risk

One investor gave two highly informative insights about aspects of Storm's approach that concerned her. One was the lack of communication regarding what was occurring with her position in terms of borrowing against the home.

[293] We were advised that, having paid off our house, we had a certain amount a month that we could use for investing. They called it getting equity out of our home, which at the time we did not realise meant that it was another mortgage. It was only some months later when we were applying for a credit card and it asked for mortgage payments. I said, 'Have we got a mortgage?' I actually rang the financial adviser and said, 'Have we actually got a mortgage?' She said, 'Yes. I'm afraid you have', which sort of implies that she had not really told us that it was a mortgage. [Storm investor, public hearing [5], p.54]

What is remarkable is that this was not a one-off feature, but a continual process and an ongoing lack of awareness throughout the course of her investment.

[294] *Wife*: We were persuaded that you never take money out. You never close your portfolio. You never pay your debt and you train your children to take it on after you die. It just goes on. That is what they told us.

Bernie Ripoll MP: Is that what they said to you?

Wife: Yes.

Husband: Yes, that is right.

Wife: We were told that.

Bernie Ripoll MP: Did you ever try to take some of your money out, even small amounts?

Wife: Yes.

Bernie Ripoll MP: You did?

Wife: We wanted to buy our daughter and son-in-law's house, but we were told no, we were not to do that. We had to keep our portfolio.

Bernie Ripoll MP: In the 10 years that you were with Storm I am assuming that you made more than one attempt to cash in or enjoy the benefits of your portfolio growth?

Wife: As long as they were small amounts, that was okay. We could say we wanted a holiday or we had to buy a new car, but every time we actually drew from our portfolio they then increased the margin loan.

Bernie Ripoll MP: You never cashed in; they just increased the debt?

Wife: Yes.

Husband: Yes, that is right. I just want to mention that we were under the impression that when they said, 'We'll draw down the money', they were taking money out of a slush fund where our funds were being stored, when in fact they were actually increasing our debt. That was never explained to us. [public hearing [5], p.63][310]

Other investors however find it surprising how others could not know the detail of their positions and/or ongoing performance[311]. One interviewee made this clear, in the context of feeling frustrated that recent joiners to Storm predominantly jumped on a bandwagon of

[310] It is hard to not jump in at this point with our own opinion, as this transcript reveals one particularly disturbing point. With regards to never reducing debt but to pass it on inter-generationally, this quite obviously infers a debt in perpetuity and therefore also a creditor in perpetuity, and a vulnerability in perpetuity to all manner of sensitivities such as interest rate, income and investment variations, let alone liquidity risk. This foundational basis to have debt in perpetuity is sadly ironic given the overall motivation and goal of investors to gain a greater control of their lives.

[311] One investor says somewhat cruelly that "the Storm education process is thorough to the point where there could never be any doubt unless clinically brain dead how the money was invested, the risks associated with the investment, and the process by which the investments were purchased, managed and processed" (public submission 269 from Storm Investor).

blame towards Storm, whereas he felt that the credit provider(s) were far more responsible for the position that investors found themselves in.

> [295] I don't see how people can ever say they weren't aware, they weren't informed or they didn't understand… if they had of gone to any of the major investor update seminars that were there, they would have known. They would have known and they would have understood… and they came in – I think they came in with the opinion that Storm was the responsible entity and Storm did the wrong thing by them. Storm did the wrong thing. The people in Storm should have told them more. The people in Storm should not have let this happen. Well I'm sorry, if Goldman Sachs or whatever else goes belly up, there's damn all Storm can do. [interview with Storm investor]

Nevertheless, with regards to the specific issue of risk around the home, 89% of AEC / SICAG 2009 survey respondents did not feel that they were told of the risk that their home could be lost if share markets dropped.

6.4.4.4.3 The greed factor?

There are many facets to any discussion of greed. However, we do not dwell on them long here in respect of Storm itself, because the impact on trust is well established by other points, and a further extended discussion merely adds to the level of saturation on that which is already established. Furthermore, it is difficult to point to a specific feature or event and say that was due to 'greed', unlike, for example, being able to establish that aspects of Storm's model caused excessive risk for some investors. Therefore any discussion of greed is necessarily couched in very opinion-based terms. Nevertheless, two interview excerpts summarise the main aspects of greed that played out for the experiences of two investors.

> [296] They've got to live too, I guess, but the more they could screw out of you and it didn't matter at the end of the day if you left yourself short, but they were happy because they got a big thing. You know, they didn't sit back and say, "You know, I think that's too much. I don't think you can extend yourself that far." That never, ever happened to us. [interview with Storm investor]

[297] Why didn't I just walk away from it? I suppose what it comes down to was we had a relationship with our financial adviser… but I can also say now that as a financial planner, he failed. He failed to fully do the due diligence on the company that he was going in with. He saw an opportunity to make vast sums of money, which the planners of Storm were making, significantly better sums than what they would do under any other and that was – and I can't blame him for that, you know? We don't go to work because we love it. We don't go to work as a financial adviser to make other people rich. He goes to work as a financial planner because he can make significant sums of money, drive the car he wants to drive, live in the house he wants to live in, in the suburb he wants to live at and there is no way in the world I would criticise any person for that. Society can probably question itself if they're the right motivations but he was just human. That's the temptation… he succumbed to that temptation and that was a mistake. [interview with Storm investor]

The former perspective is also highlighted by the weight of testimony heard via the PJCI, which led to the following observation.

[298] There seems to be no exit strategy. So somebody might come in and say, 'I want enough to retire on.' Surely that would be a set figure: 'I need $1 million,' let us say, to take an arbitrary figure. But once that target of $1 million is reached, like a lot of people in Storm, they do not exit—they say, 'Now it is $2 million,' 'Now it is $4 million,' 'Now it is $8 million'—there is never an end point where they can actually say, 'This is fine; I now have enough to live on in my retirement.' [Bernie Ripoll MP, public hearing [7], p.109]

The link of this strategy to an implication of greed is given in a frank admission by an ex-Storm adviser.

[299] *Interviewer:* It was always more leverage up?
Interviewee: Absolutely. Not once. Now that's just a greedy brazen strategy to have more funds under management, to pick up more fees. [interview with ex-Storm adviser]

Interestingly again however, not all felt that this was the motivation. The following excerpt concerns the same investors who were happy with the Storm model in excerpt [291] above.

[300] *Husband:* One of the saving graces of the Storm scheme and what made it so much different and so much better than any other scheme was there were no trailing commissions. There were no ongoing charges or our investment funds. They were Storm managed funds in Storm badged funds. But there were no – every cent that we got out of it, was reinvested. There were no ongoing charges.

Wife: There was upfront...

Husband: You knew when you committed to a step, that if you were going to put in another $120,000, they would get something like $8,000 out of that. Now that $8,000 went to them as administration costs of everything going forward. I don't know and I can't say, but I don't believe that within the Storm organisations, that any of these – any people that we dealt with, were getting enormous personal commissions out of what we were paying.

Wife: No, we don't know. We don't believe so.

Husband: I don't know the arrangements within Storm; whether or not there was any incentive for particular Storm personnel to push and push and push. [interview with Storm investor]

Whilst many would take umbrage with the perception above regarding the relationship between commission, administrative expenses and profit[312], further evidence for the view expressed in excerpt [299] about the motivation for more funds under management comes from the following.

[301] *Investor*: So when I claimed my super I lost a certain amount because of the period of time, my age. But I was advised that wouldn't matter because I would make that up pretty quickly. And the fee structure with Storm Financial was very, very high, but the way they explained that, it was one-off payment, that you would be with them for this long period of time, they would be managing it. I got a year.

Interviewer: So they encouraged you to draw down your super for the purpose of investing in their product before the age of 60, for example, that was...?

Investor: Yes. [interview with Storm investor]

[312] And of note, the issue of the commission levels is not an aspect of Storm that we discuss in detail, with the paper attached at Appendix C addressing this to the extent we consider necessary here.

The above excerpt also reiterates the earlier example in excerpt [77] regarding the early withdrawal of superannuation for investment in the Storm model, even when that withdrawal attracted taxation penalties.

6.4.4.4.4 Post-collapse reactions

If it is the 'putting right that counts', then this aspect of trust in Storm has played a part is shaping attitudes of further mistrust amongst investors. A disappointment in one's own personal adviser was expressed in several interviews.

[302] The biggest disappointment I have in (our existing adviser) these days is after investigating the matter, is that he and almost every single other adviser, almost every other single adviser, scattered like rats exposed to the light, when this went bad. [interview with Storm investor]

[303] *Interviewer:* How about (any) of the advisers? Have you talked...?
Investor: They don't.... they've gone, yeah. Non-existent. You can't contact them. They just stay out of the picture and this is the hurtful part, they talk you into doing all these things and they've not rung to apologise or say sorry and it became, after six months of visiting and seeing people, you become sort of – it's a very strong friendship you get and you feel so let down. I mean it wasn't them per se that took my money, but you feel so cheated and violated by what they've done and I don't think on those lines too much. [interview with Storm investor]

[304] *Interviewer:* So when you signed up, you were thinking at the time; not quite comfortable with this?
Wife: No.
Husband: Well, I was.
Wife: (My husband) was comfortable but...
Interviewer: Because of the trust issue?
Husband: Yeah, yeah.
Wife:...I wasn't. I wasn't... I'm very cautious... I was always dubious. But I thought, oh well, he's trying to think of our future so I'll go along with it but then I thought about it; you know, I can't go blaming (my husband) and then I blamed myself... then I thought, no,

I'm blaming (our adviser) because he played us coming in for coffee here and saying different things and chatting, you know, like a normal chat and I just felt...

Husband: As soon as it went bad, he dumped us like a...

Wife: Yes, never spoke to us.

Husband: Although he spoke to me the other day and I wouldn't speak to him.

Wife: No, (my husband) wouldn't speak to him.

Husband: I know what I'd like to do to him.

Wife: And that's what hurt too the most. [interview with Storm investor]

Along similar lines, one ex-adviser expressed the following.

[305] I have to be candid and put on the record that I'm disappointed that a lot of the advisers have walked away from the clients and that sits uncomfortably with me. You would expect that if… a meeting is on and they made their living for a long time looking after those attendees, I would have thought that the advisers have a responsibility to attend that meeting. Maybe I'm wrong on that. [interview with ex-Storm adviser]

6.4.4.5 Trust in financial advisers

It is perhaps inevitable that a collapse on the scale of Storm would have wider ramifications in terms of trust. In fact, although most submissions to the PJCI from Storm investors focused on more immediate issues and problems than wider issues of trust in financial advisers beyond Storm (as these submitters were far more focussed on Storm-specific issues at that time[313]), the interviews allowed us to dig into broader issues of trust three to four years after the event. We find some differences between investors, with most quite adamantly declaring their trust in all advisers has gone, but some still would and do engage in this sphere. Both ends of that spectrum are discussed in this section.

The inevitability of wider elements of distrust was highlighted in one submission:

[313] Exceptions do exist of course, with, for example, public submission [21] explaining how distrust in Storm extrapolates to other advisers, and public submission [245] expressing frustration with how an engagement with a financial planner never provides an answer, but just a need to make more decisions for which they feel ill-equipped to do.

> [306] When Storm fell over the blame game started and with so much mud flying around it was inevitable that the whole financial planning industry would be blamed for the behaviour of one group. [public submission 251 from Financial planning business]

And, on a more resigned note, the Association of Financial Advisers noted that:

> [307] The failure of Storm, and others, opened the floodgates to a flurry of views and abuse and the maligning of an entire profession. In essence, the past 12 months has been open season on financial advisers, who have been blamed for almost every ill of the global crisis. [public hearing [7], p.27]

And, although submissions to the PJCI from Storm investors were not in the right 'space' at that time to annotate beliefs about the wider advice industry en masse, many submitters who were investors in non-Storm outlets certainly were. Some 40 of these 74 submissions indicated a distrust or negative commentary about some aspect of the wider advisory industry, whether that be their own specific adviser or just broader perceptions. Thus, levels of trust is most definitely an issue for the industry, and one we explore here.

6.4.4.5.1 General distrust

The interviews give an ideal opportunity to have investors talk about their perceptions of advisers and other industry professionals. One area of mistrust that interviewees spoke about was the money factor that they now believed motivated advisers.

> [308] And the worse part about it in hindsight you know, you trust these people that you've never met in your life before. You only go on all the friends that I had to say that they were making money and you give them your whole lifetime savings and you don't know them and you don't know what they're doing with it… the other thing that upsets me with these – these financial advisers; they're only an in-between man, hey? They're only a – this is what I reckon, anyway. They're just leaching all your money. They farm out – then they farm out your money to (the bank) or in this case, Storm bloody – anyway, it was all controlled by the bank, anyway with… some other bloody thing, you know? And they farm it out to those blokes, so they get a cut, the financial bloke gets a cut, they get a cut and they just leave it there. [interview with Storm investor]

[309] Keep one thing in mind - that these blokes aren't doing it for nothing. They're looking after their own backsides, their own interest, whether they be a used car salesman, whether they be a real estate agent, whether they be a financial adviser, whether they be an insurance salesman; it's number one first and the bigger thing that they can – well the more money they can get out of you, the bigger and fatter their wallets are going to be. So you know, while the road to heaven is paved with good intentions, there's always potholes in that road too. That's all I can say. [interview with Storm investor]

[310] *Investor*: We have nothing to work with and I will never go to a financial adviser again. Never. No. So we just continue on the way we are. Do our own thing.

Interviewer: So between financial advisers and lawyers, you don't hold much...credibility in these professions?

Investor: Not at all. No. They're all out to feather their own nest, well and truly. They're just interested for the money. No help whatsoever. [interview with Storm investor]

For another investor (a married couple), it was not so much a money motive that bemused them, but repeated bad experiences with advisers. They had been with four different advisers for the significant part of their working lives, and three of these had, they felt, significantly let them down (including Storm). As such, their perspective was more one of bewilderment than anything else.

[311] *Husband:* So we were convinced that wherever we went, of all these financial institutions, I'm convinced not one of them are any good.

Wife: They're no good.

Husband: Every one has failed that we've been in. Every one. Every one.

Interviewer: Have you been to any since then?

Husband: Nope....I've sort of spoken briefly to one or two indirectly but I haven't said what – I have nothing to lodge anyway. But I've got no faith in them at all because I don't think – the best one is yourself and we had of stuck to that......we wouldn't have been in any position – but I don't find any of them any good; that I've struck. But there must be some that are, but I haven't struck them. [interview with Storm investor]

For three further interviewees, there was nothing specific that they could convey, it was simply a case of just not trusting anyone anymore, and/or now not accepting anyone's suggestions with regard to any financial matter.

[312] I don't trust [financial advisers], I don't trust them anymore. I don't trust anybody with my money anymore. Now I've got nothing. I've had people approach me about it and I've just gone, well I've got nothing, I've got nothing of any interest to you. [interview with Storm investor]

[313] *Interviewer:* Have you talked to any – have you taken any financial advice since Storm collapsed?
Husband: No, I just don't trust no one.
Wife: Nope, don't trust anyone. I don't even trust (my husband). When he goes to shop, I say, "Where's my change?" [interview with Storm investor]

[314] *Interviewer:* Have you taken out financial advice since it all happened?
Wife: Yes, I did ring a fellow that...
Husband: I don't trust them.
Wife: When it first happened, I think – oh, somebody, whether it was ASIC or whatever, there was a group of financial planners offering free advice that you could ring up and I rang one and his advice was to sell the house immediately for whatever you can get it, no matter what it is and get on with your life, even if you've got to rent something and I thought, no, I'm not going to give in that easily. [interview with Storm investor]

An organisation such as the FPA in theory would add trust to a prospective adviser/client relationship, and indeed the discussion in section 6.3.5.1 showed that such credentials were a factor in developing trust in Storm's advice. But, the FPA too finds itself in a challenging position of dealing with consumer trust as well, as despite Storm being a principal member of the FPA, in the eyes of investors this did not convey any benefit to them and in fact potentially served to give a false and unwarranted sense of comfort.

[315] Storm Financial may as well have been a member of the local RSL club for all the FPA endorsement means. Financial Institutions should not be able to claim to be members of the FPA as if it means there is some protection offered to clients. Their endorsement is

> misleading. In December Jonanne Bloch from the FPA appeared on the Sunrise TV program stating that potential investors should look for financial planners who have a good track record, who are members of FPA and have ASIC endorsement. Well we ticked all those boxes and still ended up losing everything. [public submission 220 from Storm Investor]

The FPA's own public submission to the PJCI [277] indicated that "Storm completed annual audit reviews, and no complaints had been lodged with the FPA that resulted in any disciplinary action until late 2008", but other submissions questioned the role of the FPA (for example, [154] from the AEC consulting group) in not taking a more pro-active role with Storm prior to its demise. Of the 168 public submissions by Storm investors, 12 indicated some questioning or discontent with FPA's role, and there were 2 (out of 43) submissions from financial planners also expressing some general disappointment.

6.4.4.5.2 Regaining Trust

The need to re-establish and build trust in the industry is well acknowledged and accepted, with several submissions from financial planners conveying frustration and disappointment that their industry throws up cases like Storm (for example, public submissions [56], [257] and [332]). The downside for the industry is that such cases cast most other advisers in a bad light as well, and this swamps their belief that many people do get good advice, get good outcomes, and are happy with the ongoing relationships that they have.

[316] I think we should also be mindful to accept that in the vast majority of cases the trust that has been placed in financial planners has been well placed and that the advice that has been given has been appropriate and clients are better off for it. We firmly believe that and can show strong evidence for that. Where it has gone badly wrong where clients have been significantly affected is a significant tragedy for them and it is a very poor issue for the industry in terms of our reputation. [CEO of MLC Limited, public hearing [2], p.13]

[317] What I find interesting is how such abberative behaviour from a single group… could have such a big impact on the entire profession/industry. The impact implies that this behaviour was widespread within the industry (hence the need for FOFA), which is patently not correct. [email from financial adviser, August 2012]

[318] How many 'Storms' are there out there? How many one-size-fits-all practices exist? In my experience, these practices are the exception, not the rule. [Managing Director, Professional Investment Services, public hearing [7], p.111]

Of course, this provides quite a contrast with the views of impacted investors, and re-engaging those specific investors is no small challenge. An adviser from Cairns describes her own experience of dealing with Storm investors after the collapse.

[319] I guess I am part of what is the collateral damage of Storm—that is, I am actually a financial planner. I have heard what a lot of these people have had to say today and my heart goes out to them. Not only that, a lot of planners in Cairns have been supporting a lot of ex-Storm clients... I know there are some financial planners who had a lot of very difficult and tragic cases... Of the clients that I am dealing with at the moment, some of them are what I would call 'rescueable'. We are doing a lot of work to try to get them back on the track, but I do not think I will ever get—well, hopefully, I will have their trust, but I suspect it is going to take a very, very long time to do that. [public hearing [4], p.93]

The encouragement for the industry is that there are Storm investors who will re-engage with the industry, albeit tentatively at first. In other words, although many investors on the other side of a collapse like Storm will not work with an adviser again, this is not a universal outcome.

[320] I would be very careful. I mean there are very few that I would trust because I think that the education for people in the financial advice area is still not good enough and I think I could sit for the FPA or whatever it is and pass without any swotting. It's too easy and I think that that needs to be tightened up but no, I think there's a place for it. [interview with Storm investor]

A question naturally of interest then is what determines who does and doesn't trust a re-engagement with the industry. Two interviewees have actually done so, one due to a strong relationship with the local adviser, and the other one because they are now more assured and comfortable with their own sense and knowledge of risk tolerance – and clearly are fortunate enough to have the means to begin re-investing again.

[321] I am actually back with (our local adviser) because (they're) a very good sounding board for me if I have issues. [interview with Storm investor]

[322] My partner and I have invested in a small investment loan which is on a margin basis so that bank… is working with us on that and they were really good in that they sat with us and spoke about where we were comfortable with our loan sitting and I was very adamant that it would never get above that half point. That whatever I owe, I have double that of my own money. So that whatever is sold down, I still have capital left… So they've been really good in setting that up for us and they communicate a lot with us, so it's been really good. I did it through my tax accountant who also oversees a financial planner, so I'm very carefully – much more careful with – and more involved in the whole process. [interview with Storm investor]

6.4.4.6 Trust in the banks

It seems that disenchantment, anger and a variety of very strongly held perceptions of the banks represents the epitome of Storm's collapse. In fact, 127 out of 168 public submissions by Storm investors referred detrimentally about the role of banks and credit providers – remarkably, this is more than the 118 submissions that were adverse towards Storm. And it is not just a Storm issue either – 45 of the 74 submissions from investors other than Storm similarly spoke against their experience or perception of banks and credit providers, more than the 40 who had criticisms of advisers.

The most relevant impact of this is a severe loss of trust in what should otherwise be a cornerstone institution in one's financial affairs. Much of this loss of trust in the case of Storm is attributable to the discussion in sections 6.4.4.1, 6.4.4.2 and 6.4.4.3, but also of just as much importance are events that have occurred since then. A detailed discussion of the actual events is spurious to our research goals, but the briefest of overviews is offered in order to add further context.

6.4.4.6.1 Putting it right

In section 6.4.4.1.2 the acknowledgement of some bank(s) that they have made mistakes in some aspects relating to Storm was a precursor to providing individualised assistance, or larger scale resolution scheme(s) under certain conditions for applicable investors. Such efforts to "put it right"[314] have no doubt been met with a variety of responses: relief, grudging acceptance, or a further sense of injustice at what has transpired.

As discussed in chapter 3, the CBA resolution scheme in particular has had a varied reception. Of significance was its use as a flagship for the bank's stated concern for its customers and the emphasis placed on it in public fora. Indeed, statements concerning the resolution/remediation scheme were made on 29 occasions by senior CBA executives over the two public hearings [7] and [9][315], and 14 of these concerned the utility of the scheme in addressing a particular issue or concern[316].

We consider two major elements of post-collapse actions as relevant to the issue of trust. The first concerns the service received by investors, and the second relates to the overall perception of care.

6.4.4.6.2 Service and care really counts

Most people can recall when they have received poor service from others, and perhaps even recall when they have received good service as well. The service that sits in investors' minds, at least to the extent that some have revealed in publicly or in interviews, concerns a consolidation of frustration and distrust through poor service.

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[314] For a convenient citation of a convenient expression, these were the words of the CBA CEO in relation to Storm investors (public hearing [9], p.24).

[315] Including the exchange we labeled 'evasive' in excerpt [274].

[316] Many inferences are possible from such repetition, and we draw two: one, that investors would be relying on the timeliness, comprehensiveness and fairness of the scheme to assist their own recovery, and this inference certainly seems to be the intent of the bank in giving it such precedence at a Parliamentary Inquiry; and two, some investors might feel frustrated from such an Inquiry whereby they do not get answers to genuine points of concern that they had. These points are discussed in more detail shortly.

For those investors who have been financially and emotionally capable of dealing with their credit provider(s) again, frustrations with service have primarily arisen when trying to find out further information or settle some outstanding affairs. Particularly galling is that the losses suffered meant that the onus was on the investor to be pro-active in chasing up things (whether it be some positive bank account somewhere amongst the carnage, or important paperwork, and so on), despite perceiving that they had little control in being in the position that they now find themselves.

> [323] We had this money with (the margin lender) and it was supposed to be transferred over to the (bank)… into a cash account and we were given no information. We didn't know where it was. We rang (the bank); they had nothing. I ended up ringing (the margin lender). I think I was on the phone eight hours one day just ringing different people until we actually finally tracked the money down. [interview with Storm investor]

> [324] *Wife:* With (the bank), I couldn't get to talk to anybody and that was the really, really frustrating part.
> *Husband:* They acted dumb.
> *Wife:* Yeah, nobody knew anything about it, you know.
> *Husband:* Storm? You've had Storm damage have you, you know? [interview with Storm investor]

This couple above had extended issues in dealing with their bank[317]. As well as the difficulty in getting in contact with the right people to talk to, when that did occur, the resulting correspondence did not help the investor's state of mind.

> [325] *Wife:* We suddenly then hear from (the complaints division of the bank). She had just found our letter… she rang… I had a long conversation with her and she ended up – oh, horrible (person), ended up saying – what did she say to me? Something about, "You sound like a very intelligent person. How come you got caught up in something like Storm?" Can you

[317] This couple showed us the documentation of at least 21 extended phone calls over a 10 week period, with one series of phone calls in one day in April 2009 involving conversations with 9 different bank officers and ringing 5 different phone numbers. The end result was ringing the complaints division and being told that the bank officer "would look into my complaint and ring me back. She didn't". Another call was made 4 days later and an assurance given that the investor would be rung bank – she wasn't. Nine days later, the investor rang again and the bank officer could not find any record of previous phone calls despite there being at least 20 phone calls over the previous 10 weeks. Needless to say, "these exchanges…. caused immeasurable distress".

> imagine? This is the complaints resolution… and I said, "Well, the bank supported them."… then she emailed me about something and I emailed back something about I found it very hard the fact that you didn't get the letter and then I got a nasty email back saying how dare I insinuate that you didn't believe her, that she didn't get the letter. She was just horrible to deal with, really horrible. [interview with Storm investor]

As such, the reaction of the husband regarding such exchanges and treatment was succinct: "it makes my blood boil". Such difficulties with post-collapse service from credit provider(s) accentuate the already-strong perception that ultimately, a customer is merely an economic agent, rather than a real person with real needs. This is a part of the overall experience which has been particularly hurtful.

[326] The way we were treated by the (bank); that's where our house was loaned, was absolutely appalling. They would not even talk to us. I said to them, you know, "What's going to happen? Where do we stand? Are we going to lose our house?" They said, "Well, if you don't pay your margin money, you'll lose your house" and I said you know, "Where are we going to live?" Couldn't give a s---, was the reply. [interview with Storm investor][318]

[327] It all relates down to money and they don't care about us. We're not people to them; we're just names on a piece of paper. Well, that's how they've made us feel the last three years. We're just numbers and that's really hard too when you've always tried to be good to people and do the right thing by strangers and people and all of sudden to be treated like scumbags, that was really hard… we've always done the right thing. We've always been on time with our repayments and you know, to all of a sudden have 20 years banking with (them) and all of a sudden, just to be thrown out with the garbage, it was like we don't understand and it was awful. [interview with Storm investor]

6.4.4.6.3 Hang on a minute

Investors also commented on what they perceived as a damaging irony in what has unfolded with respect to the credit provider(s). In October 2008 the Australian Government

[318] This investor also stated that "I still don't know whether (Storm) is to blame or whether the banks are to blame" for the overall collapse. This highlights that for this investor, the post-collapse treatment is a significant influence on current perceptions of the bank, not necessarily the allocation of responsibility for previous actions.

Guarantee Scheme for Large Deposits and Wholesale Funding was announced, and this scheme formally commenced on 28 November 2008[319]. With the goal to promote stability in the financial system as much as possible, this gave a protective element for the majority of the recipient banks' liabilities[320]. The fact that some of the major participating banks in Storm then had this guarantee, but then also played a part in its demise, was not lost on many investors. For example, ex-Storm advisers and directors picked up on this in public hearing [6], and others noted it in submissions.

> [328] When times got tough for the banks, the Commonwealth Government gave their full support to the banks by guaranteeing deposits. When times got tough for Storm, the banks withdraw their support. [public submission 296 from Storm Investor]

> [329] Our Banks – including the Commonwealth Bank of Australia have been supported by our Government with Deposit Guarantees. This backing comes from taxpayer's funds – our taxes. So on one hand we are supporting the banks with our taxes while they act recklessly and wipe out the life savings of thousands. [public submission 211 from Storm Investor]

SICAG members in particular voiced their frustration and dissatisfaction with this twist in the credit provider(s)'role in Storm's affairs.

> [330] The Australian Government can and did rush to the aid of "The Four Pillars" during the latter part of last year by guaranteeing funds and borrowings to ensure a fundamentally strong banking system. At the same time those very same banks failed dismally to accord the same latitude to the "mum and dad" Australians who guaranteed the banks' security! [public submission 276, from SICAG]

> [331] The major banks are aptly known as the 'four pillars' because they underpin our nation's economy. This was made clear earlier this year when our Prime Minister and Treasurer used taxpayers' money to shore up the banks during the worst of the credit crisis. We ordinary Australian taxpayers stood by the banks during their hour of need. Surely it was

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[319] See http://www.guaranteescheme.gov.au.

[320] Hogan (2009) offers a critique of the scheme, questioning in particular potential hazards arising from such segmentation of the market. PJCI member Senator Williams also commented on the associated issue/impact of competition in public hearing [8], p.53.

not unreasonable to expect that the banks would do likewise in our hour of need. [Mr Noel O'Brien, SICAG Co-Chairman, public hearing [6], p.89]

[332] We fervently trust that the all-powerful banking industry might come to understand the power that they exert in society and that that must be matched by commensurate responsibility to behave with a conscience and a duty of care towards those to whom they owe their existence in this society. Ironically, these are the same ordinary Australians whose taxes were used to protect the banks against the icy winds generated by the current global financial crisis. [Mr Mark Weir, SICAG Co-Chairman, public hearing [6], p.70]

6.4.4.6.4 Overall perception and depth of feeling

The strength of feeling is such that for many, the collapse of Storm is significantly about the role of the banking sector, more so than Storm itself[321]. Again, this perception is not just due to events of the collapse itself, but also the treatment and actions since then.

[333] You know, this isn't about some…bloody financial company falling over, this is much, much filthier than that. Yeah, he's a ___, he made a mistake, he got carried away and he was probably a liar and a cheat and not a very nice person. That's nothing compared with what's been happening to us since. Nothing, you know? [interview with Storm investor]

This is evident from a number of publicly available data sources, of which one in particular is given below.

[334] What I find the most disturbing about this whole situation is the complete contempt the banks seem to hold for their clients. Firstly, … to completely deny all responsibility for the situation clients find themselves in. Secondly, to only admit liability in the face of overwhelming evidence, as per the ongoing investigations… Thirdly, having admitted to being partially responsible for client's situations, instead of trying to help rectify the problems it in itself caused, the (bank) used its position and client's desperate financial situations to stealthily encourage clients into signing away their legal rights by signing

[321] Indeed, "the ramifications of the Storm Financial collapse have been significant and have moved from concerns about the conduct of the firm itself to wider issues involving the financial planning industry as a whole and the role of the banking sector" (Washington 2011).

deeds of arrangements containing the very minimum amount of financial compensation possible. All of this under the guise of assistance with "financial hardship for clients of SF". I find this totally repugnant and wicked to the core. This may be legal but it is most certainly not ethical. [public submission 165 from Storm investor]

Indeed, where investors have perceived adverse responses from institutions following their own financial losses, a severe distrust in those institutions results[322]. Such responses serve to leverage any feelings of ill-will, particularly where a degree of fault and a lack of care is perceived by the aggrieved party. Various investors made such perceptions abundantly clear, with these perceptions strongly exacerbated by post-loss responses:

[335] I just cannot see why people in executive high positions of great corporations should get away with blatant lies to and deception of ordinary people. ASIC has started moving along, we have got SICAG involved and everyone is united. But we were stomped on at the beginning and told to forget about it. That is where it would have stayed if this had not occurred. [Storm investor, public hearing [6], p.62]

[336] It would be nice to think that large institutions could remember that the names on the documents belong to real people and start showing some duty of care to the people they deal with. [public submission 230 from Storm Investor]

The result of all this is certainly not a favourable one for any party involved, and can be summed up as a significant, permanent and strongly felt distrust of the banking sector. We give a selection of excerpts below, from different sources, to convey the breadth and depth of the results of such perceptions.

[337] I will NEVER trust banks or financial advisors EVER again. [public submission 165 from Storm investor]

[338] As a result of the Storm Financial experience and the conduct of the banks, it can be safely said that all SICAG members now harbour a lasting distrust of the banking system, the

322 This is significant given the observations of Burns (2011), whereby customer loyalty is consolidated and even enhanced by businesses addressing and fixing mistakes, rather than never making mistakes.

investment advisory and financial planning industries. [public submission 276 from SICAG]

[339] I naively trusted Storm and the banks to look after me. When the share market got the staggers late last year and the global financial crisis hit this country I was wrong and I am now paying dearly for my misplaced faith. ...However I can say here categorically today that nothing will ever restore my faith in the Australian banking industry. [Co-Chairman of SICAG, public hearing [6], p.88]

[340] *Husband:* Well, there's a residual affect for us. You give us all our money back now, I can tell you one of the big problems we're going to have is what do we do with it?
Wife: Who do you trust?
Husband: I mean I wouldn't put it anywhere near a bank again... (the banks) may have a legitimate business and they may be overall somewhat honest, but their dealings with the pensioners and the elderly particularly in this matter and the handicapped or disabled, has been an absolutely appalling disgrace. [interview with Storm investor]

[341] I've always banked (with them) since I was five years old and I've sort of stuck with them only because it's convenient. I don't trust them and they want you to go into all these schemes; no, I won't... I do not trust any bank anymore. [interview with Storm investor]

6.4.4.7 Trust in lawyers

There was little in the way of adverse commentary towards lawyers in the PJCI public submissions made by Storm investors. In fact, at that stage of proceedings, there was much hope that actions involving lawyers, in particular pending resolution scheme(s)[323], would soon deliver some appropriate restitution for investors.

[342] As we explained earlier, it will be (the lawyers) that will help us get to the bottom of the sordid acts of the (credit providers) and their partner Storm Financial – we just don't have the smarts to work it all out. [public submission 306 from Storm Investor]

[323] As noted earlier, much emphasis was placed on resolution schemes by the CBA in particular. However we note that not all comments that follow related specifically to one course of action, and we endeavour to keep the details as general as possible so as to emphasise the impact of distrust and disappointment, rather than the specific details for those reactions.

But for many investors, as suggested in the overview of Storm's collapse in chapter 3, their views seem to have changed in the course of time. In fact, the role played by lawyers in the aftermath of Storm's collapse was commented on in 10 interviews, and generally in adverse terms. Most commentary was very critical, some was slightly more guarded, and some was more resigned. The two main aspects discussed in interviews concerned the process involved in seeking 'resolution', and also the outcomes received.

6.4.4.7.1 Process

Some early concerns about resolution schemes were raised by SICAG members in public hearing [6] (p.80), mainly in terms of the process being used. For those interviewed, these early concerns grew into much greater concerns later on, with the benefit of time to reflect on actions taken. The views of five different interviewees illustrate this point.

[343] I wouldn't have trusted (the lawyers) as much. I just felt that I had too much faith in what they were doing, however at the time there was no other option available... I just don't think they would stand up in a court of law given the duress people were under, the lack of independent advice they received. [interview with ex-Storm adviser]

[344] (These lawyers were) very much getting a clear run on it and that was a source of frustration to me. [interview with Storm investor]

[345] As far as (the lawyers), I think they've sold out to the banks to a certain degree given they haven't pushed hard enough for some of the outcomes. [interview with ex-Storm adviser]

[346] *Investor*: I didn't feel they were acting in our best interest. At first I did, but after a while I realised no.

Interviewer: What changed your mind there or your perspective there?

Investor: They gave up too quick. They collapsed and became – at first it was like, yeah, we'll support you, we'll get you what you deserve, blah, blah, blah, and then they just caved in real quick and I'm thinking – I've become very suspicious then; whose side are you really on? [interview with Storm investor]

[347] *Investor:* (The lawyers are) being paid by the banks to solve a problem that the banks have on behalf of the Plaintiffs. I'm sorry that doesn't compute. [interview with Storm investor]

One further interviewee, who accepted a settlement through a resolution scheme and does not necessarily (though not completely) regret that choice, nevertheless was more guarded in his assessment of the overall process

[348] Overall I'm not as critical of (the lawyers) as a lot of people are. I mean there are lots of things that I thought were wrong particularly in the early stages; every time (one lawyer) opened his mouth he would be talking about that bad Emmanuel Cassimatis and that naughty Storm. In my view, the first words out his mouth every time, particularly when you're speaking to the media, it should have been about the naughty banks... not about Storm. What's the point? Storm is gone. Storm is dead. Made dead by the banks. There's not a cracker to be got out of Storm. The only way we're going to get any money out of this, is through the banks and they are the ones who were finally in the line to be culpable... he's also working for a bunch of people who have been devastated and he should have been thinking, in my view, more of them than he was thinking of the banks and if that wasn't going to work, well barrel out of it and run a class action. [interview with Storm investor]

6.4.4.7.2 Outcomes

Another interviewee (not cited in section 6.4.4.7.1 above) who accepted an offer through a resolution scheme was somewhat resigned in their own outcome. Yet, in recognising the benefit of having some compensation, they nevertheless considered that the circumstances they were in were not ideal to be making big decisions about acceptance or otherwise of any offers.

[349] *Investor:* (The resolution scheme) did get us some recompense, I guess, a small amount... I guess it was better than nothing and even though it was done, you almost felt forced to – I mean I'm not blaming (the lawyers) for that; that was do that or don't but we don't care which it is. You know, sign that or don't.

Interviewer: So how do you make a decision on that then? How did you make a decision at the time?

Investor: Well, it's better than nothing. [interview with Storm investor]

Others are far more critical of the overall outcomes for investors.

> [350] I'm in touch with a lot of people who have signed off on those (legal settlement) schemes. I haven't yet met one that's satisfied. I'm not saying there aren't some that aren't satisfied, but I personally haven't met one that genuinely said, "This is a good deal for me. I'm going to accept it and get on with my life." [interview with ex-Storm adviser]

We observe further that from attending the public meeting of Storm investors with lawyer Stewart Levitt in Townsville in October 2011, that there were a number of questions regarding previous settlement(s) accepted through other schemes. The feeling of frustration with those outcomes was obvious.

Yet another interviewee voiced a more general and implied critique of their experience with legal niceties involved in the post-collapse dealings with banks. His actions to seek some relatively minor recompense on an associated matter was not for the financial aspect, but as a way to assure himself he had some control by exercising a matter of principle in relation to what he and his wife were going through. The trivialness of the response did not reflect well in his subsequent regard for the legal professionals involved.

> [351] *Husband:* I thought I'd maybe send (the bank) a bill for $2,000… to the headman, the CEO, what's his name there? I can't remember… I sent him a personal letter saying you owe me $2,000 because this money that went missing, by the time they put it into the bank...
> *Wife:* That's what it would have made.
> *Husband:* At 9 point whatever (percent) they give me money, I said at the same rate of interest that you charge me, I'm charging you for the time you held that money. In this modern age with computers, you should have been able to do it with the press of a button. Anyway, I got a letter from the (lawyer) man saying, "Oh, we can get it for you. But once we get it for you, you'll never be able to sue them again." So I said, "Well stick it up your a---." It's not going to make me or break me, $2,000, but it was the principle of the thing, you know? [interview with Storm investor]

What this all leads to for many is the unfortunate outcome that again, a lack of trust in another aspect of professional services that is foundational for modern life. This was further attested by the experience of two more investors, both of whom had engaged directly with their bank(s), and then also had legal representation (whether through formal resolution mechanisms or other means) at some stage in the process[324]. The first investor was still dependent on this legal representation at the time of the interview.

> [352] *Husband:* Another one we found out you don't trust.
> *Wife:* So we talked about it, didn't we? And this was another wrong move. I thought here I am...
> *Husband:* And I thought, you put it in the hands of some experts who surely are on our side, they put themselves forward as being.
> *Wife:* ...but looking back on it, I'd come all that way on my own. I think I'd have been better to have kept going – we'd have been better to keep going on our own. [interview with Storm investor]

The second investor to have engaged with their bank by themselves differed to the one above in that they ended up doing the majority of the engagement by themselves, through to the point of a resolution. Similarly to the views on financial advisers, the whole process left them wondering as to the point of engaging with professionals in the first place.

> [353] And by that stage, yeah we were happy because we had our house back by that stage, because before all that and over the six or eight months, I had been negotiating with the bank myself... so I was negotiating with them and telling them lies and anyway, yes, finally we signed off... but the solicitors didn't give a stuff. They were getting their money and that's all they cared about, you know? So no one cares about people really, they just want the money. [interview with Storm investor]

6.4.4.8 Government

Given the significance of financial losses suffered under Storm and the strong resulting emotional response, we might expect also the perception of any other involved parties to be similarly strong as well – and this includes that of the government. However, perceptions of government do not arise solely from impressions of elected representatives, but from a range of other sources as well. Of relevance here are those things associated with the

[324] Neither of these investor's views were previously presented amongst excerpts [343] to [351].

functionality of government which includes the general regulatory setting, the role and action of regulators, and also the service and effectiveness of other agencies such as Centrelink. Perceptions of central government also arise from any political interest and comment on Storm's collapse, as well as the process and outcomes of the PJCI.

All of these areas lead an individual to form an impression of 'government', and with such multiple influences involved in shaping own views, different people can have quite different experiences and as such, quite different perceptions as well. This section considers the views of government in an overall sense, by sequentially considering the various arms of government involved in investors' lives in the aftermath of Storm. This leads to the overall key perception that forms as a result tin the minds of individuals – does government care about them, and their fortunes?

6.4.4.8.1 The ASIC factor

It was seen in section 6.3.5.3 that having an ASIC-approved license gave a degree of assurance and comfort to investors when considering Storm's strategy. The shortcomings of placing inappropriate trust in a financial strategy as a result of this, in the context of the Australian regulatory framework, was highlighted in public submissions.

[354] It is a requirement that product disclosure statements be lodged with (ASIC). Often many consumers assume, incorrectly, that this means... the investment and the organisation has been vetted by ASIC. [public submission 404 from National Information Centre on Retirement Investments Inc]

[355] I believe that the majority of consumers would be under the, sadly mistaken, impression that an ASIC license is a seal of approval that a business is reputable and safe to deal with. [public submission 197 from Opes Investor]

[356] A licence is not an endorsement by ASIC of a licensee's business model, its quality of service, or of the products sold or services offered by the licensee. [public submission 388 from The Treasury]

[357] We thought the regulators would be aware of the kind of advice that Storm were applying to their clients. We were too trusting, it seems. [public hearing [4], p.55]

As such, a degree of frustration and bemusement is shared amongst Storm investors as to what ASIC actually can and cannot do, and what is actually does in the market. Such frustration resides across several areas of where investors believed ASIC had, and has a role: licencing, leading to a knowledge and therefore implicit approval of a business model; ongoing surveillance of financial entities; the possibility of market intervention for the purposes of consumer protection; and post-event responses. Indeed, 37 of the 168 submissions by Storm investors spoke to some aspect of ASIC which they felt was inadequate (whether perceived or real). It is obviously a feature of regulatory bodies that they take the brunt of some angst in and across the market[325]: 29 out of 74 submissions from non-Storm investors, 11 out of 43 submissions from financial planners, and 20 other public submissions spoke of various perceived shortcomings as well.

Several interviewees and additional correspondence attested to this range of frustrations, mainly emphasising the perceived inadequacy of a regulatory body (and system) which does not take action when in hindsight, investors believed that it could and should have.

[358] ASIC, it was only about three or four months, they'd come up and done an audit on Storm and gave them a clean bill of health. They were asleep at the wheel too. You know, they were driving there with the handbrake half on and half off and they gave them a clean bill of health. [interview with Storm investor]

[359] Where is a body that you can really go to, an objective body that you need? And ASIC really is a toothless tiger, really. It is viewed that way. [interview with Storm investor]

[360] I think the whole thing has given everybody a wakeup call and we need better – we need a better body than ASIC. ASIC doesn't have any teeth of it. [interview with Storm investor]

[325] As highlighted by one financial planner: "It is not my intention to damn ASIC with faint praise but… ASIC are caught too often between; acting in a way that can be described as "too vigilant" and accused of stifling competition in economic boom times, (and) acting in a way that can be described as "not vigilant enough" and accused of not protecting the consumer when products or markets provide unexpected or even unfavourable outcomes when the economic boom times are over" (public submission 168 from Financial Planner).

[361] I believe that ASIC didn't monitor this investment scheme as they should have either. I mean obviously they had to – reports had to be submitted or they had to seek reports every so often and obviously they were just accepting as it is, instead of – you know, now they can see that there was a problem and they're investigating everything. Well, I think it should have been – I think they should have been on the ball earlier. [interview with Storm investor]

[362] I think they're a toothless watchdog and I think they've done not enough to protect those consumers. I think governments are full of hot air. Sorry, I know you work in the capital of hot air. [interview with ex-Storm adviser][326]

[363] Losing my home of 37 years... I was lucky a former (colleague) put me up living in his garage for 9 month; as they didn't have a room inside the house, using an old outside dunny. It was impossible to get rental as I had almost no income and no credit records as I had never had cash flow problems, not even to buy a car. I am currently on a pension and living in a Public Housing apartment, relying on ASIC (again, I mean where was ASIC - the watchdog - before it all happened!) [email from Storm investor, August 2012]

Another investor highlighted the connection in their view between the perceived trust in licensing arrangements, and the implication that this trust extrapolated to government as a whole.

[364] They are the regulators. They gave Storm Financial a licence to offer financial advice. They gave Storm Financial the Australian Government stamp of approval. We were in fact let down by the Australian Government in this case. [public submission 220 from Storm Investor]

ASIC provided clarification of its role and actions in public fora. These clarifications, also serving as a defence of various claims made that are summarised by the above excerpts, centred firstly around the role of the licensing regime in place.

[326] To take a further point from this particular comment (other than the obvious 'touché'); it does confirm our suggestion that 'government' is a broad term whose influence and projection of worth occurs in many forms. In this case, ASIC is directly related to 'government'.

[365] All that licensing does is to set the minimum requirements which must be met. At the end of the day, under our system the boards and management have to run these things and make money for their investors. [ASIC Chairman, public hearing [8], p.25]

[366] The role of the licensing regime is not necessarily well understood by retail investors. There may be a perception amongst some retail investors that an Australian financial service license means that the service provider has been approved by ASIC or that the license is in some way an endorsement of quality. [Senior Executive Specialist, Strategic Policy, ASIC, public hearing [1], p.7]

[367] The license… is really an entry point, a registration licensing point so that you know the people are there and that they have met the minimum standards that the Corporations Act requires. That is as far as it goes. [ASIC Chairman, public hearing [1], p.8]

Secondly, in terms of whether ASIC 'approves' business models:

[368] Consistent with the economic philosophy underlying the FSR regime, ASIC does not take action on the basis of commercially flawed business models. [public submission 378 from ASIC]

[369] ASIC is an oversight and enforcement body in the conduct and disclosure regime. It is not supposed to intervene in the operation of the market. It is not there to prevent business failure or loss to retail investors. It cannot and does not take action merely on the basis of a flawed business model. A flawed business model has been characteristic of a lot of the business failures recently. Responsibility for flawed business models lies with management and the board of a company. [ASIC Chief Economist, public hearing [1], p.5]

And thirdly, in response to its ongoing surveillance activities and intervention:

[370] ASIC believes it responded appropriately to the concerns raised and surveillances undertaken in relation to Storm. ASIC has considered these concerns and surveillances in the context of market events in 2008 and changes in equity value experienced by the Storm investors. Overall, ASIC confirms its belief that there was no evidence on which ASIC

could have and should have taken action to close down Storm. [public submission 378 from ASIC][327]

[371] The barriers to entry on licensing are quite low, so the ability to take people out of the market and revoke licenses is quite limited. [ASIC Chairman, public hearing [1], p.7]

Nevertheless, alternative perceptions exist that some elements of ASIC's oversight could be different. A concluding excerpt showcases this view.

[372] The law is pretty clear, and we would argue that ASIC needs to be more pre-emptive. We are not simply here to criticise ASIC. There are many people who may well have missed the opportunity to proceed in the last couple of years on enforcement matters. We are very strongly of the view that ASIC has the ability to proceed to exercise its powers under this section of the act, and we would encourage ASIC to do so. [CEO, Investment and Financial Services Association Ltd , public hearing [3], pp.51-52]

6.4.4.8.2 Regulatory environment

There was little attention given to the general regulatory environment in interviews, and also in publicly available data there is relatively minor mention of this by Storm investors. Just 13 of the 168 submissions from Storm investors raise it as a point of concern or failure, whereas nearly 25% (15 out of 64) of submissions from financial planners and financial services organisations / institutes / associations do make some (adverse) comment. This is not unsurprising, as the attention of investors in terms of any governmental perception would be more focused on what they see as tangible to them – ASIC, Centrelink and the PJCI.

Other than extended (and important) commentary around remuneration and responsibilities of advisers, the commentary around the regulatory environment of interest to our research questions is generally focused on the issue of form versus substance. This issue was hinted

[327] One financial planner highlighted to the PJCI some support for ASIC's fidelity in surveillance operations: "I can assure the Committee that ASIC does not treat this process with scant regard. Indeed the phrase "nit picking" could be applied with much justification. If Storm Financial Planning was in some way not meeting its legal obligations I am very comfortable to assume ASIC would have found it" (public submission 168 from Financial Planner).

at in the previous discussion about ASIC. In particular, the perceived predominance of form over substance in the current regulatory settings is described by various financial planners.

> [373] Storm Financial also seems to be a an excellent example of a key problem in our regulatory system – the focus on FORM instead of SUBSTANCE. From what we have heard, Storm Financial produced large Statements of Advice which had the required FORM of a Statement of Advice – but it seems like it was poor advice. The FORM of the advice obviously did not protect the consumers. Therefore the regulatory focus was on the wrong issue. Clearly the regulatory focus needs to be shifted to the quality of the advice. The excess focus on FORM has added cost to consumers and largely has provided no consumer benefit. Worse still, the focus on FORM rather than SUBSTANCE has allowed many to create the appearance of quality where in fact there was none. So the focus on FORM actually contributes to the consumer being misled and deceived. [public submission 154 from Financial Planner]

> [374] Advisers believe that ASIC will hit the "little man" the adviser who errs by failing to provide documents in an order or in a time frame rather than to consider the actual advice given and how it is appropriate. The regulatory system seems to concentrate on the 'correctness' of how the advice is delivered rather than on the appropriateness of the advice. It seems to me that problems arise when the advice given is inappropriate. The North Queensland cases would not have happened if there was more scrutiny by the regulator about the advice itself, about how the advice satisfied the needs of the customer, about whether the level of borrowings being reported were appropriate and necessary to achieve a stated objective of the customer, rather than about the compliance to a process. [public submission 135 from financial planner]

Other public data gives similar critiques, including a discussion with CPA officials[328], and an individual investor who did not invest with Storm who highlighted that "prevention and deterrence is not an option under the current regulatory regime"[329]. Further feedback also stated concerns with this aspect of the current regulatory regime.

> [375] ASIC with many of their activities of recent times have chased the technicality of compliance rather than quality of advice… ASIC even stated that they had done recent

[328] Certified Practising Accountant (CPA) discussion with PJCI members, public hearing [2], pp.60-71.
[329] Public submission [265].

audits of Storm because they were concerned about their practices but did nothing because they were compliant (big deal). (email from financial adviser, April 2013)

6.4.4.8.3 The PJCI

For those interviewees that had followed the PJCI, there was a general feeling that whilst it provide some benefit as a forum for various people to be heard (whether in person or via a submission), it was not likely to provide tangible and beneficial changes overall to individuals or in a regulatory sense[330]. In particular, where interviewees initially saw the PJCI as a means for some degree of personal restitution, their views were naturally in a negative light and goes some way to explaining overall perceptions. This was particularly so where investors considered that the role of credit provider(s) should have been subject to far more scrutiny[331].

[376] I thought that nobody asked the right questions... there was one stage where they let the banks off very lightly... I did think that they did go easy on the banks... (it achieved) nothing of value for the victims of this financial disaster. [interview with Storm investor]

[377] Ah (the PJCI), it's a lot of rubbish. Waste of time. Too late for us. [interview with Storm investor]

Some investors begrudgingly accepted that some effort had been made, but at the end of the day, this may or may not help overall. As such, views were mixed on its utility in forming a better advice industry.

[378] But I didn't think it achieved very much at all, frankly. I mean I think that in terms of some of the legislative requirements in relation to the responsibilities clearly being defined

[330] Surprisingly given their experience with Storm, very few even commented on the commission and fiduciary duty aspects of the PJCI's recommendations. This is partially explained by a realization that the PJCI was not a forum to provide recompense and therefore a lack of interest soon resulted; a lack of interest and understanding of the nuances of the industry regardless of the PJCI; a perception that any changes by 'government' wouldn't work anyway; and the allocation of energy into getting on with life in some way.

[331] The PJCI's additional and 10th term of reference, to "investigate the involvement of the banking and finance industry in providing finance for investors" (see Appendix A), was introduced 3 weeks after the initial terms of reference were released.

again… that sort of thing. I'm sure there are some legislative things out of that, that are going to protect a few people in the future. [interview with Storm investor]

[379] What progress has it achieved? What's it achieved? Nothing has been achieved, has it? You know, he's made a – you know… changing the laws; a lot of good that's going to do. He's more or less made them hamstrung - the advisers - so I don't know. [interview with Storm investor]

[380] We throw out the baby with the bathwater and there are a lot of people in the financial services that feel they don't want to be in it now. [interview with Storm investor]

[381] What they do is create – they create challenges for people in the financial industry to have to work around so that they can make the same money as they're making now and that's all they care about. [interview with Storm investor]

In keeping with a building and in some cases pre-existing scepticism of governmental overview and efficiency, other views showed a resignation to and perception of bureaucratic process being the order of the day.

[382] And you know, I would say it's a typical Government report that will gather dust and really will not make any significant difference, yeah. [interview with ex-Storm adviser]

[383] But as for this Parliamentary Inquiry that they already – the result was too quick for a start; it only went for a few months. You know, they got those submissions and had a - they did nothing. What have they done to stop this happening in future? Sweet bugger all, eh? [interview with Storm investor]

[384] I saw a heap of jobs being created for mates because they're going to have a committee for this and a working group for that and another committee for this and I know that's the way politics works. [interview with Storm investor]

6.4.4.8.4 Centrelink

Many investors needed to engage with Centrelink after Storm's collapse to firstly seek social security payments, and sometimes to access advice as well[332]. This engagement was a significant issue for those interviewed, for two main reasons. Firstly, the seeking out of social security is clearly associated with having little control over one's situation, and this is particularly upsetting for those who have always sought to be self-reliant (and indeed, was a motivation for joining Storm). This issue is discussed further in section 6.4.5.1.

A second reason is that investor's experiences with Centrelink reflect closely an individual's perception of the role of government in their lives. Indeed, their expectation and receipt of service from Centrelink further shapes further one's perception of not just the role, but also the utility and worth of government. Not all interviewees had bad experiences with Centrelink, but as can be expected given their initial reactions and state of mind in seeking support, the prevalence of negative recollections tends to reign.

One investor conveyed their frustration at how they were treated, and that this resolved them to not be in a position to engage again.

> [385] One of the worst experiences has just been recently… I had been going on my savings and suddenly I realised I had so little. So I had to go to Centrelink... and from that, I had to go to a job. I'll just get you the letter, actually. One letter. I can't believe they can treat people like this. The person I saw at Centrelink… he had a computer in front of him. He didn't really acknowledge me as a person… he looked at the computer, he asked questions, I gave him the answer. Then he just said, "Oh, well that's it" and I just got up and walked away. I thought, I'm not going to let that happen again. [interview with Storm investor]

A second example showcases not only a dissatisfaction with communication regarding basic queries, but also how this implies another negative in their experience to trust the role of government.

332 25% of AEC / SICAG survey respondents were relying on Centrelink benefits at the time of the survey.

[386] *Husband:* We can't get a pension and we're too old to get a job. So I've asked Centrelink, "What are you going to do about us?" and "Oh, we can't do anything." I said, "Well, how are we supposed to live?"
Wife: They told me to go to get the vouchers from St Vincent de Paul or the Salvation Army. I don't like Centrelink… they don't understand people. They don't understand...
Husband: …And when we applied for the pension, we also attached a note to them asking them if there was any chance of employment because we know that they run seminars on investments and all that sort of thing; we asked them. We haven't even had an acknowledgement.
Wife: No, and they don't acknowledge; Government officers.
Husband: You just get ignored. [interview with Storm investor]

6.4.4.8.5 Does government care?

The previous sections lead to the most straightforward issue to emerge – the perception of whether government, as a whole, is really a concerned entity in the welfare of impacted individuals. And, despite the associations of ASIC, regulations, Centrelink and Parliamentary Inquiries with overall governmental responses and roles, the direct action or inaction of central government and elected representatives as individuals indeed has a big influence in overall perceptions of whether government has genuine concern or not. One investor could not contain their strong feelings about the matter.

[387] For our politicians to have sat by quietly and pretend that nothing is happening is despicable. I'll never vote for a major political party ever again because I've asked for their help as an Australian citizen and got nothing. Not even a polite refusal. Nothing. [interview with Storm investor]

This investor clarified and expanded on this point somewhat, voicing further incredulity at why government wouldn't be more concerned with such events.

[388] *Husband:* I think quite clearly, there's a couple of things that really stand out, Aaron, and one is the deafening silence from Federal politicians on this matter. Absolutely deafening. Any politician who has made any comment, other than the (PJCI) of course, is (a Queensland politician), who clearly came out and compared us to a bunch of lotto ticket

buyers who didn't win and wanted their money back. Other than that, we got nothing from Federal politicians at all. There's 13,500 Australians have been disaffected; 3,000 Australians by virtue of the term that they are an investor… so there's two of us; you'd have to think most of these people are couples at least, have had their life savings categorically wiped out, catastrophically wiped out. Their children will not get their inheritance.

Wife: They've had to turn around.

Husband: The banks will get it.

Wife: And get – rely on the Government, for Centrelink.

Husband: They've gone from self-funded retirees to...

Wife: Asking for a pension.

Husband: Can I have some money and by the way, I don't have my health insurance anymore so I'm going to be relying on the hospital system and I can't afford to pay rent, so you'll need some rent assistance as well. Not one Federal politician has turned around and gone, "F------ hang on, what's happened here?" Not one. [interview with Storm investor]

Perhaps the best summary of the matter comes from an investor who appeared at public hearing [5]. His exchange with the PJCI summarises many aspects here: from receiving what he perceived as clear messages to become self-reliant he sought a way to do that; then for lots of reasons that option came crashing down; then the reality that as an individual he resides within a wider systemic, political and financial context is totally irrelevant to him; then the perception is strong that the over-arching care of government is not there for him. It is not difficult to infer that his trust in government is gone – but more poignantly, it is not merely an institution itself he mistrusts, but most likely, a weakening of trust in avenues of collective care (of which the 'government' should represent the ultimate deliverer). This, ironically, may well drive him and others even more to isolation and a belief that self-reliance is the only way to ultimately survive and provide[333].

[389] *Investor*: There was no greed involved in my stuff. The government said they were going to can pensions and I did not like superannuation because they kept changing the rules every year, so I went into that investment with Storm.

Mr Bernie Ripoll MP: Who told you the government was going to, as you say, 'can pensions'?

[333] A matter picked up in chapter 7.

Investor: Remember when they brought in compulsory superannuation, they said that they were going to phase pensions out. That was their words. That was when I decided that I have got to look after myself.

Senator Williams: It was the Hawke-Keating government that brought in compulsory superannuation.

Investor: I do not care who it was. They are all the same, mate. They do not really care about me, I will tell you. [public hearing [5], p.109]

6.4.4.9 Individual

The issue of individual responsibility for getting involved with Storm was discussed in some depth in 13 of the 15 interviews. There was an appreciation and acknowledgement that there are two general and competing views concerning the individual's role with investing in Storm.

[390] You must not blame yourselves. You acted entirely prudently. You did not make rash decisions. You placed yourselves in the hands of a licensed finance adviser and you acted in accordance with the advice that you were given. You did not do anything wrong. (Goodridge 2010).

[391] The clients also benefited greatly from a advice/business model which provided returns which were beyond those offered under general industry practices. To this extent they sought gains that were beyond normalised returns and it is likely that a number of clients were drawn to the Storm model as a consequence of the higher than normal potential for returns. Where this is the case, a certain level of client responsibility must also be taken. [public submission 336 from Financial planning company][334]

[334] Nevertheless and as an important point to note, this particular submission actually put more onus overall on the adviser than the individual. Indeed, comments about individual responsibility do "not serve to abdicate either Storm's or the financial adviser's responsibility to provide appropriate advice which was suitable to the client", in particular with regard to seeking gains beyond 'normalised returns' (i.e. 'greed'). Furthermore, "neither the system nor regulation has the capacity to legislate away greed. This is true for everyone involved in the value chain, the Licensee, its advisers, the banks (in their lending practices) and clients. However it is important to note that it is incumbent on all 'educated' parties within the value chain to take a fiduciary responsibility to act in the client's interest with the generally financially uneducated investor" (public submission 336).

The discussion of responsibility was, in some cases, then linked to an impact on trust in oneself following Storm's collapse. This section considers the various views on the level of individual responsibility involved, and of more direct relevance to our research goals, the impact of this on trust in oneself.

6.4.4.9.1 The views of others

The views of those in the industry, outside of Storm, provide important context to any discussion of how much responsibility lies with an individual in committing to a financial strategy. From both their own experiences more generally, as well as their own perceptions and of issues specific to Storm, there is a clear acknowledgement that an individual investor is as much a part of a decision to invest as any other party involved – but with some provisos (as suggested in footnote {334}).

[392] While everyone would like to be compensated for losses incurred, few are prepared to accept their role in contributing to their own loss... retail clients need to be more accountable for their own affairs. [public submission 351 from ex-director of stockbroking and financial planning company][335]

[393] No matter how much information and education we provide, and how much clients confirm that they have understood this, – when markets fall – there is always a percentage of clients who will "re-write history" and advise that in fact they never understood the risk involved and had they done so – would have behaved differently. [public submission 284 from Financial planner]

An ex-Storm adviser also expressed similar thoughts, in focusing on the fact that individuals had opportunities to know exactly what they were getting into.

[394] People had to sign, "I have read every page." So you can't go back and say, "I didn't know this"... at the end of the day, you've got to say there is not just one person in this. It's the

[335] But similarly echoing the perspective in excerpt [391] / footnote {334}: nevertheless, "accountability is in part reduced when they seek and pay for professional advice (and) of greater concern is the number of poorly qualified / experienced advisors who are not capable or do not act in the best interest of their clients" (public submission 351).

person who signed off on it; you, myself or whatever. The person who didn't manage it as it should have been managed and the banks and the greed of some of the institutions that could have managed it better. [interview with ex-Storm adviser]

It was also discussed in section 6.4.3.3 that investors had a clear perception that others from outside of Storm viewed them as greedy and indeed, others attest to the possibility that this may not be an unreasonable view in some cases.

[395] We need to know why they were willing participants to undertake high risk when it was unnecessary. The unpalatable truth may be they were greedy and believed there was an opportunity to make a lot of money quickly. Unfortunately many undertake risk without accepting the responsibility this entails. …Financial advice and disclosures can continually be upgraded. At the end of the day however, a fundamental question is how do we protect people from themselves. [public submission 104 from private individual]

[396] The single strategy was to double gear into a vanilla index fund – there was actually no financial planning advice as far as I can see. This implies that the investors were blinded by the potential returns from a single investment strategy without any consideration of the risks involved. From my experience, investors become deaf when you start to talk about risks and hyper-sensitive when you start to talk about returns. In this way, it is easy to see how gullible people can be as greed trumps fear right up until the point of realisation of losses. [email from financial adviser, August 2012]

[397] This sad story is all about greed and ignorance… the individual clients, who lost in some cases everything, were the eventual victims but should they have taken some responsibility for their decisions. Greed was clearly a major motive, seeing friends, family etc getting massive returns above what was normal and reasonable made common sense take a back seat. Have we not heard "if it sounds too good to be true it probably is". [email from financial adviser, April 2013][336]

However, rather than fall back on simplified labels, others have the view that the motivations were not so clear-cut in terms of 'greed', but rather relate to individuals having

[336] However, this same adviser also observed that "in a way some of the financial institutions were also victims but CBA as an example used the Townsville manager as an example for all Australia for his loan production. Product provider greed took over!".

unrealistic expectations, undertaking inappropriate actions to meet those expectations, or perhaps even having (unrealistic) hope that they could make something out of meagre savings. The views of professional financial planners, some of whom actually had contact with Storm investors pre- and post-collapse, are particularly illustrative here.

[398] I have had exposure to several "Storm affected" clients. One who asked for my review of the recommendations in a Storm SoA, and in spite of my own recommendations, proceeded and suffered losses. They have now returned to engage my services and we are proceeding happily, albeit with lessons learned. Another two came to me after the closure of Storm, and while I initially assisted with their stated desire to stablilise their losses, both terminated my engagement within months when I fell short of their expectations of my ability to recoup their previous losses and generate the returns promised by Storm… what I have learned is that any client with unrealistic expectations (however acquired) is not worth assisting. [public submission 349 from Financial planner]

[399] Through the years leading up to the collapse of Storm, we had discussions with Storm clients who were referred to us. On each occasion we warned them of the risk that we saw in their strategies and advised that were they to engage us as their adviser we would adopt more conservative strategies. Each one of these clients gave us the same response "thank you – but we will stick with what we are doing because we are making so much money from it". This history is not provided to belittle the situation faced by many people who have suffered significant losses from the collapse of Storm – or to suggest that all of these investors were so inclined. It is provided to illuminate the fact that, when it comes to investments, despite the best intentions, education, information and regulation there will always be an element of people who will do foolish things with their own money. [public submission 284 from Financial planner]

[400] The average person today retires with somewhere between $150,000 and $200,000, besides their own home. So, despite what people may think, it is still fairly low. And then they chase income… People chase income but do not understand the risk. They are put in that position because they need it to live. So what might be appropriate advice and what they want in the way of income start to decouple… what we have seen and consider—and not only in this financial crisis but also in past financial crises—has been the level of risk that people are prepared to take on. In a bull market, when they are talking across the fence to

their friend about how much money they have made it is amazing how people's levels of risk grow. [Managing Director, Professional Investment Services, public hearing [7], p.115]

[401] And I'm sorry to say, greed overtook most people. You know, because the figures looked a lot more enticing I suppose, when you use a property as equity as well... well, you see greed has a funny way of – not greed so much, you know, sudden hope that maybe they can get out of this very ordinariness of their retirement. [interview with ex-Storm adviser]

This last excerpt relates to an adviser who further critiqued some aspects of the recollection of some investors – and that this aspect of "re-writing" history (to reinforce the use of the term in excerpt [393]) relates also to their overall experience with Storm.

[402] From like 2006, all the early clients, they lived off the hog of the land while it was going... those are the things that people did, but you don't hear about that. You don't hear about the fact that when things were going well, they were spending far in excess of the dollars that were coming in as well. [interview with ex-Storm adviser][337]

The obvious point to make here, of course, is that with Storm having such control over the overall strategy of any individual, any implication as to excessive or unrealistic use of funds or indeed expectations, reflects on Storm as much as on the individual – and perhaps more so, given the insights in footnotes {334} and {335}. Nevertheless, the enticement of either great wealth or at least returns greater than could be obtained elsewhere was acknowledged by some investors themselves. One interviewee in a quite straightforward and non-defensive manner explained her acceptance of the possible returns.

[403] The other financial companies were showing a graph that took my assets away and their graph was showing my assets increasing and as my friend had tripled hers in 12 years, I thought well, that's a pretty good way to go. [interview with Storm investor][338]

---

[337] For example according to this interviewee: "In a lot of cases, they talk about, "Oh, we've lost $700,000" or something. In fact... in a lot of cases, they may have withdrawn $200,000-odd over those two years for purchases of cars, trips, giving their kids money. You never heard about that" [interview with Storm investor].

[338] This is the same investor as that in excerpt [56].

Similar sentiments were also expressed earlier by another investor in excerpt [57]. One further investor expressed his belief and concern that many investors did indeed suffer from totally unrealistic expectations[339].

[404] *Husband:* Out of this, it is shown the naivety of a lot of people in Australia… who can't see anything more than a quick buck. People came into Storm thinking they would get a quick buck; the same way as the home insulation scheme that failed, brought everybody out who was going to make a quick buck… it brought out, to my way of thinking, one of the worst sides of the Australian psyche.
Wife: But you can't say that...
Husband: No, no, but it has. Look at the people – the people who are screaming the loudest, are the people who came in at the last when everything was going good, expecting to make a quick killing and be set up for life. [interview with Storm investor]

6.4.4.9.2 Acknowledgement of individual responsibility

The investor perspective on whether they considered themselves 'greedy' or not was discussed in the context of community perceptions in section 6.4.3.3.1. Of more relevance here are those admissions to individual failings or shortcomings that investors do actually hold to be true, in hindsight. The first of these concerns an admission that their knowledge of what they were getting into was simply not adequate.

[405] *Husband:* See, we weren't educated enough to know enough about it, really. I'd never been educated in stocks and shares…
Wife: I would say I was ignorant.
Husband: Well, I was definitely ignorant.
Wife: And I would look at it and say, "Oh yeah, hmm" because I had no idea. [interview with Storm investor]

[339] And notably, this investor did not hold Storm culpable in any significant way for their own substantial losses.

[406] *Stuart Robert MP:* Were you ever briefed on who was responsible for a margin loan? Were you ever briefed on what a margin loan was?

Investor: Yes, I was, but it was very overwhelming. It was a bit like information saturation. I was still grappling to understand that and the whole picture. It is probably very clear and succinct to you, but to people like me it is not. That is why I paid them to do it. [public hearing [5], p.50]

[407] *Investor*: You weren't encouraged to (participate in your financial wellbeing) at Storm. You weren't encouraged to participate in your own decisions because they would you know – they show you a lot of graphs and they show a lot of things that looked good and then just sign there and we'll fix the next step up. It became almost robotic. You'd go in, you'd sign your documents, they'd give you this much to read, you know, and I would get inches worth of paperwork and you'd sign it and that was it and then you'd be doing whatever they felt was the next step, so yeah.

Interviewer: Who's going to read that anyway?

Investor: Well, you can't. You couldn't read it. I've got the documents there if you want to see any. They are enormous and very difficult to read. Like I said, full of graphs and very legal terms that you just – a normal person probably couldn't read.

Interviewer: That's what you have an adviser for; to tell you about it.

Investor: Yeah, and they would point to it and show you what they meant but you know, how much did we understand? Probably not enough. And we never went to get a second opinion at any of those stages. We didn't know that we needed to. I think that's the...

Interviewer: Well, if it makes you feel any better, which it won't, even those that did, it hasn't impacted them much differently anyway.

Investor: No. I know a few people that were very astute businessmen and women who have been caught up in it all and it is because you trusted them, I think. I think you just trusted them to be doing the right things, yeah. [interview with Storm investor]

[408] *Wife:* You know, how could I have been so stupid to have done this.

Husband: We're both reasonably intelligent people but not financially astute.

Interviewer: ...You kept increasing your loans over time[340].

Wife: Yeah, we did. When we decided to go in it, we did what they said to do.

[340] To clarify, this question was not asked as accusingly as the transcript reads it to be, and was not taken in an offensive way by the interviewees.

Husband: We said, "You're running it for us"... as I said, I couldn't argue against them other than gut feeling that you know, that just was not good but I couldn't make a financial argument and they could.
Wife: I wasn't happy with that, really, you know particularly. But I thought, no we've made this decision, we're doing it, you know. If anything goes wrong, we can't say, well we didn't follow their advice, you know? Isn't that stupid when you look at it, you know? It's stupid. [interview with Storm investor]

As well as simply not knowing enough, many investors now consider themselves somewhat gullible about what they were being told, and as such simply made a bad choice about what they thought they knew. Given the prevalence of this view being held in hindsight by investors, several interview excerpts are given below – all are from different investors and none are the investors in excerpt [408] above.

[409] How could I have been so stupid to have fallen for their con? It's a self-bashing thing I suppose. How could I have been so stupid to have allowed myself to get involved with them? [interview with Storm investor]

[410] But a lot of the people were their own worst enemies as well... including myself. I'm saying because I was a client. We bought the dream and it was presented in a very, very conservative way. [interview with ex-Storm advsier]

[411] I mean I've never owed anybody any money to anybody in my life and I've always had fairly sound judgement but in this instance, obviously I didn't. [interview with Storm investor]

[412] I made a bad choice. It's almost like having been to prison for murder. How stupid could you be and that's what you get for being greedy and I've heard that a lot; that's what you get for being greedy. I don't believe I was greedy ever. [interview with Storm investor]

[413] So yes, I think – and it is not putting all your eggs in one basket, and I grew up knowing that, but that's virtually what we did. [interview with Storm investor]

[414] I think there's a lot of people to blame including ourselves for being so stupid. [interview with Storm investor]

This perception of being gullible did not just relate to initial decisions, but also to events later on. Notably, this was even applicable at the critical times when markets were crashing in late 2008.

> [415] How gullible can you be? We were of the belief—'we' being the clients and 'we' being Storm—that the bank was going to stand by us and help us ride it out. Call me a fool if you like. With other companies outside of Storm, their clients were getting margin calls at 80 per cent. We were hearing this through the industry and through contacts. We were thinking to ourselves, 'How lucky are we that we are still in there with a show with Storm.' That is a true story. [Co-Chairman of SICAG, public hearing [6], p.81]

This may, however, be partially explained by previous discussion concerning the belief of investors that they had protective measures in place as well as having advised of decisions to sell some of their equity position into cash (see section 6.4.2.1.1).

As well as an explicit admission by some of not knowing enough, this was sometimes linked down to a general apathy or laziness about taking greater care with one's decisions.

> [416] The first thing is to take an interest in your own financial affairs. I let far too much slide by because I was ignorant, lazy or just too busy or pre-occupied to take the time. Eventually. things will start slipping by you that will impact on the way you can afford to live. That's worth keeping in mind, even when your life remains mostly in front of you. [public submission 20 from Storm Investor]

> [417] *Wife:* I think I can't believe how stupid and naive I was because I...
> *Husband:* I can't believe how stupid that we were.
> *Wife:* But we're lazy. If you trust somebody to do it for you, you just do what they say… I wouldn't have done it if it had been a financial adviser that I didn't trust. [interview with Storm investor]

Notably, this last point (also suggested by the investor in excerpt [406]) suggests that alongside clear acknowledgement by investors as to their role in the decision to proceed, a proviso also exists. This is that although naivety, gullibility, a low level of knowledge and even a general laziness may be part of the equation in some cases, this nevertheless does not do away or downplay the significance and enabling feature of the core rationale to proceed - that being trust.

6.4.4.9.3 Yes we made mistakes but…

Public submissions [9], [21], [165], [285], and [307] are just some of those that express the view that although investors acknowledge some of their own shortcomings similar to those expressed above, these are secondary to the fact that they had placed trust in a financial adviser to guide them appropriately. Two of these submissions showcase these views, as does the experience of another Storm investor who appeared at a PJCI hearing.

[418] I admit I made the tragic mistake of not obtaining independent advice about SF at this time. How were clients supposed to know the underlying truth? I am a machinery parts specialist NOT a financial expert, this is why we were paying SF such high fees. [public submission 165 from Storm investor]

[419] We have been treated as though we should have known what was going on as well by other professional people. If we knew what to do financially we wouldn't have had to go to a financial advisor. [public submission 9 from Storm Investor]

[420] Like the majority of victims caught in this financial disaster, we were made vulnerable by our desire to be independent in retirement… we trusted these financial advisers to answer our questions honestly, but they did not. [public hearing [5], p.54]

Some of those interviewed held similar views, by seeing the issue of misplaced trust as a corollary to their own shortcomings. Neither of the following interviews are represented in excerpts [409] to [414] above.

[421] *Husband:* Oh, the only mistake that we made, really we made, we picked the wrong bloody financial adviser, really and truly.
Wife: Yeah, we did too. [interview with Storm investor]

[422] If we made a decision on a particular line of action, it was done with the best information that we had. Now if we were told lies and innuendos and mistruths and we made the

decision on those lies, mistruths and innuendos, you know, where do you stand? [interview with Storm investor]

For others still, the issue of personal responsibility is tempered with even wider issues of mistrust – not just the adviser, but also other associated parties. These perspectives mirror those in earlier sections, but are included here to highlight how many investors view their own responsibility in context of the responsibilities of others.

[423] Only a naïve person would believe that they weren't responsible for taking their own risks, and for the unexpected downturn in the market. Everyone I know that has been affected admits this, and takes responsibility for their own decisions. What we want to know is, why were NONE of the safety mechanisms that were in place triggered by the very institutions we were dutifully making monthly repayments to, which resulted in these losses being exacerbated to the point where recovery for most people was unachievable? [public submission 91 from Storm Investor]

[424] It seems all the professional money people have prostituted themselves at the expense of the consumer. Our biggest error seems to have been to trust that the planners, bankers and lenders were all ethical. They are not. [public submission 179 from Storm Investor]

[425] With the information that has subsequently come to light, myself and many others are questioning how could so many, hard working, forward thinking people, seeking only to provide themselves the means to a comfortable self-funded retirement, have got it so wrong. Perhaps if we had known, as we now do, that ASIC had been monitoring Storm Financial for some time, and that complaints had been received, then we may have been in a position to question and seek alternatives. [public submission 224 from Storm Investor]

A summary of the context that many investors see their acknowledged responsibility residing within, is given by one investor.

[426] Let me summarise our conservative approach to this investment.

ASIC. Checks Re Ozdaq/Storm. Clear.

FPA. Checks Re Ozdaq/Storm. Clear.

Investment vehicle. Australian Shares via Index Funds – Conservative and Passive.

> From Storm we had a "guarantee" in writing plus many verbal assurances that we would never lose our home or investments.
> Warren Buffet. Recommends Index Funds again and again for Non Professional investors.
> Colonial Margin Lending. Large, reputable (we thought) Margin Lender.
> How much more could we have done?? [public submission 211 from Storm Investor]

6.4.4.9.4 Impact

Thus, different views can be taken on not just the responsibility that investors should or shouldn't bear, but also on the relative importance of that responsibility in the light of others' responsibilities as well. Therefore, perhaps a dichotomous choice between "the individuals are to blame as well" versus " the individuals are not to blame" misses the point here. Rather, for our research goals, the point is that regardless of where the largest slices of the responsibility pie reside, it is the impact of individual responsibility and failings on the welfare of investors themselves that is key. This is important because investors are not merely economic agents of academic interest, but are real people with real concerns and problems who are the neighbours, friends, family and acquaintances who make up the society we all live in.

The important insight that then arises is that although the epitome of Storm's collapse may well be the strength of feeling and mistrust towards firstly the credit provider(s) and Storm itself (and by association the wider financial services industry), perhaps the more damaging aspect is a loss of trust in oneself. Significantly, the feeling of angst and regret about investment failings may well be stronger the more significant the role or responsibility taken by the individual – in other words, where some degree of personal responsibility is accepted, the resultant impact of loss is all the more magnified[341].

Various insights as to such impacts on an individual's personal outlook and ability to function in all aspects of life are given by several interviewees and also in public submissions.

[341] Indeed, "it's not so much about the pain of making a loss, but rather the pain of being responsible for making the decision" (Van Munster 2011, p.29).

[427] *Interviewee*: It's the loss of dignity. The stripping away of trust, you know, the life out of people has been sucked, you know the glint in their eye, the cheeky wise-cracky great attitude, life's good type mentality has really been sucked out of people who… would wise crack, that are jovial and...

Interviewee's partner: They've lost their spark.

Interviewee: Yeah, absolutely. [interview with ex-Storm adviser]

[428] We went from being confident, self-assured to being not at all confident and unsteady with every step. [interview with Storm investor]

[429] The inner recognition that I just could do nothing about this – that my instincts had failed me – even though I had thought about and checked on and researched Storm for 18 months. [public submission 320 from Storm Investor]

As such, one impact is directly upon one's ability to deal with the surrounding world . The following excerpt from an interview with a couple occurs after an extended conversation regarding their current situation, during which time their body language and overall demeanour was very despondent.

[430] *Interviewer:* You guys just feel helpless don't you?

Husband: Yeah.

Wife: We are helpless. We're helpless and you know, I've got to the stage… I'll tell you this; I'll buy a whole rump and we slice it up when it's cheap over here and have a couple of roasts and some for stewing steak and (my husband) will say, "Which way do I cut it?" and I say, "Oh for (goodness) sake, cut the bloody thing up" you know? He's not confident. He's lost his confidence in lots of things and I have lost my confidence in a lot of things too. You just...

Interviewer: Your view on what you put your trust in before, has gone?

Wife: Yeah, yeah.

Husband: Yeah.

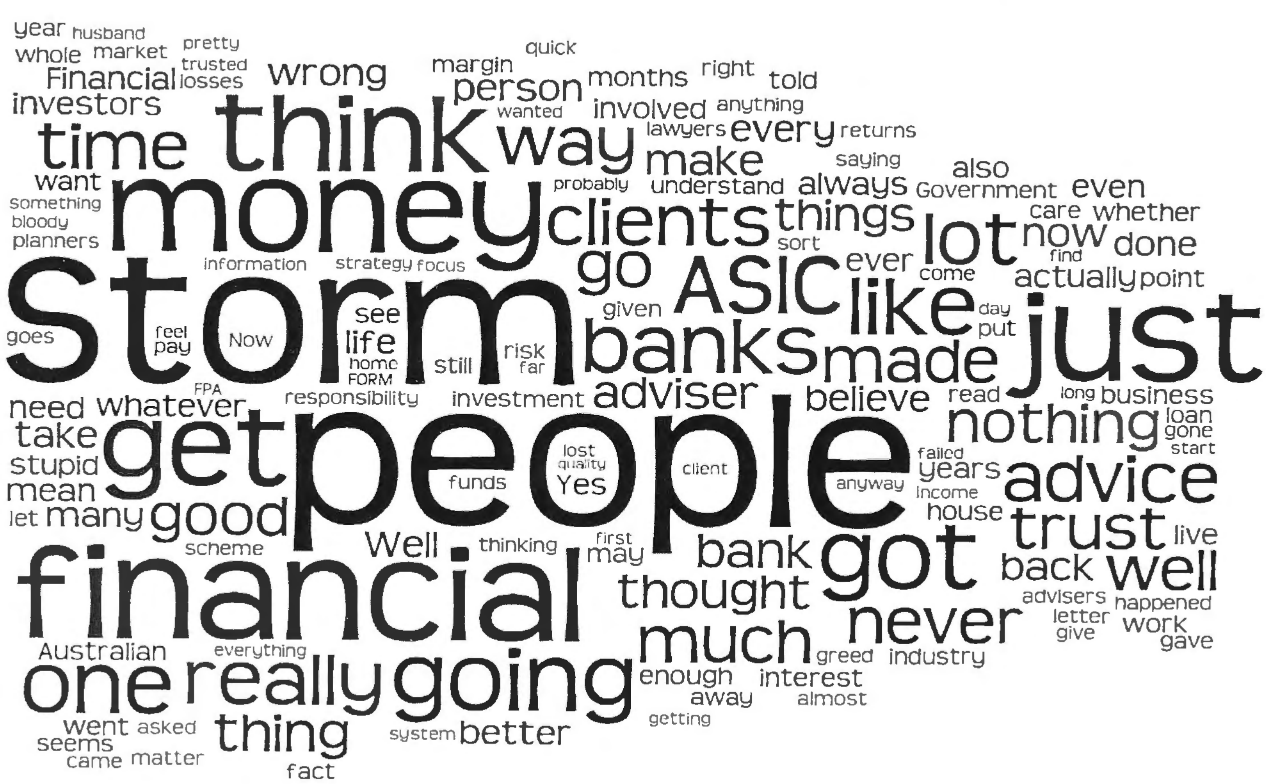
Wife: Like whereas before if I wasn't here, (my husband) would probably slice the thing up and not worry about it. Just little things that come up, you know, and you know, because I've got a pretty fiery nature and it's pretty volatile… but you know, I snap. I snap more a lot because he's lost his confidence in lots of things. [interview with Storm investor]

As such, what many find themselves in after financial trauma is a position of helplessness. From relying on a basis of trust to join Storm, that trust is then impacted in a way which makes future trust difficult again. Yet, the realisation remains that in order to have any reasonable quality and basis for life, trust is actually the central ingredient.

[431] I'm not a stupid person but I certainly feel like one now. They hoodwinked me big time. Any lessons to be learnt; yeah, don't be so trusting. Just don't be so trusting. I mean what else can you do? There's nothing you can do about it though, you can't go through life not trusting people. [interview with Storm investor]

6.4.4.10 *Visual representation of impact on trust*

A word cloud representation relating to the overall impact on trust is as follows:



6.4.5 The loss of control

What an impact on the ability to trust can lead to, amongst other things, is a lack of control in one's life. The overall sense from interviewed investors was that the major current challenge facing them which had arisen from all the aforementioned impacts, was their need to feel they have some say in their life. Two examples highlight this end result:

[432] Somebody has taken control of your life and there's nothing you can do. [interview with Storm investor]

[433] *Interviewer:* So there's a lot less flexibility to deal with uncertainties, isn't there?
Investor: Yes, there is… the fact that we can't go travelling in the way that we would like to and have a lifestyle that we would like, that really is secondary. The primary is really fearful of not having the funds to have choices, you know, what will happen to you. [interview with Storm investor]

It is difficult to argue against the fact that most people need and desire to have some control or say over their own fortunes, financial or otherwise[342]. In the financial context at least, this is evident across a number of related areas. For example, the focus group study of deVries (2009) highlighted the desire of participants for control in retirement planning via the retention of decision making; it is well acknowledged that the popularity of self-managed drawdown strategies for the purposes of retirement incomes is partly due to the retention of some degree of individual control[343] (MacDonald et al. 2011); and general advisory services whose advice for those suffering from significant financial loss is given "to help those in need to regain a sense of control" (Better Health Channel 2012). Even business motivators express strategies on the basis that "people change in order to gain or maintain control" (Miller 2012).

This section presents some of the more significant issues to emerge in relation to the lack of control being felt by investors. This includes the importance of housing, the damaging effects of uncertainty, and a reduced ability to deal with the uncertainties of life. An overall lack of control is epitomised by many investors now having to call on Centrelink for support – a reliance all were planning and hoping to avoid, and indeed what many had worked a lifetime to not be dependent on.

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[342] As such and as noted in footnote {310}, this was a particularly disturbing aspect of Storm which encouraged the retention of debt (and therefore remain a debtor, or in other words, beholden to the terms, circumstances and sensitivities of another party) in perpetuity. There is little potential for any ultimate 'control' in that approach.

[343] To meet, amongst other things, uncertain future expenses such as those associated with medical needs and unforeseen family changes (MacDonald et al. 2011).

6.4.5.1 Centrelink again

Rather than focus on issues of service and what this conveys (as discussed in section 6.4.4.8.4), we present here what relying on Centrelink represents to investors. Many public submissions touch on this issue (for example [211], [220], [244] and [267]) and the overall perception is summised well by one in particular, which describes the plight of many:

> [434] All of the options these folk had for a wholesome existence- attaching honor and self esteem through not being reliant on the state for support. The destruction of what they had strived for most of their life - to ensure that they were financially comfortable in their advancing years. Instead their worst fears have been realized, now destitute and cast adrift on the scrap heap of the social welfare system. [public submission 280 from Storm Investor]

Quite clearly a sense of frustration is prevalent with the fact that such dependence has arisen. This is especially so given the specific intention to avoid such dependence, through investing with Storm as well as a lifetime of work. This also came through interviews.

> [435] *Interviewer:* The whole thing of – so being self-sufficient, like being able to pay your own way in the future was probably the big motivation?
>
> *Wife:* Yeah.
>
> *Interviewer:* So you're not relying on the Government and stuff?
>
> *Wife:* That's right.
>
> *Husband:* You could imagine what it feels like going to Centrelink and standing in a bloody line there with all these mongrels that don't want to work. It breaks your heart.
>
> *Wife:* The first time we had to go to Centrelink, I wouldn't go there (locally). I went (elsewhere).
>
> *Husband:* I had to force her…
>
> *Interviewer:* You didn't want to be seen here?
>
> *Wife:* It was so humiliating.
>
> *Interviewer:* I guess when you work for 40-odd years, I mean it's not what you imagine, is it?
>
> *Husband:* No, it's degrading. [interview with Storm investor]

[436] And that said, going to Centrelink and to that job provider, that is so soul-destroying. [interview with Storm investor]

Although the angst at having to engage and have some reliance on social support was undeniably difficult for most of those pursuing it, some of those interviewed nevertheless put it into context that, as is social support's purpose, it did and does provide some relief. Thus, whilst it is not ideal, it is still helpful, albeit in somewhat guarded terms.

[437] *Interviewer:* How has your experience been going to Centrelink to get the pension and stuff? Has that been good, bad?

Investor: It's okay now. It was like begging when I first started. It was very demoralising because they pick the eye teeth out of everything you say and do and when I was earning, it was such a fiddle because I'd earned a little bit, not the full amount and it wasn't the same amount every week. So every week, I had to be saying what I was earning, what I wasn't earning and then it would be up and down and for a long time, I only got $198 a fortnight. But since I've sold everything and everything has settled down, I'm not getting an income from Storm, I'm just on the full pension now. But it's not lasting. [interview with Storm investor]

[438] Pretty devastating... that was the one thing that was harder for my wife than for me – and it was very tough for me. I mean I've got to say the Centrelink people are pretty good (but) that was very difficult experience. Again probably I became a bit sort of fatalistic about having to get some support from Centrelink... you've got to expose all our financial underwear to Centrelink and I've often wondered whether for $2,000 or $3,000 or $4,000 per annum; is it worth the effort, you know? But at the end of the day, well it's nice to see a couple of hundred come in every two or three months or something into the bank account. But no, it was not a good experience. It was what I'd worked all my life for to be out of it, you know? [interview with Storm investor]

Overall then, the reliance on some level of social support was and is viewed as ultimately representing a loss of what has been worked for – the ability to have a certain level of control in one's life.

6.4.5.2 The importance of housing

Housing and in particular home ownership has both a financial and emotional dimension in terms of worth for individuals. The importance of home ownership was highlighted by PJCI member Senator Williams (public hearing [3], p.23), some of the banks themselves (for example, the ANZ at public hearing [2], p.51]), and by an ex-Storm adviser as well (public hearing [6], p.91). Furthermore, it is also widely attested in literature, as described in section 2.2.3.

The loss of one's own home would therefore be reflective of a loss in both a financial and emotional sense, further undermining one's level of control in their state of affairs. The potential loss of one's home was indicated as likely by 44% of AEC / SICAG survey respondents due to the need to pay outstanding home loan or margin loan debts, and 68% of respondents did not think that they would be in a position after that to be able to purchase another home. Of the 168 public submissions made by Storm investors, 13 indicated that they had already sold their homes at the time of writing their submissions (mid-2009).

This section presents findings relating to both the financial and emotive aspects of house ownership, and what implications exist for the control investors feel that they have as a result.

6.4.5.2.1 Financial aspects

An interview with one couple outlined their frustration with issues around the ownership of their home. A summary of their financial position is given below.

[439] *Husband:* 2008; all this happened, we went from having a portfolio that at its high point earlier that year was just over $3.5 million. We had this property here and it was valued at $700,000… we had a mortgage on this house which was an investment mortgage and we had $250,000 at the bank… so we ended up having a $420,000 mortgage on this place and virtually no income.
Wife: And we'd already paid the house off once because we owned the house. [interview with Storm investor]

As such, establishing a sustainable position in terms of a place to live presented significant challenges. Staying in their own home was now unrealistic, and selling to buy again presented its own challenges. The impact, as indicated below, was a continual dwelling on one's situation with the realisation that their options and ability to have some control were in fact quite limited.

[440] *Wife:* I mean it is such a – well, I find personally, such a wearing – as in wearing down your system thing because okay, we put it on the market, we thought it was going to happen, it all fell over, it was a great disappointment. We then sort of said, "Oh well, maybe the best thing to do is to wait a while because this is all – you know, the real estate market was all starting to get the wobbles and whatever." But then here you are another 12 months down the track and you're still sitting here thinking, well, should we put it on the market? Should we not? What are we going to do, you know? And as every year goes by, the house is not necessarily gaining in value. The house is getting older. You have to keep up paying the rates ($3,000 per year in this case) and paying the maintenance... so it's very hard on a lot of nights to go to sleep, go to bed and go to sleep without having this financial thing running around in the back of your brain and you know, that's just the way it is.
Husband: You have no flexibility anymore. [interview with Storm investor]

Another couple attested to the relief they felt at achieving an arrangement whereby they could keep their house, and this was seen as particularly important for bequest reasons. Nevertheless, their journey to keeping the home was fraught with various challenges in terms of their own mental state and in dealing with their bank. Furthermore, like the couple above, they face extra challenges now just to maintain their home and therefore keep that element of control in their lives.

[441] *Husband:* When we took on the bank and as a result of taking on the bank, we were able to pay the house out. That eased things a bit. We were also able to pay back our kids that we borrowed money off to get us out of it so that eased it a bit. But still in the back of my mind, is that thought that I was contemplating self-harm[344] and I probably wouldn't have went on my own. I don't know whether she would have went with me, but...
Wife: No, well then the kids could have sold the house and got the money.
Husband: But they wouldn't have, we still owed it to the bank.

[344] Note: this is the investor referred to in excerpt [180].

Wife: Yeah, true.

Husband: This is the only thing we've got to offer our kids, is the house and the bank were going to take it off us and you know, I said, "Where are we going to live?" and they could not care. Just no compassion whatsoever. I said, "What? On the back of the river?" "If you have to." And of course, that really made me dig in and as I said, we handled our own case.

Wife: ...We've had a lot of expenses with regard to Yasi[345]. You see, we had a few damages with regard to electrical stuff and you know. [interview with Storm investor]

Other interviewees have had to change their housing status, and as such, they point out how much reclaiming some certainty in this aspect of their lives would mean to them.

[442] *Interviewer:* What would make it better for you? If there would be such a word?
Investor: Honestly, just enough to get a deposit on a house. That would at least be a start... just to get something that we could start with. [interview with Storm investor]

[443] (My partner and I) couldn't, you know, have our own homes and I couldn't survive in my townhouse either, now that I had retired... (so) we do own this house 50/50, so if something happened to one of us, we would be in trouble, I worry about that too. [interview with Storm investor]

6.4.5.2.2 Emotional aspects

For those investors who have lost their houses, it is difficult to appreciate the emotional toll that this has taken above and beyond the financial implications. This toll can arise from the emotional investment people make into their homes, and importance of this investment is evident in much of the public data (for example, public submission [150], and the testimony in public hearing [4], p.45).

Other public testimony describes in more detail the reasons for such an emotional investment. As the following excerpts attest, homes provide both a basis for stability and as a vehicle for accumulating a repertoire of one's life achievements and memories of life events.

[345] Yasi was a tropical cyclone that caused severe and widespread damage across northern Queensland in February 2011.

[444] Only those in a similar situation can understand what it is like to have the stability in your life threatened and destroyed and the very roof over your head put at risk. [public submission 403 from Storm Investor]

[445] I might be more fortunate than some to have enough to buy a very small home. Whilst I remain grateful for that – part of the bitter pill is also having to get rid of most of my treasures that make up the tapestry of my life. [public submission 320 from Storm Investor]

Similar sentiments were expressed in interviews. The emotional ties to a home arise because of the association with one's life events, and as such, for investors it can represent far more than just a place to live.

[446] This is our house. We've lived here all our lives, all our married life, (nearly 40) years we've been here and to lose that, that hurt. [interview with Storm investor]

[447] I bought my home out of my divorce settlement, it meant a lot to me, not just bricks and mortar; emotionally it meant a lot to me to have my own home ownership in spite of what my ex did to me and he took all that away. Took all that away, my house and like I said, not just bricks and mortar, it represented an achievement of something that I survived my marriage. I don't even have that anymore. [interview with Storm investor]

As such, losing one's home means a loss of control via the loss of what has been of huge importance and significance to many people, as well as the financial implications of such a change.

6.4.5.3 The problem of uncertainty

Both Marx (2012c) and Smail (2012) document cases of Storm investors who when offered settlements of their affairs through resolution schemes, have for various reasons rejected those settlements. They also highlight cases where investors have accepted the settlements for the reason of expediency rather than anything else. Indeed, acceptance of settlements has often been done begrudgingly, or out of desperation. Clearly there is a trade-off between expediency and contentment with the conditions of any settlement offers, which poses an interesting quandary – which option gives the investor a degree of control over their affairs? And more broadly, what is the price paid for continuing uncertainty over the position that an investor is in, and what options are available to them? This section presents findings and insights into these matters.

6.4.5.3.1 The cost of not knowing

Six of the fifteen interviews were with investors who had accepted some sort of settlement with their bank[346], but despite this, all fifteen could be described as still not fully knowing what their financial position was or could be, some three to four years after Storm's collapse. This relates to the nature of ongoing actions being taken since the collapse, with the range of individual circumstances dependent on: whether or not some sort of settlement has been offered, and for those investors, whether that has been accepted or rejected; whether or not compensation is being pursued through legal class actions; and whether or not ASIC actions and outcomes relate to their individual circumstances[347].

A major frustration relates to the length of time investors have to wait until some certainty is restored to this aspect of their lives. The frustration and angst with such a waiting game was mentioned by several interviewees.

> [448] I think those that are trying to help are being as helpful as they possibly can be. It's just taking so long, why is it taking so long? When we first went to the first meeting in Townsville, he said – whoever it was, I think it was Bernie, I'm not sure, said, "Oh, they've got money put aside. Within 12 months it will all be finished, you'll all know." Yeah, well right, another lie, another lie. [interview with Storm investor]

> [449] There'll be a large percentage of us people will be looking at the bottom of the turnips by (the time that ASIC action is completed). You know, we won't see the outcome of that. That 12 months, when you're where we are, there'll be a lot of people who won't see it. [interview with Storm investor]

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346 Note: not all of these settlements were with the same bank.

347 Which itself is generally dependent on whether ASIC is pursuing the credit provider of the investor(s) in question, and whether the extent of the investor's position was deemed to be influenced by the action(s) of that credit provider.

[450] A lot of these other people – in fact, I was sitting in the court a month or so ago in Brisbane and when they said that the next hearing… is going to be October next year, the guy behind me almost broke into tears, burst into tears and said, "Well, there goes the house." He said, "I can't hang on any longer." He's been hanging on, hanging on, paying out, paying out, paying out and we wouldn't have been here now if we had had to hang on this long or certainly until next year. We would definitely have been out. [interview with Storm investor]

[451] *Wife:* They put a moratorium on our repayments so...
Husband: We live day-to-day with the looming threat. [interview with Storm investor]

The effect of such frustration and angst associated with the aspect of timeliness is a feeling of helplessness, and again, a loss and lack of control over one's affairs.

[452] My future has been on a thread ever since Storms demise & it doesn't look likely to improve in my lifetime. (email from Storm investor, August 2012)

[453] I mean basically you've got to cling to the hope that (lawyers) are going to do something… you feel absolutely as if your hands are tied. There's nothing you can do because all the big institutions like the banks and the Storms and the administrators who are trying to sort this out are in control and to get any basis of any facts or anything is just so difficult because you really don't know the truth of it all. [interview with ex-Storm adviser]

Additional stress is also associated with having to make decisions about whether to participate, at some cost, in further actions.

[454] *Wife:* So we're with (some lawyers) now… so hopefully – we don't know whether anything will come for our particular case, but we're giving it a go.
Husband: …this bloke here now… I've taken up more paperwork to him. I've had a sit down personal meeting with him in Cairns. I said, "I don't want to waste my time. Have I got a chance of getting anything or not? That's all I want to know." He said, "Well, you've got a chance"; the same as what (other lawyers) said. So then that's another thing… you're chasing good money after bad money, you know?
Wife: I didn't want to do it at all. [interview with Storm investor]

These effects extrapolate further into associated perceptions of fear and a reduced ability to deal with the world. The couple from excerpt [451] describe such additional impacts.

[455] *Husband:* (My wife) won't answer the phone.

Wife: I won't answer the phone.

Husband: The phone rings and its associated with bad news or something terrible. (My wife) will not answer the phone most of the time unless she's predicting that it's someone that she will want to talk to.

Wife: …That's another thing too with this (ongoing uncertainty), your brain just – like I can remember – years and years I would remember all our niece's and nephew's birthdays and appointments. I miss appointments now, I miss kid's birthdays, I'm just dreadful and that's terrible too... [interview with Storm investor]

The continuing uncertainty is also not just due to ongoing action(s). For another couple, they had experienced recent losses from a business venture as well and although the loss via Storm was of greater (and major) significance, the other losses were also impacting them.

[456] *Wife:* Because we didn't have enough really and it was also our business; the development which has crashed.

Husband: Yeah, which we went into with (someone), who we knew for 15 years and he's taken us on and left us with all the debt so that's another issue we've got.

Wife: We've got two major issues.

Husband: We've had a no win situation and two investments you know, that both never should go wrong but the one we had in… we've had a bit of a horror run when we shouldn't have. [interview with Storm investor]

As such, for such cases whose financial position is a combination of adverse events, they are in a position of simply not knowing where they stand, even putting aside the uncertainty associated with any future recompense.

[457] *Interviewer:* Did you know what you owe now? Overall to everyone altogether?

Husband: No, not really.

Interviewer: No?

Husband: No.

Interviewer: It's just too hard to know?

Husband: Too hard to work out. [interview with Storm investor]

Thus, this couple too faces helplessness and a stark vacuum of control over their lives.

[458] *Interviewer:* So where to now for you?

Husband: Yeah, I don't know. We don't know where we're going to go. It's just a waiting game. But how long can we wait? We can't wait....Yeah, so I don't know where we go from here, Aaron. I don't know where we go from here. I don't know. [interview with Storm investor]

6.4.5.3.2 Two case studies

Two further cases demonstrate the various insights from interviews regarding the costs of uncertainty in one's affairs[348]. The first of these concerns a couple who were awaiting an offer from their bank, and had been waiting for some time.

[459] *Husband:* We just sit here. We sit in our home waiting for the bomb to drop. Is someone going to say, "Righto, we want our money now."

Interviewer: So are you currently getting bank statements from (the bank) regarding your mortgage?

Wife: Yeah, it's still saying steady. It's not going up, it's just staying.

Interviewer: ... but they're not charging interest currently?

Wife: No, they're not.

Interviewer: But you don't have any certainty as to what it actually is? It could be suddenly $1 million or it could be wiped?

Wife: Well, they've said they've wiped it and we have been assured that they are not accruing that interest and it's not showing on the statement.

Husband: But when you say that, where's the piece of paper that says that?

Wife: Well, it's not showing on the statement. On the statements we get, it says zero interest.

[348] Neither of these cases has yet been referenced in previous discussion in this section (6.4.5.3).

Husband: That's what worries me. I've trusted other people and we have signed things and we haven't got something now... you keep going to the mailbox thinking you're going to see something from (the bank).... It's a time bomb and it's not good.
Wife: ... I do want it over. I find it really, really hard. I still wake up in the middle of the night sometimes and it all comes back and you know, because I want to put it behind me.
Husband: ... you can't do anything... you're just waiting to be kicked somewhere. [interview with Storm investor]

The second case concerns a retired couple for whom the ownership of their house was still uncertain. Some correspondence with the couple prior to the interview outlined their major fears.

[460] I personally have had after affect from Storm. The fear factor, loss of trust in the human race, going to the post box to see if the banks are going to take the home we live in. It is like waiting for the Guillotine to drop... the not knowing of when. [email correspondence from Storm investor, October 2011]

The interview itself then gave opportunity to expand on those fears, including the highlighting of how any actions and decisions in the meantime were effectively frozen whilst uncertainty reigned. The implications of this in terms of additional emotional turmoil was clarified and reiterated further in additional correspondence following the interview.

[461] *Wife:* And that's what's hanging over our head. You can't spend.
Husband: Well, you can't spend the money you've got because you don't know how much (the bank)... we don't know whether they'll let us out of a certain amount of money or whether we're up for the lot; whether we've got to sell out or do it. They just won't do anything. They keep it over your head all the time. They're just playing hardball apparently for some reason... we've got some money in the bank but you can't go and spend it because...
Interviewer: You don't know what's going to happen?
Husband: No.
Wife: No, we don't know.

Husband: …Like I think we'd be a lot better off if (the bank) said to us, "Here's a deal" – we mightn't even like the deal, but there's a deal and we can live with it. We'll say yes or no and go for it but you know, you just don't know. You're just up in the air.
Wife: …You just don't know what to do. You just don't know what to do.
Husband: You're left in a quandary where you – you know… how can you do it if you don't know what you've got? You know, no good going and spending what you haven't got. All the money we're spending now is the bloody banks anyway. [interview with Storm investor]

[462] Fear factor, waiting for the mail to come. Phone calls, emotionally and physically it has had its toll on both of us. [email correspondence from Storm investor, November 2011]

And, like the investors in excerpts [440] and [441], formerly simple issues of maintaining a house and a sense of pride in one's home were now also additional casualties of such uncertainty.

[463] *Husband:* There's a lot of work – like there's guttering that needs to be redone around the house and there's the tiles, the capping on the tiles that need to be all redone and I've put it off for three years, four years because I knew I was going to do it before it crashed. You know, we were going to get it done when we come home. I'm not game to get it done, because it's going to cost a few thousand dollars, you know? [interview with Storm investor]

Given the predominance and angst of such uncertainty, the couple highlighted that any form of information and offer would assist them from their current position.

[464] *Interviewer:* So what would help now? What would be the – what do you need now to turn it around?
Husband: Well, clarity to know what we've got to do, what we can do, so we can still live within our means and know what we've got to do. If we've got to sell it, we've got to sell it but we don't know that.
Wife: It's the not knowing, you know?
Husband: The fear factor.

Wife: ...That's how I feel... waiting for that guillotine to drop down on your head; bang it's over and done with, you know? That's what it feels like. You know, you just don't know when it's going to come. You just don't know. [interview with Storm investor]

6.4.5.3.3 The benefit of moving on

Two examples highlight the major benefits of having gained some degree of certainty through accepting settlements with their banks. And, although their respective positions are still subject to elements of uncertainty now and into the future, they nevertheless hold that some benefit accrued to them from exercising a choice to accept an offer and move on. The first example is the investor from excerpt [450].

[465] The (bank deal); at the end of the day, look I don't know whether it was good or not, you know? It was good from our point of view, not the fact that we got (the amount we got), but we got out of it and we were able to get on with our lives. The people who are still involved – and our situation was that we simply could not have afforded to continue because we were up for in excess of $100,000 a year in interest in the loans, which we had no income to support, you know?... that is where we are at. We are not left hanging on for 'unknown' outcome which may occur at some time in the future... we have a chance to get on with our lives – albeit very different from that which we had before and that for which we have planned... at the end of the day, (the deal) gave us some certainty. We knew where we were and gave us the chance to get on with our lives, yeah. [interview with Storm investor] [349]

The second example relates to a couple who accepted a settlement with their bank, and although they were being kept abreast of ongoing class actions, they were not participating nor contributing to that themselves.

[466] *Husband:* We still get information from (another legal firm) and you know, that may work. As far as we're concerned, we got out of it without being in debt to the banks. We got something out of it. We've still got capital losses that we can carry forward forever, because we're never going to exhaust them.

[349] Indeed, and significantly, this investor also added that "I will say that whole closure is never likely – having settled for a pittance means we have settled".

> *Wife:* ...In a way I think we've survived better than some but it's been a very difficult experience and life will never be the same again. It doesn't matter what happens, it will never be the same again.
> *Husband:* ...It's happened, it's gone, get on with your life. There's no way now that we would be sane, healthy, sensible people if we followed the (ongoing legal) situation and had this constant worry of yes, we're going to get our money back. You can't go through life like that.
> *Wife:* It's gone on for too long. I don't know how they would cope with it. I mean, it's just gone on for too long. [interview with Storm investor]

There are, however, other complications that arise with settling on certain offers and/or taking decisions to clarify one's net position as soon as circumstances allow. In some cases investors took it into their own hands (or were advised by others to do so) to sell their home, settle their debts as far as they were able to (to reduce significant interest burdens on loans) and endeavour to start again. In such cases, as it became more known that bank(s) had either financial hardship packages or offers of settlement to assist those who remained in debt and were reluctant to sell the home, those that had already made decisions faced a relative disadvantage compared to that had they waited. This conundrum was highlighted by PJCI member, Senator McLucas.

> [467] *Senator McLucas:* What about those customers of yours who have acted on the requirement to sell their house in order to pay off their loan? Can you revisit those circumstances? I know of a couple who have done that. They are living with family members. They are now on the pension. Can we go back and revisit those sorts of circumstances?
> *Bank CEO*: Our priority is to look after customers. We have certainly not forced customers to sell their homes, as I mentioned to Ms Grierson before.
> *Senator McLucas:* But people have done that in good faith.
> *Bank CEO*: If customers have issues and want to discuss individual situations with the bank, they are more than welcome to do so. [public hearing [8], p.58]

This reinforces the insight that although conditions of certainty are generally more attractive to conditions of uncertainty, there is also a real or potential cost involved in seeking such certainty.

6.4.5.4 Life's vulnerabilities

An earlier reference to Warren (2003a) in chapter 4 highlighted that life events, especially adverse ones, are not conveniently timed whereby someone has recovered from a previous setback in a sufficient manner to deal with the next. Warren (2003a) also highlighted a dependence rather than independence between adverse life events, so that one event can lead to, trigger, or make another adverse event more likely. So it is with the fears of Storm investors as well – there is a sharpened perception of vulnerability to what life can throw at them, and in some cases, the events of Storm have not been in isolation from other life events.

The major vulnerability of concern relates to that of health. This is partially explained by the age demographic of Storm investors whereby many have already suffered setbacks or those close to them have, and it is also partially explained by vulnerability associated with the cost of medical insurance, private treatment of chronic conditions, and so on. Other vulnerabilities exist as well and these are presented in this section.

6.4.5.4.1 Vulnerability to adverse health

Public sources reveal a range of health-related vulnerabilities that investors now realise are accentuated, including the cost of treatments, options for future care, and management of existing ailments.

[468] We cannot now afford the health insurance Irene requires to facilitate necessary surgery in a timely manner; with her disabilities, and this is an ongoing issue even after five surgeries. [public submission 187 from Storm Investor]

[469] We have endured the degrading and desperate measures of pleading with professionals and service providers to waiver or reduce fees for products just to afford the continuing specialist health care for wife's condition and family needs. [public submission 306 from Storm Investor]

[470] We are on the edge of disaster if anything untoward, such as a health issue, should happen; if that were to come up we do not know how we would handle it. [public hearing [4], p.63]

All of these aspects were picked up in interviews to the extent that 9 of the 15 interviews involved discussion of vulnerability to current or future health needs[350]. One aspect of this concerned the affordability of health care, even when health insurance is involved.

[471] *Wife:* And even when it comes to medical things, you know? I have the horrors about the costs of medical stuff and things like that.

Husband: Well, we've changed – I had a bit of a scare some time ago and (my wife) has just had cataract surgery on both her eyes so you know, things like that.

Interviewer: And you think twice about getting them now, obviously?

Wife: Oh, absolutely.

Husband: Oh, you do. We still carry private health insurance which...

Wife: But with a big excess to try and keep the cost down.

Husband: With an excess and if you get caught at the wrong time, it costs you that anyway. So you know, there's that situation.

Wife: See, my theory is now that we've had this experience, is you get it all done in the one year. You get something done, you pay your excess and then you get all the other things you want to have done, you have done in the same year, so that next year, I've got to be healthy next year. I can't have anything go wrong next year because I've done and dusted my excess this year. [interview with Storm investor]

[472] My other knee…needs replacing as well but I can't afford it now… I can't afford to have my knees done now. But I don't know whether I should pull out of private health fund. It's a catch-22. [interview with Storm investor]

Others relayed their fears in relation to the costs associated with treatments, notably for existing complaints, and how this has an ongoing emotional toll.

[473] *Husband:* she's had to have – she got a back operation this year.

Wife: …Which I had to have – well, the pain was so horrific…

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[350] Again, this showcases a benefit of interviews, where such vulnerabilities and sensitivities can be explored in more detail, albeit as far as the interviewee is comfortable in allowing.

Husband: ...We would have never worried about it before. You just would have gone and had it done.

Wife: He's got two knees and a hip replacement he should be having done.

Husband: Yeah, I keep putting it off.

Wife: But he keeps putting it off.

Wife: And then I've found out in the last three months, I've got a bloody iron – too much iron in my blood and I've got to go and get it – half a litre taken out every three weeks... the doctor said you just get it taken out; that's a precaution.

Husband: ...all those things play on you.

Wife: It does.

Husband: It plays on your mind, you know? [interview with Storm investor]

[474] *Interviewer:* Have you had to put off any treatment or anything because of money issues? Or any checkups or that sort of thing?

Wife: Well, see I – yeah, because I had to keep going to Brisbane with mine....And I wasn't cleared from Brisbane until I was five years into – after the surgery but I had to fly to Brisbane and we would take the caravan down to Brisbane and that was still an expense and...

Husband: ...It's in the back of your mind, is it going to come back? You see, I've been 11 years now free and didn't have radio or didn't have chemo. I was pretty lucky. But I've known of other blokes that have been five years free and then bang, it's back on them again. [interview with Storm investor]

Overall then, the sense of vulnerability in the context gives rise to a further reaction – that of fear.

[475] I am fearful if I become unwell, I am fearful if I need money and I don't have it, I am fearful for what will happen when I can no longer look after myself properly, what options I would have. I am fearful of all those things. [interview with Storm investor]

6.4.5.4.2 Vulnerability to changes in family circumstances

Two interviews included lengthy discussion of how changes in wider family circumstances highlighted a further vulnerability: being able to provide appropriate support to family members at a time of need[351]. In one case help was able to be provided, but at a non-financial cost to the interviewee(s) that was greater than it would have been formerly. In this instance, a daughter and her children returned to the parents (investors) family home but soon after doing so, the daughter was in the unfortunate position of being separated.

[476] *Investor*: Anyway… she's a separated woman with two children and we're – I used that word, but we're stuck with them okay, for how long? They've been here nine months now, ten months now. We're stuck with them and we're living in this situation. So there's another impact it's had on us. Had we have been still coasting along and...

Interviewer: Yeah, if you had the money you could do other things?

Investor: We could do other things. We could help them out.

Interviewer: So it's the option removal, isn't it?

Investor: Yes.

Interviewer: It's the hassle?

Investor: Yes.

Interviewer: Dealing with life's awful things?

Investor: Yes, that's right and that – since she's been here and the kids, that has affected my mental state to a certain degree too, you know? To the extent where I actually went to a doctor a few months ago and got a referral to a psychiatrist and to go on medication and I asked for the same medication that (my wife) is on because it seemed to be working good for her, you know? And he prescribed it and everything. I never, ever did it. I don't take tablets. You know, because I don't want to go on medication. So I sort of talked myself around it, you know, and I've sort of settled down a lot. It's hard when you've got kids right in your pockets at my age, you know? When I'm supposed to be retired and just visiting them. They say grandkids are good because you can hand them back, you know? We can't.

Interviewer: Can't hand them back?

Investor: We can't hand them back. They're right here. Now, I love them. I love them very much. I love my daughter of course. But they're too close. It's too close. But anyway, we're prepared to do that. But yeah, it's like you say, a removal of options. We have no other option. [interview with Storm investor]

[351] Other interviews discussed also this issue but more briefly, with one couple not being able to help out a grandson in trouble with some debts, and several other interviews mentioning in general terms how they are in a difficult position to be able to help out those close to them should a need arise.

The lack of options available to the interviewee(s) reflects a lower level of control than they previously had to deal with not only their own situation, but also in being able to provide for others at their time of need. The resultant cost is not only to the recipient, but also to the interviewee.

Another case was similar but this time involved a separated daughter (again with children) having to vacate a home that the parents (investors) had helped her into just before Storm's collapse. In this instance, the home then had to be sold in order to provide the funds to (just) keep the parents in their own home (albeit still with a significant mortgage, with both investors retired).

> [477] *Wife:* Because my daughter's marriage had broken up and she wanted to live close because of support and the rents in this area were astronomical so we decided to use the money that mum had left us as a deposit and then her rent would pay it off. So we did have that property but when we sold that, we weren't going to get enough equity out of it to have paid off the loan here, but we would have got some money to have paid the mortgage long enough to sell this, you know, because it's a dreadful time on the market to sell a property… we'd have paid off the mortgage and had nothing. So we sold that property, luckily sold it quite quickly and with a reasonable price and my daughter and her two children moved in with us.
>
> *Interviewer:* One thing that people have said out of the whole thing isn't so much… that they lose the money because obviously that's a big thing, but that's not the issue. The issue is you lose all the ability to do these other things you thought you were going to do like support your daughter in a difficult time or have the flexibility. Is that...?
>
> *Wife:* That was exactly it. I mean the guilt having to say...
>
> *Husband:* … I'm sorry we've just helped you get into this place and now you've got to get out. [interview with Storm investor]

Here, the cost was not considered to be burdensome to the parents (investors), but a real regret was apparent at not being able to provide some certainty for their daughter and her family at a time when they had other significant challenges to deal with.

6.4.5.4.3 Other

Another feature of how 'control' can be impacted is via the fact that one's financial devastation arising from Storm is not the only factor in one's life that contributes to such devastation. One investor saw their loss in the light of other traumatic and personal life circumstances.

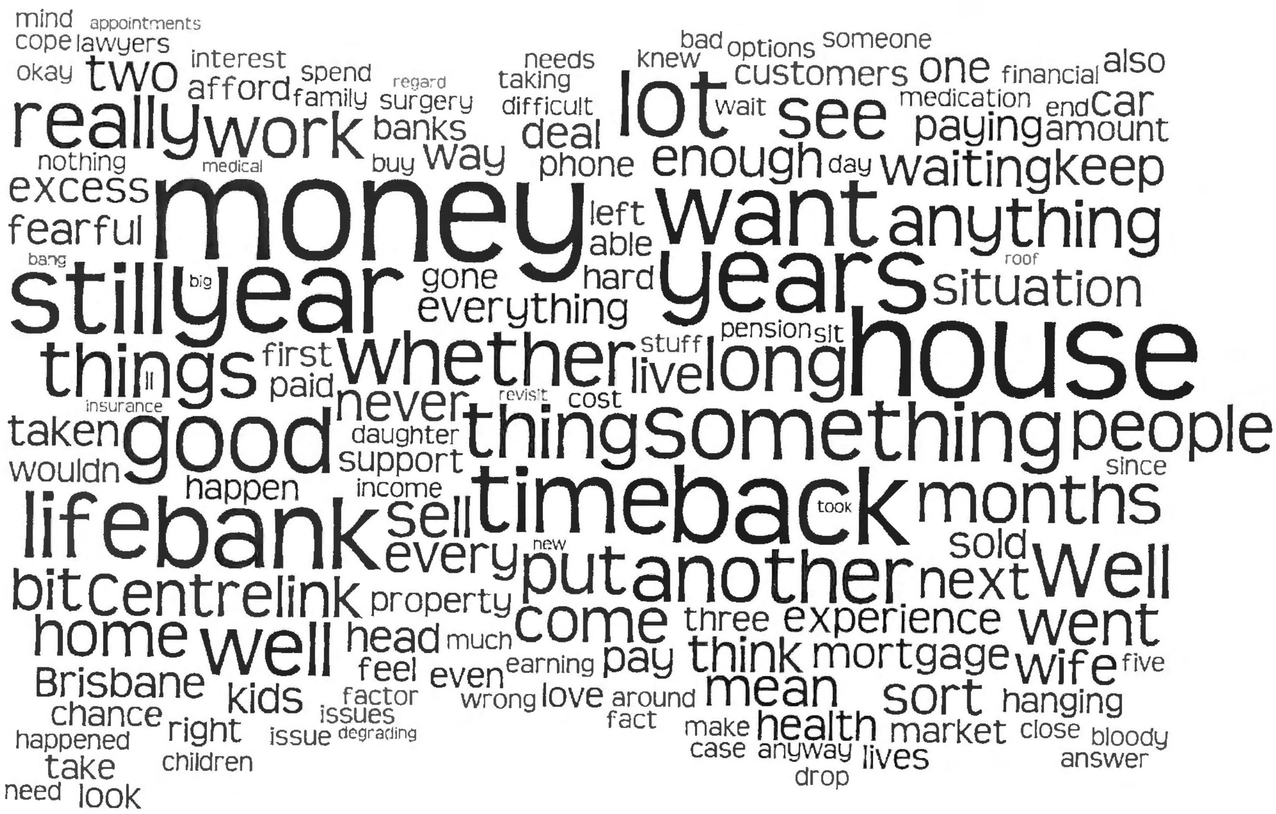
> [478] I've had to cope with a lot of kicks and knocks in my life. So luckily, I've been able to cope. I think deep down because I'm feeling a bit miserable as I said, it's all involving everything, the money loss and family situations… it's just that I don't feel (like going out) – I just need motivation and I suppose I just think about why I'm feeling like I do because I stay in and sometimes I'm really down and it's the children as well as the financial thing. [interview with Storm investor]

The interdependence of one's life circumstances is also illustrated by the following excerpt. In this case, there is what might be termed a 'domino' effect in terms of vulnerability and where the end result again is a lack of control in one's life.

> [479] *Investor*: If I get ill enough that I can't work, I won't have a roof over my head. I will lose my home. Only while I'm working, can I just make the payments. I can't buy a new car. I've got a car that's 12 years old and whilst she's reliable, she's getting past the used by date. There is no way I can buy another car… if my car breaks down, I can't fix it. I've had to walk to work because I couldn't get my car fixed, I couldn't get a new tyre when I got a flat one. The battery ran out, I had to walk to work.
> *Interviewer*: Yeah, see even those little things?
> *Investor*: Yeah.
> *Interviewer*: Well, I guess they're not little anymore, they're big things now.
> *Investor*: Well, they are when you're getting on in years. I mean walking to work – I love walking… but I like it as a choice not a necessity… my life is just totally restricted. I feel like I'm tied up in a ball of string. I can move a limb every now and then but I can't expand. [interview with Storm investor]

6.4.5.5 Visual representation of loss of control

A word cloud representation relating to the overall loss of control is as follows:



6.5 Summary of Chapter

In this chapter we presented the findings to the major research question of this thesis: what are the impacts on people when they experience a significant financial shock? The excerpts used to give evidence for the findings in this chapter can be summarised as follows:

Table 13: Breakdown of data excerpts used in chapter six

	Interviews	Public submissions	Public hearings	Other correspondence	**Total**
Investors	244	81	41	13	**379**
Storm employees and advisers	26	2	8	1	**37**
Financial planners	0	9	5	4	**18**
Others	0	16	25	4	**45**
Total	**270**	**108**	**79**	**22**	**479**

The predominant reliance on interviews is apparent, with 56% of all excerpts being from that source. This bears out the intention of this chapter to discuss the impact upon individuals, for which interviews offered the most flexible and appropriate source to explore such impacts. A further breakdown of interviews is also informative. The 270 interview excerpts give an average contribution of 18 excerpts from each of the 15 interview participants, with 12 of the 15 interview participants contributing between 14 and 23 excerpts. One contributed 11, one 9, and there was one arguable 'outlier' which contributed 36 excerpts. We note that this particular interview participant was one where a dinner meal was offered in the initial interview, giving a setting and availability of time to allow a greater reach of interview questioning. We also note that given the nature of the research, it is not unexpected that there will be some variation in the relevance of some responses across participants. It is also noteworthy however that there are significant contributions from the other sources, including the range of 'other correspondence' that arose over the course of the research.

Unequivocally, the impacts of significant financial loss are profound, deep, and very real, and relate to far more than a loss of financial status and means. A first and immediate area of impact is in the emotional and health-related areas of an individual's life (their 'personal' world). In terms of the emotional impact arising from the sudden demise of Storm, shock was an understandable and immediate reaction of many, and this was often also associated with a feeling of numbness and disbelief which was predominantly, but not exclusively, a short term reaction. A deep sense of real and protracted anger at various parties was also felt, and still resides some years on for many investors. This has been exacerbated not only by the collapse of Storm, but also by events and revelations since that time. A related emotional outlet has been fear, which also exists for a variety of investors as they contemplate a future with limited financial means. Where the investment with Storm was to provide for dependents, a feeling of angst and fear of one's situation now is especially apparent. Aspects of frustration, regret and guilt predominate for many investors as they reflect on their own decisions over time, the actions of others, and where it leaves them today.

In terms of the impact on health, it is in the realm of mental wellbeing that the impacts of significant financial loss appear to be particularly pronounced. Examples of stress, anxiety, depression and a need for a variety of medication did and still abound, and were explicitly discussed in the majority of interviews conducted. Other evidence indicates that the incidence of such conditions appears to be well above estimates for the general population. Aspects of self-harm are also frequently raised in the data, and feature as an especially severe impact for many. Mental wellbeing is not independent of physical wellbeing however, and many examples exist of serious physical impacts as well.

A second area of impact concerns the social world of an individual's life. Marriages and close relationships have been impacted, and where this has fallen short of a formal divorce, separation or break-up, the impact has nevertheless been real and very personal. What was particularly poignant in interviews was the willingness and openness of some participants to share their own stories in this matter. Relationships with friends and family have been another casualty, with a range of negative impacts resulting from either very direct judgements and criticisms being made, or more subtle changes that have arisen. In other cases, responses of others has been favourable, with tangible help and emotional support being offered. It may be the case that the status of a relationship prior to such losses is an indication of how it will be after such losses, though this is not a conclusive insight – for some, formerly close friends are now no longer that, whereas for others, friendships have been drawn closer through such adverse circumstances.

Another aspect of one's social world to have been impacted is the ability to be involved in wider cultural, familial and community roles. It has been particularly galling for investors who were grandparents, who now perceive a loss of means and ability to fulfil that familial role in the manner they were anticipating. Other impacts concern the diminished ability (and for some, no ability) to be involved in sporting, charitable and other community pursuits, due to the lack of financial means to do so. For others, an increased sense of social isolation relates more to the emotional bankruptcy now being felt. An especially strong response relates to the perception of judgement from the community at large, which can lead to further withdrawal from society. Overall social impacts are exacerbated by the 'network' effect, arising from the concentration of investors in family groups and concentrated geographical areas. This can result in support networks not being as available or helpful as they otherwise would be.

A third area of impact relates to a loss of trust. This trust relates to a range of parties, that would otherwise be relied upon for financial and overall wellbeing. The most obvious target for impacted trust is the strategy offered by Storm and many of the personnel involved, albeit mitigated by the fact that Storm as an company no longer exists. It is noteworthy that an allocation of blame upon Storm is not universally held amongst investors. The financial planning profession in general is another party in who distrust now predominates, with many contributers to the PJCI outlining their poor experiences with advisers within and beyond Storm. The manner in which some compensation and settlements have occurred since Storm has also resulted in anger and distrust towards some legal firms. The role of the government is also seen with some suspicion by many, particularly through the role of the regulator ASIC but also through the regulatory settings in place, services provided by Centrelink, and post-government responses such as the PJCI. A loss of trust in oneself has also eventuated for many investors, arising from the aforementioned sense of frustration, guilt and regret.

Perhaps the epitome of Storm's collapse in terms of trust is the disenchantment, anger and adverse perceptions of the banks and credit providers involved. Indeed, more adverse comment was made in public submissions to the PJCI about such institutions than about Storm or other financial advisers. Importantly and especially in the case of Storm, this lack of trust has arisen as much from events post-collapse as it has from events pre- and during the collapse. It is evident that this severe loss of trust in what should otherwise be a cornerstone institution in one's financial affairs, is a particularly damaging outcome of Storm's collapse.

What an impact on the ability to trust can lead to, amongst other things, is a lack of control in one's life. From the interviews in particular was a sense that the major challenge facing investors was a need to feel they have some say in their life. With diminished financial means, a low likelihood of recovery for many within any reasonable timeframe, and the legacy of the emotional, social and trust-related impacts, there is a heightened sense of vulnerability to adverse life events. These events can relate to changes in some or all of housing, health, vocational and family circumstances.

Chapter 7: The system of financial provision

7.1 Introduction

Chapter six presented observations and results from Storm's fallout relating to the primary research question. Given the goal to describe what happens to individuals following significant financial loss, the results and discussion presented focused on the individual investors themselves – 379 of the 479 data excerpts referred to were explicitly the views of investors. In contrast, this chapter presents what we infer more widely from Storm regarding issues and challenges with the Australian system of financial provision. Although raw data in the form of selected excerpts again supports the discussion in this chapter, the focus turns more to the views of those who were concerned with such wider inferences. As such, in this chapter just 24 of the 75 data excerpts referred to are explicitly the views of investors, with now a greater focus on other contributors to the PJCI.

The circumstances and fallout of Storm's collapse poses interesting questions for individuals, institutions and government. There are obvious challenges to the regulatory regime, but it also asks a bigger question: what do individuals fundamentally rely on when providing for themselves in a financial sense? And furthermore, is that 'reliance' reliable, in the sense that it can deliver to individuals what they seek in terms of financial security? Findings from Storm's collapse give us an opportunity to comment on these issues, with the benefit of having talked to investors and advisers, as well as the thoughts of a range of parties from what is effectively a selected survey of the industry via the various data sources.

The discussion in chapter two highlighted that financial security in Australia is essentially built on a system of 'pillars'. The language of pillars signifies strength and reliability, and indicates something that can be trusted. Yet, clearly for those investors involved with Storm, we have seen a vulnerability in their ability to attain such financial security. This does not infer that the stated 'pillars' are not delivering the ends to which they are designed to provide, but it does mean that another look at such a system can be informative - particularly so to highlight the ultimate basis required for any system to function - that being trust.

In this chapter therefore we discuss and suggest an alternative way of looking at financial provision in Australia. We also discuss the extent to which environmental issues such as regulation, levels of financial literacy, and the financial services industry in general, provide a help or hindrance to such provision. The discussion provided is based on observations and findings from the impacts we have observed in the real marketplace. Given that such observations and findings are firmly grounded in the data, we believe the views expressed carry credibility to the extent that the evidence and our own interpretation allows.

7.2 A system of pillars revisited

A statement that there are 'three pillars' upon which one can rely on financial provision can conjure an image of strength through independence – three separate pillars together supporting some stated goal or feature. However, one aspect of Australia's system of pillars that has been highlighted here is that the pillars are not independent of one another. This lack of independence is apparent in various ways.

One way in which this can be seen is in the intent of each of the first two pillars – or, perhaps, more accurately, differing interpretations of what the relationship between them is. The CEO of IFSA asked the following:

> [480] If we go back to the original principle, which is pretty bipartisan, of compulsory superannuation we can ask: was it simply to require that people had the pension and a bit of money or was it that we had a huge number of people having full self-sufficiency based on superannuation? [public hearing [3], p.56]

Others understand pillar two as being an encouragement rather than fulfilment or deliverance of self-sufficiency, with pillar one only intended to be a safety net rather than an anticipated supplement to income from other pillars. Whatever the particular interpretation or understanding of the relationship, what is clear is that pillars one and two are not independent of each other – for example, if pillar two can provide substantial funds for an individual, then income from pillar one will be reduced for that individual as a consequence of means testing. Without doubt, the introduction of compulsory superannuation as pillar two has put more onus on the individual for financial provision rather than the mechanism of a collective, taxpayer funded age pension, and as such, no reasonable interpretation can be that pillars one and two are independent mechanisms for providing retirement income.

Another reason to not view the pillars as independent is via the responsibility being delegated to individuals in respect of investment decisions in pillar two, and savings and investment decisions in pillar three. An individual brings to bear their own levels of interest, knowledge, and intent to each of pillars two and three, and as such, the investment decisions in each of those pillars are not independent. For example, whilst many may choose an equity-heavy investment option for their superannuation, such a preference may also be demonstrated with their investment decisions in pillar three. Or a preference in general for cash investments may well be reflected in a conservative superannuation investment option, and the choice of a term deposit for other savings. Neither of these possibilities is right or wrong *per se*, but the point is that the decisions lie with the individual, rather than with expert managers with mandated expectations to deliver a certain outcome such as with DB funds. In other words, diversification of expertise would exist in a system with pillars of an age pension, a DB scheme, and one's own savings, but with the current system where the majority have DC superannuation, such diversification (and hence to all intents and purposes, some independence between the pillars) is lessened[352].

A related aspect concerns behavioural realities which can emerge as well. Somewhat perversely, it is possible that pillar two does not encourage independence or self-provision in the long term in the way that it was intended. For example, as attested by investors such

[352] With many individuals somewhat apathetic with regards to their superannuation (and therefore utilising default investment options) but potentially taking a more direct involvement in savings in the third pillar, arguably this reliance on 'pension / default / self' provides some independence in terms of expertise, but not much as that for a 'pension / DB account / self' combination.

as those in excerpts [301] and [417][353], a general malaise, laziness or misplaced confidence can apply in the belief that such material provision from pillar two could feasibly look after itself regardless of the detail of decisions made with it. To quote the CEO of IFSA again:

> [481] We have also seen - and this is a little alarming - a significant drop in personal savings, because people sit back and say, 'My super is looking after my savings; my home's looking after my savings.' That gives them little flexibility as a consequence. [public hearing [3], p.56]

Indeed, the evidence points to the existence in some cases of poor financial habits, knowledge and planning, a reliance on others who are similarly uninformed (and not just other investors), false confidence based on heuristic shortcuts when making decisions, the admission of laziness and a lack of engagement on occasion, and so on. It cannot be claimed of course that the current system of pillars is the exclusive cause of such behaviours[354], but it is noteworthy that this system has not removed such issues either. What is suggested though is that for many where superannuation savings have delivered healthy fund balances, and where such growth has occurred with little effort from the individual[355], perhaps such relative affluence breeds its own problems – not just expectation of a certain lifestyle, but an avoidance or delay in acquiring the skills to manage one's affairs.

Furthermore, even more critical than the initial settings of such pillars is the compounding impact of changes over time to the system. When a system of pillars has constant changes to it in terms of the relative advantage and potential provision from each (to be discussed in more detail shortly), then the complexity of such a system increases over time, and arguably, a level of trust in the reliability of such pillars decreases as well.

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[353] These excerpts relate to different investors.

[354] Indeed, many investors will be very happy with the opportunity that having substantial encouragement and compulsion to save has given them. As one non-Storm investor states, "the Australian Superannuation Scheme has added purpose and value to our remaining years and we urge you to encourage and promote this. A message that "Yes we can" manage our own retirement funds is badly needed to counteract the prevailing message that it is too hard for the ordinary person. Support us with the regulatory tools to manage and we will get on with it. Teach us how to fish..." (public submission 172).

[355] Or more correctly little perceived effort, as many individuals may not appreciate the SG contributions as being foregone consumption or an opportunity for alternative savings mechanisms in the meantime.

One further point to note is that not all pillars are equal in value to an individual, and neither are they of similar relative value across different individuals. The following interview excerpt indicates that perhaps a potential 2.5 rather than 3 pillar system is seen as a more apt description for many[356].

[482] *Interviewer*: So you get your super next year obviously?
Investor: Oh, there's nothing much of it. I'm from that era where we didn't come into it long term. I don't have much in super. I can't even retire on the super. [interview with Storm investor]

Thus, in as far as strength is through the provision and independence of three pillars, the current system may not be the epitome of strength that it first appears to be. Rather, instead of individuals viewing themselves as operating within a three-pillar framework, a more accurate picture would be that many hear a message to take steps to self-provision. Notably, if it is pillars two and three that deliver self-sufficiency, then the adequacy of these pillars is dictated in part by the appropriateness of decisions made with respect to them. Furthermore, despite these decisions, there is also a dependence on other parties as to resulting outcomes – namely, the relevant institutions as well as government.

7.2.1 The 'real' pillars?

The discussion above is not intended to dismiss the adequacy or otherwise of the Australian three pillar system, but such a framework does not serve to highlight the key findings arising from the example of Storm. Rather, to understand the impact of financial loss for an individual and what this says about wider issues of financial provision, requires an alternative lens to see what key dependencies exist for an individual's financial wellbeing. We therefore offer a re-framing of the three pillars in this section and provide a discussion on each, with respect to what financial loss means.

[356] Even further, if the reliance on the age pension is seen as the epitome of financial 'failure' (as it was for this particular investor), arguably this investor is only operating on the basis of 1.5 rather than 3 'pillars' for overall wellbeing (meaning 'ability to participate in society'), rather than just financial provision.

Australia's three pillar retirement savings system is a framework to view what could be called the 'mechanisms' of income. Undoubtedly, each of those pillars can potentially[357] supply a degree of financial provision for an individual into the future. If, however, we view a 'pillar' as something to be trusted so that something else can be provided, then looking beyond the mechanics of provision to the sources of provision is more enlightening. What the case of Storm showcases is that three major 'sources' of trust are required when making financial decisions, and that these sources of trust are the very things that are impacted when traumatic financial loss eventuates. These three sources are the government, the industry and its institutions, and oneself.

This alternative framework can also be viewed as analogous to the accepted and currently promulgated framework: the age pension is a provision from government, superannuation savings is a provision via industry and institutions, and other savings is a provision sourced more directly from oneself. Like the accepted framework, these sources are separate but not independent[358], but an advantage of this alternative framework is that it allows us to consider not just one's financial wellbeing but also one's sense of overall wellbeing.

7.2.1.1 Government

Although we make an analogy above between government as a source of trust, and its role in providing an age pension, this analogy does not highlight the crux of the matter for either one's financial wellbeing, nor indeed one's overall wellbeing. Indeed, trust in the government as a provider for individual and collective welfare goes far beyond the provision of an age pension, even in the context of financial provision, and even in the more focused sphere of retirement income[359].

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[357] Given the experience of Storm investors, 'potentially' is the correct word for outcomes arising from decisions made with savings made from pillars two and three.

[358] Indeed, institutions of course must work within the legislative and regulatory environment that is decided by government, governments are elected by individuals, and so on.

[359] Clearly, the influence of government is foundational in financial and overall wellbeing of its governed citizens through taxation, infrastructure, education and health policy. But even putting this and the provision of an age pension aside, there are other relevant and vital contributions by government to retirement income outcomes.

How government has a say, and therefore demands trust, in the welfare of those saving for and drawing an income in retirement are manifest in many ways. It is clear from evidence presented earlier that trust in government firstly involves how individuals hear and take on board all messages about the need to be self-sufficient. Importantly, this message is not just through translating the verbal messages and cues of political figures with regard to the future and intent of the first two pillars – but it is also through the plethora of other messages and information that individuals receive. For example, where there are changes to rules and regulations, where advice is received from Centrelink, where perceptions are formed of other government decisions, these all shape one's belief about the urgency for self-sufficiency.

Other factors are also critical in forming beliefs about the need to look after oneself, and as such re-allocate trust for financial provision from government to oneself. As seen in chapter six, such factors include government reactions to calamitous events, misunderstanding of the role of ASIC and regulation in general, the service and care at an individual level at Centrelink. All of these send a message to individuals regarding a key question highlighted earlier: does government care or not? Notably, the more that individuals perceive a push for self-sufficiency, the more the answer to that question is 'no'.

The issue of trust in the pillar of government is also hinted at by the insightful questions of Smith (2009). In the light of individuals suffering losses as a result of engaging with financial markets in a manner in which, perhaps, they were not and could not be equipped to do so, she asks: "Did governments intend this as a possible result when they privatised retirement income provision through superannuation? Did retail investors, who are also voters, perceive this as a possible risk of the privatisation of retirement income provision? Did regulators ever warn (or require providers to warn) retail investors about these risks?" (p.515). Others provided similar thoughts to the PJCI:

> [483] Governments throughout the world have actively promoted the idea of building personal wealth to fund retirement. The privatisation of public utilities and business globally introduced millions to the share market. Australia is no different. It's a case of setting the environment before educating the people. [public submission 398 from Law Academic]

> [484] Many people, for example, talk about consumer responsibility, saying that consumers should take more responsibility. The reality is that it is not going to happen in the current environment where you have got limited consumer literacy. So you cannot pass it off and say consumers need to take more responsibility. [Head of Financial Planning, Institute of Chartered Accountants in Australia, public hearing [7], p.12]

The belief that the push for self-reliance should not remove responsibility from government was also highlighted by other submitters to the PJCI. In effect, there is a view that 'self-sufficiency' is to a degree, an oxymoron – no-one is independent of others and no-one can work in isolation from the environment in which they exist, and notably, this environment itself is shaped in a major way by government intention, communication, and more formally via policy and regulation:

> [485] The introduction of compulsory superannuation is somewhat conflictive itself. To ensure the populations have adequate savings for retirement, the government compels individuals to save – implying the belief that they would not do so voluntarily... perhaps the government should take some responsibility of introducing such complexity into the lives of many Australians. [CEO of IFSA, public hearing [3], p.56]

> [486] Implicit with the passing on of this responsibility has been the transference of the risks involved with managing these issues; without any consideration by the parties transferring the responsibility (i.e. employers and governments), of the public's capacity to understand financial risks or their ability to manage these risks. [public submission 168 from Financial Planner]

One aspect of government as a 'pillar' of financial and overall wellbeing relates not just to the environment at a point in time, but also how this environment changes over time. More pointedly, where government itself makes changes to the environment in which individuals and advisers must work, then this is seen as particularly unhelpful, frustrating, and damaging[360]. The irony is of course that the goal of individual self-sufficiency is itself a government-encouraged one.

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[360] An analogy may help here. If a parent wants his child to learn to play cricket, then they might buy them a ball, a bat, and some wickets. The parent then has at least two choices – to get alongside the child and show them, or leave them to learn it themselves. In the latter case, suppose that after several weeks of the child learning by themself, the parent then changes the length of the pitch, the allowed style of bowling, the value

Given their role and exposure to such changes, the group most strongly commenting on this issue in PJCI hearings and submissions, as well as in additional correspondence to us over the course of this research, was financial planners. Two excerpts from financial planners indicate the types of views held.

[487] Successive governments (of both political persuasions) have built a superannuation system and a Centrelink system that have a complexity that almost mandates the requirement to seek advice. Amongst the salaried technical support people in the industry there is a standard joke that each Federal Budget further cements their indispensability to the financial advising community as another layer of complexity is added to the system; another set of "grandfathering" is added to the rules governing superannuation and Centrelink pensions. [public submission 168 from Financial Planner]

[488] As an example, the laughable issues we have at the moment with superannuation and the continual regulatory changes imposed on us by a government, who only have their preservation in mind rather than what's good for the long term. Today's knee jerk legislation on the run by Shorten is a prime example: "Lets tax every fund that earns $100,000 in a year…" [email from financial adviser, April 2013]

The environmental feature that is desired by these financial planners and therefore their clients, is certainty. Naturally enough nothing can ever be totally certain and unchanging, but this is actually not what is being asked for. Rather, any changes should consistently align with self-sufficiency if indeed that is the goal, rather than other motivations such as attested by the above excerpt. Furthermore, the direct consequence of continual changes is a lack of confidence (and thereby trust), a point also highlighted by others with respect to yet more changes recently made to superannuation (for example, Maiden 2013). The two financial planners above also commented further on this aspect of certainty:

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of runs earned per boundary and also the rules around dismissals. It may still be cricket, and the parent may still want his child to play, but the child is not getting consistency or certainty in which to learn and become a decent player. A financial planner may argue further that if they are allowed as a cricket coach to help the child along, then as a result of such changes to the game, their own role and expectations thereof is as difficult as anyone else's.

[489] It would be more economically beneficial to every stakeholder if there was certainty. Clients could plan with more certainty, the regulator's task would be easier, and the Government's tax revenue would increase. [public submission 168 from Financial Planner]

[490] The reason the general public are disillusioned with super has more to do with certainty of legislation than any of the other reason… Keating when treasurer once stated "This now completes the governments changes to retirement and superannuation Australians can now invest in certainty for their retirement future" since then there has been on average a major change to superannuation approximately every 28 days. [email from financial adviser, April 2013]

The collapse of Storm highlights that the pillar of government can be a fragile source of assurance. The dependence on this pillar is multi-faceted and as such, has multiple points of vulnerability. Notably, Storm's collapse reflects some regulatory shortfalls (Chardon 2011), which implies that the welfare and protection of financial victims is not just their own business, but also that of government[361]. Thus, there should be concern that potential future outcomes for individuals more widely are not immune from significant setbacks.

It is clear from earlier evidence that this fragility has been exposed and as such, the trust is now a fractured pillar for many. What this means for many of those impacted is summarized in the following interview excerpt:

[491] It was the Government who made superannuation compulsory and yet there was no guarantee – there was no security for your money… these people are out there giving financial advice and in our case, we lost it all. Period. So the Government stinks. The Government – we should really be suing the Government. Well, we shouldn't have to sue them; they should just be compensating us because it was the Government's fault. [interview with Storm investor]

[361] Indeed, 'government' in a broader sense is representative of what the ultimate collective pooling of risk and provision could or should be (notwithstanding the right and habits of individuals to make their own decisions, outside the reasonable care and restraints of the 'collective').

Although the logic leap from the loss event to the government being the responsible entity in the outcome is the cry of a hurting individual more than an objective participant, it nevertheless showcases the feeling and lack of trust in this pillar that now exists for many.

7.2.1.2 Institutions

We use the term 'institutions' to incorporate those entities of the financial services industry that are corporate, professional or commercial-orientated. As seen in chapter six, the main entities of relevance are financial advisers, credit providers, and legal firms, but for the purpose of suggesting 'institutions' as a second pillar of wellbeing, this more comprehensively would cover most financial service participants such as superannuation funds, deposit-taking institutions, and related professions such as accountants, actuaries and auditors. Pillar two can then be thought of as any entity in the business sphere which exists by virtue of trust and faith placed in it, to deliver certain financial and advisory outcomes for individuals.

Quite obviously in today's world, an individual needs to be able to rely on and trust some or all of these entities at various times in order to provide for themselves over a lifetime and into retirement. Historically, a great deal of trust has been placed and been reflected in the ethical orientation of such entities. For example, Littrell (2010) highlights that historically, senior bankers appreciated that their role involved a moral duty to deliver fair service and outcomes for depositors, shareholders, the bank, and employees. Such historical trust was also highlighted by SICAG in its appearance before the PJCI.

> [492] Our fathers and grandfathers trusted their bank manager implicitly and accepted their advice, safe in the knowledge that the banker would act in the customer's best interests at all times. [Mr Mark Weir, SICAG co-chairman, public hearing [6], p.70]

However, Littrell (2010) contrasts his observation about a banker's moral duty historically to what he now sees applying. He considers a better representation could now be 'shareholder value above all', whereby 'depositors are just another supplier', and for investment banks 'clients' are now 'counterparties'. None of these representations infer immoral activity or motivation, but they do suggest a trend away from true stewardship[362]. To also contrast SICAG's views on historical aspects of trust, their public submission also highlighted similar changes in recent times:

[493] During the 1980s all the major banks moved from being "service providers" to "sellers of financial products". Personnel management systems required annual setting of business objectives that were linked to substantial bonus payments. Bankers became "used car salesmen", their primary concern being the selling of financial products and receipt of bonus payments. This culture has led to many problems for the banking industry not the least of which is the current world financial meltdown. [public submission 276, from SICAG]

More specifically to Storm's collapse and as seen from the extensive evidence presented in chapter six, a loss of trust in many institutional entities has resulted[363]. Consequently in terms of our alternative pillar framework, there is also a fracturing of the reliability and trust of pillar two. For an adviser impacted by Storm's demise, a comment was made to clarify that it is not necessarily trust that is lost, but more a perception and realisation of the historical trends highlighted above:

[494] (It) is not so much I've lost trust, I just put things more into perspective and say banks are big greedy institutions that answer to their shareholders… and I don't think that they have got an altruistic bone in their body. [interview with ex-Storm adviser][364]

Furthermore, it is not just those directly linked to Storm as investors and/or advisers that perceive a fault-line in one's trust in relevant institutions. Interesting insights were also

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[362] Littrell (2010) also adds that "my sense is that Australasian industry practice is sounder than in some American and European banks, a senior Australian bank executive is still likely to agree to the proposition that depositors have a special status and deserve special consideration, to ensure that their money is safe".

[363] This also reflects a modern day mistrust of institutions in general – for example, survey results highlighted by MacDonald et al. (2011) suggest that a major reason for aversion to the utilisation of annuities in retirement is a distrust of financial institutions.

[364] Another PJCI submitter described his concerns about trust in some institutions, notwithstanding his own involvement in the industry. If individuals are forced to consult more directly with banks than via independent financial planners, then such consultation with a "friendly bank manager for advice" has a metaphor: "'Come into my parlour' said the spider to the fly" (public submission 35 from non-Storm Investor and owner of financial advisory firm).

given by PJCI members in the course of the Inquiry, as well as by family members of Storm investors[365]:

[495] 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. [public submission 310 from daughter of Storm Investors]

[496] I have always been of the belief that banks existed to help businesses get ahead, but over the past few months I am starting to wonder if Banks think businesses exist to help banks get ahead. [public submission 291 from family member of Storm Investor]

[497] *Senator Williams:* Let us hope those financials around the world who actually brought on this global financial crisis through subprime lending and reckless lending have learnt the same lesson so that we are not back in this position in the near or distant future. The whole thing comes back to reckless lending and unsecured lending, and when things turn sour, whether it be Storm or whether it be the subprime in America, this is what has brought the globe to its knees economy-wise.
Senator Boyce: I do not think human nature is going to change. [public hearing [9], p.57]

[498] *Senator Williams:* We will probably end up with more ethical banking in the next five or 10 years. But then when the greed for money gets too much, we will be back here. I was involved in foreign currency loans with Swiss francs. When we looked back that was foolish lending. The banks should have learnt back in those days. But now we have the CBA and the CGI in the middle of this issue up to their ears... I would not be surprised if we see the same issue in another 20 years' time with people back here doing the same thing again. [public hearing [8], p.53]

A loss of trust in pillar two has serious and concerning implications for those involved. One implication is a call and potential response to give greater protection for the individual, which is clearly not a concern *per se*, but it does mean an intrusion into a market whose

[365] As a further perspective as well, public submission [400] from the Finance Sector Union highlights survey findings of Union members (predominantly from the banking sector). Notably, 59% "felt pressure to make inappropriate sales to meet sales targets meet sales targets"; 52% "felt obliged to try and sell debt products even when a customer didn't need them; and 63% "felt that inappropriate sales targets are having a negative impact on their ability to provide responsible customer service".

operation is premised on the minimisation of such intrusions. The concern with this (other than questions of regulatory efficiency which we briefly touch on shortly) is that this possibility has been raised only because of the lack of trust in the existing framework and institutional players. One investor attested as much in their public submission to the PJCI:

> [499] The lay person must be protected when they pay for a service. Banks also have to return to the time when the customer was an important and respected commodity… Bankers are no longer respected by society and isn't it sad that they have gone so far down in society's thinking. [public submission 21 from Storm Investor]

Such a lack of trust and respect in any institution is not a healthy state of affairs for any market participant (including the institution). Nevertheless it is a real outcome, and this presents challenges to the ability of an individual to function as a citizen in today's society. One Storm investor who had much hope riding on potential legal actions against various credit providers highlighted this challenge:

> [500] (If we are restored via legal action) that's got its own emotional problems with it too because what do we with that money? I'll never, ever trust a third party to manage my money again and I've trusted professionals in the Storm Financial matter and they failed me. I've trusted my bank and they (did far worse than just fail me)… So I'll never trust them again… I've had enough bad experiences with people in that industry to know that I will never, ever trust any of them to manage my money ever again. So that in itself creates a problem. [interview with Storm investor]

Thus, if pillars one and two have crumbled for many in terms of trust, that potentially generates or forces a great reliance on the third pillar of one's overall and financial wellbeing: oneself. It is important to note though that this concentration of reliance on oneself is not necessarily the preference of many individuals –rather, they perceive that as a result of their experience with Storm and its aftermath, they have little choice. The following excerpt highlights the crumbling of trust in pillar two for one couple, and serves as an introduction to a discussion of pillar three:

[501] A representative of the National Australia Bank contacted my husband and I last week. They asked us to consider coming in and talking to one of their financial planners. My husband laughed and asked if it mattered if he swore on their recorded conversation. She asked why he might swear, and when my husband said, 'We've been caught up with the Storm Financial debacle,' she asked: 'What is Storm? I don't know what you're talking about.' My husband and I discussed the conversations later and the things that we have learned from this: one, do not trust banks or financial planners; two, do not risk things you cannot afford to lose, in dollar terms or emotionally; and, three, ask many, many questions and ensure that you get the answers. [public hearing [4], p.86]

7.2.1.3 Oneself

Armed with growing superannuation balances and messages about self-sufficiency from government, individuals appreciate that they must also rely on themselves and what they choose, and what they can provide via other self-sourced means for financial wellbeing. This reliance on self represents a third pillar. Its precedence now in the minds of many has arisen not only from the overall push and trends in society towards individualisation, but also by default as a result of a crumbling trust in the first two pillars. This was indicated by several of those interviewed:

[502] Don't retire, because the minute you retire – not unless you do your homework before you do… think about it a long time. Now is the time. This superannuation bulls---; mate, I don't trust it. You get – build yourself some houses. Hang onto them because one day – one day, they'll have a big boom again. [interview with Storm investor]

[503] It's been really hard. It's been really hard to even want to go to back to investing anything…. but I know that there's no other way. You know, I don't want to be at retirement age and have to live on the pension because there won't be one for my – anyone our age. [interview with Storm investor]

[504] You have to be in charge of yourself from day one, even from birth. [interview with Storm investor]

> [505] I do think financial advice is very important because things are getting so complicated in the world. However, at the end of the day, you've got to take responsibility on what you decide to do yourself and something that I believe in a lot more now. [interview with ex-Storm adviser]

However, such reliance is not and cannot function in isolation from the first two pillars. Institutions are still needed, and choices are still made within the framework and decisions promulgated by government. Given the discussion in the previous two sections regarding the first two pillars, this presents challenges for pillar three. The exacerbation of such challenges by the overall push towards individualisation is discussed in more detail in section 7.3.

7.2.1.4 More than three?

As indicated in chapter two, housing is also highlighted by some as a fourth pillar in the network of financial security in Australia. Given the discussion in section 6.4.5.2, the findings from Storm support any assertion that one's housing's circumstances has both significant financial and emotional implications, and can also be impacted by unfavourable outcomes arising from the first three pillars[366]. Hence, changes in one's housing circumstances can also be directly related to the issue of trust of other parties as well[367].

An additional pillar is that of 'others'. This includes family and friends and other personal contacts, rather than professional engagement with an institution in pillar two. The influence and reliance on others was clearly shown to be relevant in section 6.3.4 in the context of deciding whether or not to invest in Storm, but the pillar of 'others' has far more direct influence as well. Indeed, many people rely partly on their family to help and provide for them in retirement, given the role of families to "serve as a mechanism for the pooling

[366] For example: encouragement to buy via first home buyer grants or concessions which change over time according to the political winds of the day; a mortgage rate not reducing in line with expectations of society and government as RBA cash rates fall can force the sale of a home; and one's own responsibilities and decisions in choosing a house of a certain location, price and/or condition which may or may not be favourable in the long term.

[367] What this further suggests is that individuals should comprehensively consider the pros and cons of the developing range of products that access home equity for the purposes of retirement income. Furthermore, the onus should clearly be on the product provider(s) to ensure (rather than just disclose) that those considering such products are aware of the risks involved in a manner which is meaningful to them.

and sharing of income and consumption" (MacDonald and Moore 2011). But despite this, the role of wider social circles is usually given scant regard in the normal course of retirement planning.

Additional participants in this pillar also include those collective groups which can arise from such traumatic events (Quarantelli's (1999) 'emergent quality' of disaster responses discussed in section 4.4.1.2), most obviously SICAG in the context of Storm. Indeed, the value placed by many investors in the collective power and comfort of such groups is even more poignant when considering the sense of social isolation that many investors otherwise find themselves in (as evidenced in section 6.4.3.1.4). Perhaps such poignancy is more a reflection on modern society where older persons often live alone and away from family, and where the busyness of life does make genuine relationships more difficult to foster. As per an earlier interviewee's realisation that banks are not altruistic entities, perhaps the same could be said as a précis of the state of affairs of communities in modern (western) life[368].

The related point to this commentary on modern life, showcased by the impact on Storm investors, is that perhaps some degree of collective care and responsibility should exist in such matters. In an early paper on the effects of those suffering from an accident, Morris and Paul (1962) describe the impacts on family life at that point when "serious economic disruption becomes great" (p.918). Significantly for our discussion here, they state their belief that those families "would suffer sufficient disruption to warrant community concern". In other words, the fate of a few can and could sometimes be the concern of many[369]. The additional factor with Storm however is the downside of the 'network' effect – if multiple parties are impacted and those parties have dependencies such as familial connections with one another, then the impact is made even worse. Effectively, another

[368] Indeed, Keynes himself stated his hope that mere financial issues would eventually take a back seat to more interesting and deeper questions: "The day is not far off when the economic problem will take the back seat where it belongs, and the arena of the heart and the head will be occupied or reoccupied, by our real problems - the problems of life and of human relations, of creation and behavior and religion." http://www.brainyquote.com/quotes/quotes/j/johnmaynar152041.html#3rFv6WZkW5j6lLiC.99

[369] Of course, this may well be a rose-tinted view of society's standards in generations gone by, or an accurate contrast to today's (over?) self-reliance, or something in-between these possibilities.

'pillar' of security itself is compromised, and notably, it is a pillar that is a critical component of any potential recovery[370].

The role of others in recovery from financial trauma has been hinted at in the earlier discussion of sections 6.4.3 and 6.4.5.4, and what is apparent from the interviews with investors is that this pillar is significant in the context of recovering from a financial shock. However, it is a pillar that we cannot give detailed attention to here despite its likely critical role for all individuals, but we set it aside for future research into examining what factors are critical for such recovery (or otherwise) over time.

A sixth pillar, often lost in discussions which are premised on the concept that 'retirement' is a good and expected thing, is employment. Like the pillar of 'others', this also is a factor which has significance in the recovery of Storm investors[371]. As such, it too is something we give detailed attention here, but also set aside for future research.

7.3 Individualisation to the fore again

The societal trend underlying the previous discussion is that of the push to greater individualisation. Its influence in the provision of one's financial wellbeing, particularly in retirement, has been attested by many sources in the course of the PJCI[372]. What various professional groups and parties have further highlighted is that the advent of individualisation has run in parallel with other societal changes such as increased longevity and lower fertility rates which together give rise to an ageing population[373], industry

[370] Public submission [400] from the Finance Sector Union highlights an 'outcome' asymmetry arising from financial losses, whereby "institutions such as the CBA that engage in riskier lending practices may lose a percentage of profits when things go wrong", but "in contrast, the potential impact on consumers is devastating and may have wide ranging effects such as increased demand for welfare services, lower work productivity due to stress and absenteeism, and greater reliance on support networks to survive". Of relevance here is that this latter reliance on support networks itself may also be compromised, suggesting a lack of independence between our restated pillars of 'oneself' and 'others', at least in the case of Storm.

[371] But it is also a factor which is challenging for many, as it is difficult for many at older ages to re-enter the workforce (for example, see the comments of the ASIC Chairman, public hearing [8], p.7).

[372] As further examples, see the comments of a law academic in public submission [398]; a financial planner in public submission [67]; and Bob Such MP highlights that "consumers too face an increased expectation to assume responsibility for their own financial security, even into retirement" (public submission 279).

[373] For example, public submission [385] from AXA.

changes such as deregulation[374] and the decline in defined benefit schemes[375], and also the availability of significant sums of money and options for shareholding in demutualized institutions for individuals who have not previously had to be concerned with such things[376].

As a result, risk has, and is, transferred from employers and government to individuals. This is perhaps even more pointed in the Australian context because of the combination of the above factors with the compulsion, magnitude and growth in superannuation across all employees. As Smith (2009) highlights, this leaves many individuals nearing or in retirement in Australia with little alternative but to engage in a meaningful way with concepts of risk and return and a host of other issues around financial provision, that they may not have encountered or been interested in before. Furthermore, this requirement is forced upon them with superannuation being compulsory, so that "consent or choice is more apparent than real" (p.524).

Obvious issues to emerge from such trends concern whether individuals really are equipped to deal with such risk(s)[377], and whether they are assisted or hindered in doing so by the general regulatory and societal framework within which they exist. We first briefly discuss the issue of the regulatory environment, before moving to wider issues concerning what it means for individuals in today's world, and what we perceive as a core issue highlighted by Storm's collapse – that of ethical disposition.

[374] "The last quarter of the twentieth century has seen a significant transformation of the Australian economy, notably, the deregulation of the financial services industry" (public submission 346 from MLC Ltd), which notably has meant higher access to and utilisation of more risky assets by everyday investors.
[375] For example, the testimony of the Financial Ombudsman Service (public hearing [2], p.34).
[376] For example, the CEO of IFSA highlights that "we have had a whole generation of people forced to be investors. We have had a whole generation of people who have had shares arrive in the mailbox through government actions or demutualisations and the like" (public hearing [3], p.56). Julie Owens MP highlighted that "we are facing a situation which has developed over the last 20 years or so which we are really the first to have to deal with… we have built enormous superannuation funds. We have a whole stack of inexperienced investors in their 50s with cash arriving in the market. There were the mum and dad investors who discovered shares with Telstra. And we are unique—we are new in this. We happen to have done it during a boom time, which was perhaps really lucky" (public hearing [3], pp. 22, 56).
[377] As Smith (2009) asks: "are governments just asking too much of individuals when they expect them to be able to analyse risk and make complex decisions about investment such as for retirement income?"

7.3.1 Does the environment help?

The risks accruing or transferring to individuals as a result of those trends highlighted above, can either be helped or hindered by the general regulatory setting for the financial services industry. We offer a brief overview of some of the core features of the general environment and regulatory settings, providing comment along the way about what the Storm example has specifically highlighted as concerns.

We note further that the Australian Federal government announced in November 2013 that a new Financial Services Inquiry is to be held[378]. Some sixteen years after the former Wallis inquiry, this will consider how elements of competition and consumer protection can be balanced, with a view to a stable and efficient system overall. Tailoring this thesis to a focus solely on regulatory solutions to such questions would be a substantial diversion from our main research goals, so we do not pursue this at length other than the more general insights offered on regulatory shortfalls from this point onwards. However we do note our agreement with the rationale for this inquiry, whereby it is clear that the environmental challenges facing individuals today are quite different to those considered sixteen years ago, thus making the latest Inquiry highly significant, and timely.

7.3.1.1 Too complicated?

The breadth of product and other choices available to individuals has been described as 'enormous' by ASIC executives appearing before the PJCI, to the extent that the situation in Australia is an 'outlier' in such availability[379]. One immediate implication of such choice is that individuals are exposed to greater risk though their own decisions[380]. Furthermore, decisions made as investors differ substantially to decisions made as consumers of more tangible goods, with the latter scenario the more common one in which individuals gain experience as decision makers[381]. As such, the Australian system of financial provision is

[378] See, for example, http://www.pm.gov.au/media/2013-11-20/financial-system-inquiry.
[379] Furthermore, this generally "has been a successful setting, but a committee like this would, I think, have to have a look and see how that is working" [Jeremy Cooper, ASIC Deputy Chairman, public hearing [1], p.48].
[380] Public submission [67] from a Financial planner, amongst others, comments on this issue.
[381] Such differences include aspects of immediate consumption versus long term intangibility (as touched on in section 2.5.2.6), the ability to physically inspect a material good prior to purchase, consumer goods running

complicated, for which many individuals would be exasperated in attempting to negotiate their way through[382]. One interview in particular highlighted the difficulties that they face in this regard:

[506] *Wife:* Actually, when something comes on the computer... I can't understand half of it because it's a lot of jargon... just simplify things. Simplify it.
Husband: I'm not that way inclined.
Wife: Simplify things and it would be a lot better but when it's not simplified, I don't know.
Husband: Put something to work with my hands and I'm a chance at doing it but you know...
Wife: I find it very hard to understand... if we knew ten people that we could sit down and have a chat to, it might have been a lot better. [interview with Storm investor]

Others state the underlying issue and requirement just as succinctly:

[507] In the main the Finance industry is a master of voluminous statements of legal gobbledegook. [public submission 43 from a non-Storm Investor]

[508] The industry and the products have become very complicated, and maybe what the consumer would like to see is a little bit more simplicity and transparency. [Executive Manager, Guardian Financial Planning, public hearing [2], p.92]

Such an environment leads many to consider that the environment of choice and complexity is simply not suitable. The senior policy officer of consumer advocate group CHOICE[383] put this to the PJCI as a result of their observations of the market:

[509] There has been an explosion in the types of products that are around and the complexity of products... what we have seen is that the changes that were made, particularly as a result of the Wallis inquiry and financial services regulation, are not working... The risks have increased, and consumers are not in a position to manage them. [public hearing [7], p.107]

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down over time versus investment products (hopefully) not doing so, and differing degrees of control and maintenance one can apply to each (e.g. car versus share option) (Smith 2009).

[382] "The tax system and retirement income system in this country is complicated and it requires a level of professionalism and intellectual rigour in order to sit down and understand that and then to impart that to the customer" (Executive GM of Advice and Marketing, MLC and NAB Wealth, public hearing [2], p.12).

[383] http://www.choice.com.au/.

7.3.1.2 Can regulation help?

Unsurprisingly given its regulatory focus, substantial attention was given to questions of regulatory oversight in the course of the PJCI. Such discussion helped shape the PJCI's views, which were then reflected in the recommendations in Appendix A. Given our research goals, we briefly summarise here two aspects of the regulatory environment that influence how individuals operate and understand the financial environment. The first of these concerns the balance between protection and freedom to innovate, and the second concerns aspects of licensing and disclosure.

7.3.1.2.1 Protection versus innovation and choice

Any system of regulation and control upon a market provides some balance of protection versus innovation. Of course there are extremes where laissez-faire rules the day, and others where very little choice is granted. The need for a suitable balance in the Australian financial market context was specifically highlighted several times in the course of the PJCI[384], with various parties leaning to one or the other side of the balancing act depending on their own perspective.

Arguments for avoiding unnecessary restrictions on the operation of the market centered around three main aspects. The first of these was around the right and/or preference to have choice, the second concerned aspects of efficiency, and the third concerned the issue of moral hazard. Regarding choice, the FPA argued that most people do want choice in their affairs, and utilizing regulation in a heavy manner would not only undermine choice, but also competition and innovation[385]. Furthermore, choice is important because "you cannot predict, based on income, age and circumstance, what people can and cannot do; it is their right to choose that"[386]. More generally, an argument for choice arises from many studies

[384] For example, public submissions [385] from AXA and [388] from Treasury; and extended and informative discussions with ASIC executives in public hearings [1] and [8] and with Treasury in public hearing [3].
[385] FPA CEO, public hearing [3], p.4.
[386] FPA CEO, public hearing [3], p.33. This excerpt however raises an additional aspect that is related to our overall point regarding the push to self-sufficiency. In the main, this push has not been the choice of individuals – it has essentially been forced upon them. It is perhaps a stretch then to appeal solely to an argument of individual 'rights' to choose any possible option, when in reality the overall system is itself a mixture of choice and compulsion. Furthermore, if individuals make bad choices, or if institutions and

which indicate that the presence of choice can be linked with a sense of control, hence giving various material and psychological benefits to those with that choice (for example, see Taylor and Brown 1988)[387].

The importance of market efficiency was discussed by both ASIC and Treasury, with Treasury highlighting that an unfettered market promotes product innovation, lower costs and increased choices for individuals. As such, innovation contributes to market efficiency[388]. ASIC highlighted that stronger market interventions can restrict the flow of capital into the market, ultimately compromising competition and thereby market efficiency as well[389]. Both Treasury and ASIC further pointed that the level of international competitiveness was also a potential casualty of stronger market restrictions.

Moral hazard is where certain behaviours are more likely to be taken, if there are things in place for others to bear the costs of any risks associated with those behaviours. Both ASIC and Treasury discussed this as a specific downside of greater intervention (equating to greater protection for individuals) in the market. Two relevant excerpts are below:

> [510] There are several matters that would have to be considered (with greater protection), including that if there was a more paternalistic approach then it might exacerbate the moral hazard amongst retail investors—for instance, faced by an apparently safer regulatory regime retail investors might decide to take on more leverage and therefore more risk or opt to invest inappropriately in the riskiest of the apparently approved investments. [ASIC Chief Economist, public hearing [1], p.6]

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professionals let them down, or if outcomes are poor for some other reason – then others one way or another bear the cost of those outcomes. Nobody's 'own' business and rights in a financial context are indeed just their own, and especially not in a world of taxpayer subsidised superannuation tax advantages, age pension and welfare provision, and so on. Furthermore, society by nature is necessarily a system of varied subsidies, forced-philanthropy and forced behaviours to some degree – hence taxes, the provision of welfare, children being required to attend school, and so on. Any behaviour has limitations placed on it by the interests of society at large to some degree, and we see little rationale why financial choice should be any different based solely on such an appeal to one's 'rights'.

[387] Again however, 'choice' is not always so demonstrably beneficial and we would argue that neither is it synonymous with control. The presentation of choice to Storm investors was such that many 'self-selected' into the model (thus exercising their choice), and certainly a lack of control in their life affairs is the unfortunate outcome now. More subtly, if one is presented with many different choices, but none of them are appropriate or they are limited to the weaknesses or biases of the organization involved in offering them, then there is little scope for ultimate 'control' in that circumstance.

[388] Public submission [388].

[389] ASIC Chairman, public hearing [1], p.49.

[511] A key regulatory principle of the Wallis Report is that although there is a need to reduce certain risks that arise purely because of market failures, governments should avoid imposing regulation that seeks to eliminate the financial risks of participating in financial markets. This type of regulation induces a 'moral hazard', by creating complacency about risk among investors, and may ultimately encourage the risky behaviour it is trying to deter. [public submission 388 from the Treasury]

We have no specific disagreement with either of the above, but note that it is apparent from Storm that the horse of moral hazard has already bolted, to a degree, from the overarching stable of regulatory oversight. Many Storm investors weighed up much of what they knew and could know from their investigations: Storm was licensed, it disclosed everything it needed to according to the process of the day, it had credibility as a result of associations with strong APRA-regulated entities that are promoted as 'pillars' of society, it belonged as a principal member to the FPA, and so on. Therefore, with these safeguards in place, investors perceived it as a risk worth taking, and as such their behaviour was influenced (or as they thought, essentially insured to some degree) via such safeguards[390].

Despite the rationale for a weighting towards innovation and choice rather than intervention, numerous PJCI participants and other commentators have called for greater protection for individuals (for example, Smith 2009). Reasons for greater protection are varied, including:

- The reality that there are vulnerable groups in society. In particular, those receiving superannuation as a lump sum, with vulnerability at the point of first having to think about investing one's money (Ms Sharon Grierson MP, public hearing [8], p.13);
- If government expects individuals to be self-sufficient in retirement, then without some protection the cost of getting it wrong is continued (and greater) reliance on welfare and the age pension system;
- ASIC itself highlighted that the underlying basis of the current regime (the Wallis Inquiry), did not foresee the extent to which retail (non-institutional) investors

[390] Of course none of these safeguards implies a government guarantee of any financial promise (such a guarantee would be the cause for potential moral hazard that ASIC and Treasury are actually referring to, and as such, the Wallis Inquiry advised to avoid such guarantees (ASIC Chief Economist, public hearing [1], p.5)). But, if perceptions count as much as anything for describing the rationale for individual's actions, the perception of protection was indeed strong in the case of Storm.

would participate in the market. The significance of this type of investor has accelerated because of rapid growth in superannuation, and as such there are questions as to whether levels of protection are appropriate (ASIC Chairman, public hearing [8], p.7)[391];

- The risks involved are not necessarily ones that an individual could be reasonably be expected to know about and manage[392].

7.3.1.2.2 Licensing and disclosure

As discussed in chapter two, key regulatory tools applicable to ASIC-regulated entities include licensing and disclosure. ASIC explained the intent and limits of the licensing regime in section 6.4.4.8.1, against the backdrop of investors feeling that an AFSL was essentially a ticket of credibility. Treasury highlighted that if licensing was to incorporate additional and stronger goals, then the following could result[393]:

- If a judgement of the appropriateness of business models was incorporated, a risk averse approach would likely be taken by ASIC;
- Market innovation and competition would likely be stifled;
- In addition to the aforementioned problem of moral hazard, such vetting by ASIC could not reasonable be expected to prevent all future collapses;
- Higher compliance costs would be imposed on businesses, both initially when applying for an AFSL and on an ongoing basis;
- Such costs would likely be passed on to consumers;
- ASIC would require additional expertise and resources, with the associated costs likely met via government or directly from licensees.

As such, licensing itself is a feature of the regulatory environment which may be better enhanced via greater consumer appreciation of its shortcomings. Disclosure, on the other

[391] And as St. John (2011) adds, retail clients "are in greater need of protection than are wholesale clients who should be better informed and better able to assess the risks involved in financial transactions" (p.6).

[392] For example, regulation should be strong enough to "inhibit the foolish actions of rogue, careless and selfish operators of investment products" (public submission 43 from non-Storm Investor), but even if such strong regulation was in place, Smith (2009) comments that "the GFC has made it impossible to ignore that there are some risks that no matter how expert or diligent, retail investors cannot control" (p.531).

[393] The list that follows is our summary of the points made in Treasury's public submission [388].

hand, was widely critiqued as a regulatory tool in the course of the PJCI[394]. ASIC defended the role of disclosure, describing it as necessary and highlighting that investors need to have information to assist them in making appropriate decisions. Nevertheless, ASIC also acknowledged shortcomings:

> [512] If disclosure cannot fulfil its role of overcoming the information asymmetry between industry participants and investors, then it is necessary to consider other changes to the (regime) to protect investors. [public submission 378 from ASIC]

It is the detail of such shortcomings that interested many of those contributing to the PJCI. A first element is how disclosure impacts an individual who has had some detail disclosed to them. Somewhat counter-intuitively, it is claimed that such disclosure may not have the desired effect of providing a warning as to the quality or limitations of the advice being offered. Rather, it may increase confidence in the advice being given because the consumer sees the adviser as forthright and honest in disclosing particular details[395]. Additional insights as to what disclosure means for the recipient were provided via another public submission:

> [513] The problem with disclosure is that (1) recipients of disclosure cannot utilise the disclosure effectively, and (2) the disclosure becomes routine or a "boilerplate" clause in documentation that ceases to reinforce, or even undermines, the advisor's obligations to the recipient. A substantial body of cognitive psychology research has found that recipients do not correctly discount advice from biased sources. The recipient does not know if or how the conflict may affect the advice they receive. They only know that it might have an effect which they are not in the position to quantify. [public submission 180 from Law Academic]

As suggested by point (2) in the above excerpt, a further element of disclosure of concern to many was that disclosure has tended to focus on process, rather than substance. Treasury highlighted that it is the quality and usefulness of information that is important rather than

[394] We note that interviewees themselves, as demonstrated earlier, commented heavily on the licensing aspect. For other participants in the PJCI however, disclosure was to the fore as well.

[395] This in particular applies to the disclosure of issues of conflict, often apparent in commission payments and other remuneration arrangements from product providers. As such, "these are the sorts of perverse arrangements that are in play in disclosing conflicts. That is why our preference is to simply get rid of these conflicts in the first instance" (Senior policy officer of consumer advocacy group CHOICE, public hearing [7], p.106). The removal of obvious sources of conflict was part of the FOFA reforms.

the quantity[396], and a legal practitioner pointed out the following with respect to Statements of Advice (SOAs) offered by Storm to investors[397]:

- SOAs most likely did not impart the advice that should have been given;
- SOAs did not explain the risks associated with the products and the strategy;
- SOAs did not have anything to do with the quality of the advice that was imparted.

The general point is that disclosure requirements have led to compliance for the sake of compliance, so that laws are not breached, but consumers are not necessarily given what they need to make informed choices. An interesting conversation occurred in public hearing [1], illustrating a key realisation of PJCI members with regard to this matter:

[514] *Bernie Ripoll MP*: How do you get a choice in an environment where your choice is limited by what is presented to you? You turn up at a buffet and there is a lot to choose from but it is all the same. As long as we have some clarity about that being an issue, because that leads directly into disclosure. Disclosure in terms of what is actually disclosed is limited to what is offered. It is not disclosure about the total market. It is not disclosure to the investor that, 'Yes, sure, we will disclose to you that there is a conflict of interest.' In fact, if you went down the road you could get the very same product—in fact, a better product—and get it with few fees or no fees or completely different. That is not disclosed.

ASIC Chairman: That is not competitive disclosure; that is correct.

Bernie Ripoll MP: It is only disclosure in terms of what you are offered. If you are only offered one product you will get disclosure in terms of that one. You have got nothing to compare it to. Disclosure is highly limited in its capacity to, in the first place, offer you any choice. Even if you are very good and in fact you are a financial planner yourself being offered this, you may not learn anything from the disclosure. Often disclosure can be a form of protection more for the people providing the product rather than for providing information. [public hearing [1], p.38]

As such, disclosure can be seen as an insufficient regulatory tool[398]. Some see disclosure as having little to do with helping the consumer understand what they need to know[399], and

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396 Public submission [388].

397 A summary of points made by Ms June Smith (Principal, Argyle Lawyers, public hearing [2], p.113).

398 For example, the Vice-President of the Australian Investors Association claims that after several years of trying to "get it right", it "has not worked" (public hearing [6], p.46); and the CEO of MLC Limited claims

some see the regime as requiring simplification to work better[400] (echoing similar points of the overall system in section 7.3.1.1). An interesting analogy is given within another public submission:

> [515] The current system of disclosure and education is not particularly effective. Think about your doctor. They diagnose the illness, give you a name you cannot spell and a treatment. They don't give you 50 pages and attempt to educate you about the illness and treatment. Why should this industry pretend people are suddenly going to start reading and educating themselves. Our financial planning regulations attempts to educate people and turn them into investment and risk assessment experts. For a critical number of people this fails. [public submission 18 from employee in financial planning industry]

As with most insightful analogies, the above excerpt makes its point well but is open to further comment. We agree from the observations of Storm that the responsibility being bestowed upon individuals is high and in some cases misplaced, but more importantly, this highlights an even more exacerbated responsibility on those who do know the detail of financial choices and options[401]. A defence of disclosure with respect to the above analogy would be that although understanding the detail of one's treatment is not necessarily key to the success of that treatment, nevertheless the concerted health campaigns over many years as to the dangers of certain choices (most obviously, smoking as a public health issue) have informed individuals as to the riskiness of such choices. In this sense, is disclosure in a financial context more about knowing the detail of remedies and options, or is it about a statement of risk and opportunity? This issue is not one for us to resolve here, but it does raise the key aspect of how regulation in its entirety cannot touch all relevant issues for financial welfare in today's environment. What is clear though is that the regulatory framework has to provide some tangible protection and/or guidance for individuals when now being forced to participate in their long term financial affairs. For if not:

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that "the fundamental premise that disclosure has become the only way that a client will receive information or be able to make decisions" is "wrong" (public hearing [2], p.7).

399 MD and CEO, Securities and Derivatives Industry Association, public hearing [3], p.61.

400 For example, the "huge volume of information" required to be generated makes it "difficult for a consumer to make a truly informed decision" (public submission 67 from financial planner).

401 This analogy highlights an additional key issue –that of information asymmetry and what this infers in terms of responsibility for different participants. For example, the knowledge of the doctor versus the patient, or the adviser or institution versus the individual. This is discussed in more detail shortly.

[516] If we are going to say to a generation, 'You go out there and you fund your own retirement. Don't care how you do it,' that is just not playing fair. [Financial planner, public hearing [4], p.94]

7.3.2 What regulation can't touch: the key issues?

The fact that limits exist to what regulation can and cannot do is an important point made by many professionals to the PJCI. Some professional associations stated that legislation and regulation cannot prevent the impact of excessive greed of market participants[402], and a financial planner highlighted that with the breadth and variety in possible roles that professionals could take, no regulatory 'silver bullet' exists to solve all problems[403]. Others highlighted that where innovation is encouraged and a market responds to that encouragement, policy and regulation often (virtually unavoidably) lags such innovations[404].

As such, in this section we discuss two key issues that reside outside of what regulatory action can enforce. The first of these arises from earlier discussions of financial literacy – that being the broader issue of the 'information game'. But, rather than continue the trend to merely bemoan the responsibility that individuals should be bearing in this matter for themselves, we place it more in the context of what individualisation and self-sufficiency requires from other participants as well. The second key issue is, perhaps, the standout feature that we feel overrides all others in financial (and other) promises between different parties – that of the ethical disposition of participants to that promise.

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[402] For example, see comments by a Director of the Accounting Professional and Ethical Standards Board (public hearing [2], p.77), and public submission [391] from the National Institute of Accountants.
[403] Public submission [407]. On a similar note, a Treasury official also stated that there is never any guarantee that regulation can stop every adverse circumstance (GM, Corporations and Financial Services Division, Treasury, public hearing [3], p.24).
[404] Mr David Liddy, MD and CEO of Bank of Queensland, public hearing [8], p.34. In this vein, Davis (2009) states that "regulation faces a difficult task in a world of innovation, where new financial products and techniques are rapidly created to get around regulations which constrain profit opportunities, and where under-resourced regulatory agencies are always playing 'catch-up' dealing with those developments" (p.453).

7.3.2.1 The real problem of the information game

The aspect most prevalent in industry discussion about 'information' and 'understanding' of participants in financial services concerns the levels of financial literacy of individuals. As discussed in chapter two, many commentators and studies attest to the insufficiency of this at the individual level, and there is little doubt that the regulatory challenges discussed above are clearly exacerbated by this[405]. As such, the need for financial advice is prevalent and only likely to increase in the future. An additional aspect to this discussion concerns the financial literacy of many financial planners themselves, which is also seen to be an issue according to various sources in the PJCI.

However, although the need for financial advice and assistance is real and that this is mostly (but not exclusively) provided via professional financial planners, even when there are high levels of financial literacy on all sides challenges nevertheless remain. This includes assessing the value of advice, as introduced in section 2.5.2.6. Importantly, information asymmetry is a virtually unavoidable consequence of any transaction between a client and a service provider. Thus, information asymmetry – its cause and its consequence – is what the case of Storm highlights as a central problem of the information game that individuals must participate in.

7.3.2.1.1 Financial literacy

On evidence from Storm and through contributions to the PJCI, the fact that many individuals do not possess the required levels of financial literacy to operate constructively in Australia's financial setting is not disputed. Indeed, many individuals lack the required expertise and experience to participate effectively[406], overconfidence of many in relation to

[405] For example, the insufficiency of disclosure as a regulatory tool is said to be "partly due to the manner in which disclosure is made and partly because many people do not have the financial literacy to understand the implications of disclosures" (public submission 67 from financial planner).
[406] For example, public submission 279 from Bob Such, MP.

making financial decisions is apparent[407], the complexities of investing are lost on the majority of individuals[408], and particularly as it pertains to an understanding of risk[409].

Furthermore, although efforts to increase levels of financial literacy over time are to be encouraged, it is likely that limits also exist in such moves. It is unlikely that the majority of people can learn about the complexities of many products and strategies that are available[410], any improvements are only likely in the long term[411], and progress to date is slow[412]. Additionally, regular calls (often as 'motherhood' 'fix-all' statements) to utilise education in schools to equip a generation with the required literacy was (repeatedly) met with a degree of scepticism by PJCI member Senator McLucas, herself a former schoolteacher:

> [517] I suppose my view is that financial literacy is something you should be adding to all your life rather than being a one-hit wonder when you are 16 years old. [Senator McLucas, public hearing [3], p.68]

> [518] I note that you recommend that we change the school curriculum, which really troubles me. I suggest to you that a person who is 17 will not remember when they are 65 what a margin loan is. [Senator McLucas, public hearing [8], p.12]

Nevertheless, it is a worthwhile goal that important principles are promulgated in a way that interests and engages individuals as much as possible[413]. The cost of not improving the ability and wherewithal of individuals to deal with the choices and associated risks being faced is significant. Smith (2009) describes a worst case scenario as "sending lambs to the slaughter" (p.525) if individuals are forced to operate in a market before they are ready to,

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407 For example, Mr Michael Lim, Analyst, Investor Protection Unit, Corporations and Financial Services Division, Treasury, public hearing [3], p.12.

408 For example, see the CEO of IFSA, public hearing [3], p.56.

409 For example, see the CEO of MLC Limited, public hearing [2], p.12.

410 For example, Ms Delia Rickard, Senior Executive Leader, Consumers and Retail Investors, ASIC, public hearing [1], p.46, and public submission [378] from ASIC.

411 For example, public submission [378] from ASIC.

412 For example, the CEO of IFSA, public hearing [3], p.56.

413 Particularly pertaining to general principles such as "diversification, asset allocation, even a bit around risk" (Ms Delia Rickard, Senior Executive Leader, Consumers and Retail Investors, ASIC, public hearing [1], p.46).

and a non-Storm investor highlighted that it is simply too late to try to pick up the required wherewithal at a time "when accumulating years have passed"[414].

Importantly however, remarks about low levels of financial literacy should not just be restricted to individual investors. For even if an individual understands little, they can still call on professional help for assistance, which at least in theory should obviate their own requirement to be financially savvy, to some degree. This point was made by both investors and financial planners:

[519] With respect to the statement of advice, I can remember writing an email to Storm Finance, saying, 'If I understood every page of this statement of advice that I have to sign I would be a financial planner, wouldn't I?' I use a theory, because I am an electrician. I can explain to you electron flow and normal flow, but can you sign off on it to say that you understand it? We were given 30- to 40-page documents. I have a rough idea of margin loans, but do I understand every detail of it? If I did, wouldn't I have spent four years at uni? [Storm investor, public hearing [4], p.81]

[520] I totally encourage clients / the public to take control of their financial affairs, but for most it is the last thing on their mind. We cannot give up on education, but it is not the answer, the answer is restoring faith and confidence in the financial advising industry, and reinforcing the need for all Australians to visit an adviser. [public submission 407 from Financial planner]

Clearly then, and as also seen in earlier evidence, a trust in the quality and appropriateness in advice being given is vital – certainly for its own sake as the delivery of a professional service, but exacerbated by the effective 'offloading' of expertise from individuals to the adviser. What was of concern to various PJCI members though was what they perceived as a limited educational foundation in many cases for the giving of such critical advice:

[521] We have taken advice that people are doing courses for as little as a week to nine days and are out popping product advice, advising people to put millions of dollars into different

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[414] Public submission [172].

products, which in my humble opinion is sheer nonsense. [Mr Stuart Robert MP, public hearing [8], p.18]

[522] The advice that financial advisers will be giving in a sense, in many cases, could be more important than the advice the a lawyer, an accountant, a plumber or an electrician ever gives. And yet the training and the requirements involved are so much lower. That is what I, as someone who has no idea about the area, am astounded at. [Senator Mason, public hearing [1], p.15]

Notably, such concern is not just the view of those outside the industry, with public submissions [168] and [407] examples of financial planners who also indicated similar concerns. The Ombudsman for Investments, Life Insurance and Superannuation also expressed shortcomings in knowledge of advisers specifically with regard to risk:

[523] I am not saying it is the whole financial services industry, but our experience with, for example Westpoint, was that there were about 60 licensees that we dealt with in relation to Westpoint complaints, and what came across in those disputes was that the financial services providers themselves did not understand what they were getting the clients into and, therefore, they were not capable of explaining the risks. [Ms Alison Maynard, Ombudsman, Investments, Life Insurance and Superannuation, Financial Ombudsman Service, public hearing [2], p.23]

7.3.2.1.2 The need for advice remains

It is against this backdrop of challenges to regulatory oversight and reach, and levels of financial literacy, that a need for financial advice exists. Kozup and Hogarth (2008) state the need for financial advice is made even more pressing with individuals facing their own time pressures as well as financial shortcomings, particularly as advice and financial decisions should be specific to one's particular circumstances rather than be subject to any 'templated' one-size-fits-all approach.

Given such lack of resources and wherewithal in general at the individual level, Macquarie Bank executives highlighted the importance of advice for more complex requirements such as understanding risk and reigning in excessively risky behaviours in times of market boom. Importantly, they also noted that this applies to "institutional investors and banks as well as individual investors"[415]. A reason as to why professionals may be well equipped to deliver such advice is that if experience is the teacher of many lessons, those with that experience are more likely to be informed than otherwise (such as first time investors with little prior interest and/or experience). As such, AXA highlighted the view that the financial services industry will be of major importance to society overall for decades[416].

Although terms such as 'complexity' are frequently used to describe what is associated with financial options and decisions, it is worth noting that what financial planning is meant to fulfill is actually not that overwhelming. AMP highlights that there are three things that most people seek in terms of financial goals and as such, these represent what good financial advice is all about:

> [524] Helping people own their own homes sooner;
> Making sure they protect themselves and their families in the event of misfortune; and
> Ensuring they can retire comfortably. [public submission 367 from AMP]

Naturally enough, various challenges exist around each of these points, particularly (in the context of Storm) the goal to save for retirement. A financial adviser expressed the challenges arising from the reality that retirement itself is now itself an extended phase of life, with its own lifestyle expectations (rather than mere survival). And importantly, working towards particular goals and overcoming such challenges along the way is not meant to be an unsurmountable hurdle and not one that everyone needs advice on, but nevertheless a need for advice remains for many:

> [525] The average person in the western world wants to live with dignity throughout their life and given this length of time that people live now, you know, there's 20, there's 30 years of life potentially without working. So providing for that, however you want to describe it, is hard work. Right, that's never going to be easy for you to now set yourself the challenge of saying, "Hey, at some point between 60 and 70, I'm not going to wanting to be doing this. I'm going to need an income from somewhere." It's going to take a lot of work from you to

[415] Public hearing [9], p.18.
[416] Public submission [385].

> put yourself in that position. Right, so that's a western world challenge… whether you take advice on that or whether you do it yourself is academic, right? It's your challenge… now you can do that yourself or you can take advice on it. To make all that work, I don't think is as difficult as they're making it sound and that's really the financial services industry. There's a bunch of silos that sit within that. I'd like to think most people, not all, most people need the advice. [interview with ex-Storm adviser]

As such, the role of professional financial advisers often takes on the form of guidance, encouragement, education and accountability towards these goals as much as anything else[417].

7.3.2.1.3 A major challenge: assessing value

Despite the fact that the overall need for advice is premised on relatively straightforward goals for most people, the assessment of the quality of financial advice is a difficult task[418]. This is particularly concerning in the light of the need for such advice and the high stakes involved with poor financial outcomes. Two financial planners attest to the difficulty of determining what quality advice is, and the Financial Ombudsman suggests that good advice is not necessarily a unique construct. Rather, perhaps it is better to categorise reasonable advice on the basis of it not being obviously poor:

> [526] There is no doubt that investors should be aware of what is reasonable value for advice, but to date there is nothing from anywhere that helps to establish what this is. [email from financial adviser, August 2012]

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[417] For example, investors "need encouragement and hand holding to commence an investment programme for life and to stick with it during difficult times" (public submission 135 from financial planner). Furthermore, from AMP again: "most people know they should pay off their mortgages earlier, stop revolving credit card debt, have adequate insurance and save more for their retirement; however, most don't get around to doing it or doing it well" (public submission 367).

[418] The discussion of section 2.5.2.6 is in agreement with much of the input into the PJCI, as evidenced, for example, by ASIC's Deputy Chairman (Mr Jeremy Cooper) in public hearing [1] (p.36); public submission [319] from the Institute of Actuaries of Australia; and Mr Bernie Ripoll MP in public hearing [7] (p.118). Bernie Ripoll also highlighted that 'good' or 'bad' advice is not just a one-hit assessment and issue such as with "the worst-case scenarios of Storms", but it can be people going "through a whole lifetime, get a heap of bad advice and end up quite poor. Perhaps they would not lose their home, but just end up really poor because they never got good advice" (public hearing [7], p.113).

[527] I have always presumed that we would all broadly agree about the quality of advice, but it is something which the industry has not meaningfully discussed and ASIC has never shared its views about the quality of advice. To date, discussion has focused more on the process of giving advice. There has been an implicit assumption that a good process will lead to good advice. However, it is not hard to tick the boxes and demonstrate compliance with a 'good' process and produce dodgy advice. [public submission 67 from Financial planner]

[528] We even see in the media that sometimes a case study will be presented and then a couple of advisers will be asked to give advice based on that case study; you might get two different strategies for that consumer that are published in that magazine, but they will both be appropriate. They will not be the same, but they will both be appropriate. You are really looking for what is below the bar, what is really inappropriate. [Ms Alison Maynard, Ombudsman, Investments, Life Insurance and Superannuation, Financial Ombudsman Service, public hearing [2], p.28]

An approach to describing 'good' advice by placing bounds on what it is not, was a point of discussion in several of the PJCI public hearings. The main factor in the discussion, arising directly from PJCI member's knowledge and growing familiarity with the example of Storm, was that merely having a certain outcome can provide little indication as to the quality of advice leading to that outcome[419]. This again agrees with and echoes many points in section 2.5.2.6:

[529] *Mr Elvy (Head of Financial Planning, Institute of Chartered Accountants)*: Inappropriate advice is inappropriate advice whether you are actually making money or you are losing money.

Bernie Ripoll MP: ...how can it be inappropriate if somebody is making 10 per cent more than everybody else? I am seriously asking the question to try to understand how that might work.

Mr White (GM, Leadership and Quality, Institute of Chartered Accountants): In some ways, being a left brained accountant you often think about risk and reward. I think there needs to be elements of risk blended into measures of successful advice. Whilst today might be sunny, tomorrow very well may not be; therefore, that is an important element to quality advice. [public hearing [7], p.13]

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[419] And indeed this was suggested in some submissions also, for example: "during boom times... even bad advice can give good results" (public submission 67 from Financial planner).

[530] So we had inexperienced investors and 15 years of boom and you could actually be sloppy and still not fail. [Ms Julie Owens MP, public hearing [7], p.36]

7.3.2.1.4 The major challenge: information asymmetry

The prior discussion regarding the obtaining and understanding of information which is relevant to making financial decisions highlights the crucial problem of the information game: that of information asymmetry between different participants[420]. Financial literacy levels, the need for financial advice, and the difficulty of assessing the value of advice all point to the fact that a party offering advice has, in all likelihood, a different level of understanding of that advice than the receiving party.

The regulatory tool of disclosure is meant to close this information gap but as discussed, this has inherent limitations. Whilst some call for government to give more attention to the provision of information by industry to individuals (including disclosure practices) (Bateman et al. 2011a), even ASIC itself admits that disclosure "may never be sufficient to overcome information asymmetries between industry participants and retail investors"[421]. Treasury as well as ASIC highlight further that such asymmetry is a symptom of market failure, with this failure being the existence of imperfect information of parties to a transaction[422].

Some consider that such asymmetry arises from the manner in which information and decisions are presented to individuals, even in the case where individuals are well educated (for example, Merton 2008). Others highlight that individuals may simply lack the wherewithal to engage appropriately (for example, Smith 2009). Others consider that rather being an issue of capability, the main issue is individuals having little interest in pursuing appropriate behaviours which would provide them with the information that they need. This latter perspective is evidenced in the following two excerpts:

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[420] For example, Senator McLucas refers to an "absolute imbalance of knowledge" between "a person who is probably in their early 60s and a financial planner" (public hearing [8], p.12); and others such as the Institute of Actuaries of Australia attest to the "significant asymmetry of information between the financial planner and their client" (public submission 319).

[421] Public submission [378] from ASIC.

[422] Public submission [388] from The Treasury; ASIC Chief Economist, public hearing [1], p.4.

[531] One of my big concerns with advice and the provision of advice is that people will sit in front of an adviser and nod their head but have no idea what the adviser is saying. [MD, Professional Investment Services, public hearing [7], p.115][423]

[532] *Interviewee*: They were told to always – they were never allowed to say, "Yeah, I want to do this, sign here." They had to take it, sign and every page had to be initialled that they'd read and understood it and usually the next appointment was three weeks later, two minimum, three weeks so they gave them three weeks to show it to their friends, to go to their accountant if they wanted to and so they were always told at these seminars, "Get a second opinion if you want. You know, we have no objection about that."
Interviewer: Do people do that?
Interviewee: Most people don't. [interview with ex-Storm adviser]

Our view on evidence from Storm is that all three possibilities apply for information asymmetry. Not all individuals are equipped to negotiate the maze of decisions and complexity before them; those that are or could be equipped may not pursue, in all instances, what they should in order to be aware of the potential consequences of decisions that they are taking; and even where they are capable and engaged, what is disclosed and available to them in terms of potential risks is not always helpful, relevant or complete[424]. This simply is the reality of a market place such as Australia which features a large volume and variety of consumers, service providers, products and strategies on offer. In Australia where essentially a free market philosophy reigns, the consequences of such asymmetry are not trivial. Furthermore, it exposes the need for the most important ingredient of any agreement as discussed in chapter six – trust[425] – and it also highlights the importance of ethical behaviours of all participants to such agreements.

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[423] Such behavior is seen, for example, in excerpt [405] in chapter six.
[424] We also remind that a fair defence of such observations is that this is why an adviser is engaged in the first place – to deliver the capability, interest, knowledge and experience that an individual may not have.
[425] ASIC's chief economist gave a direct link between information asymmetry and trust as follows: "A borrower, whether it is an individual or a complex financial institution, may know what he or she is going to use the borrowed funds for but the person or institution lending the money typically does not know as much. These information gaps are information asymmetries and they undermine trust between the parties" (public hearing [1], p.4).

7.3.2.2 Ethical disposition

Given the factors discussed above concerning information and knowledge and its asymmetry across different market participants, this infers a significant role on a vital yet seemingly intangible factor: the ethical disposition of those participants[426]. This factor is apparent in most exchanges between any people, and is one that is centered on trust. The significance and central importance of ethics was attested by many in the course of the PJCI[427].

In a financial services context ethics can be at the fore of a relationship for many reasons - for example, the potential for the abuse of power that results from information asymmetry, and its implication for responsibility of decisions. These circumstances are highlighted in the following excerpts:

[533] *Mr McKenzie, Vice-President of the Australian Investors Association*: I had someone walk into my office yesterday. She sat down and talked with me and accorded me all the power in the relationship. I had to do whatever I could to empower her to ask. I told her some of the things that maybe she should have asked questions about. I could see that because she did not understand what we were talking about, despite my best efforts—
Bernie Ripoll MP: So it is really up to your integrity. It is up to your standards.
Mr McKenzie: Absolutely.
Bernie Ripoll MP: It is very personal. [public hearing [6], p.43]

[534] As an experienced trusted adviser you need to know your client well enough to know their circumstances, and in some cases, as silly as it sounds, you have to be able to make a decision for them as to whether that is reasonable or not, because they do not know. They are relying completely on you. This is where the fiduciary relationship comes in. [Director of Accounting Professional and Ethical Standards Board, public hearing [2], p.84]

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426 Of course, someone can be highly ethical and yet have limited knowledge, but a more complete understanding of 'ethical' also infers that in such situations, advice would not be given on matters in which a knowledge base was low. This is a feature of ethics and integrity upheld by various professional codes of conduct, such as: http://www.actuaries.asn.au/library/Standards/CodeofProfessionalConductNov2009.pdf.

427 For example: the Institute of Chartered Accountants in Australia public hearing [7] (pp.10, 16) and public submission [363]; the FPA in public hearing [3] (p.45); the Executive Manager of Guardian Financial Planning in public hearing [2] (p.93); public submission [251] from a financial planning business; PJCI member Senator Williams in public hearing [3] (p.87).

Despite the fundamental importance of ethics, some PJCI participants claimed that as an industry, financial planners had not spent a lot of time at this issue[428] and that ethics itself is an outworking of a cultural setting rather than a regulatory setting[429]. However, it was also noted by many that appropriate regulation can help[430]. It is this possibility that was behind the PJCI's recommendation for a fiduciary duty for financial advisers to place their clients' interests ahead of their own (see Appendix A), which was then adopted as part of the FOFA reforms (see section 3.3.2.2). It was also appreciated by some that this represents only a start in the right direction and that long term change would be the goal[431], but by placing such obligations in law, this was seen to be an analogous step to the obligations upon the directors of life insurers to policyholders, and those of trustees to superannuation fund investors[432].

There was, and is, much conviction and hope that both a cultural- and regulatory- assisted approach could lead to behaviours and actions which would always give primacy to the needs of the customer. Such optimism was not shared by everyone however, and as such we temper the discussion with excerpts from a range of parties which highlight a more critical assessment of the underlying ethical issues:

[535] No matter what the laws, Government and the legislators put into place, they'll always be somebody that can serve them better… there will be somebody that will get a loop about it. [interview with Storm investor]

[536] I believe the general regulatory environment is sound in Australia, and you cannot regulate against people that are determined to do wrong and cheat the system. [public submission 407 from Financial planner]

[537] Whatever the legal and regulatory framework, it is almost impossible to eliminate fraud or unethical behaviour. [public submission 385 from AXA]

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428 Executive Manager, Guardian Financial Planning, public hearing [2], p.93.

429 For example, see the FPA CEO in public hearing [3] (p.45); and the GM of Leadership and Quality, Institute of Chartered Accountants in Australia, public hearing [7] (p.10).

430 For example: Mr Benjamin Hancock, partner of Stonehouse Wealth Management, public hearing [6] (p.110); the Vice-President of the Australian Investors Association, public hearing [6] (p.47); Ms June Smith, Principal of Argyle Lawyers, public hearing [2] (p.111); and the CEO of MLC in public hearing [2] (p.7).

431 Vice-President of the Australian Investors Association, public hearing [6] (p.47).

432 CEO of MLC, public hearing [2], p.14.

[538] Legislating against greed, fraud and some of the other nefarious aspects of human nature is very difficult. [Executive Manager, Guardian Financial Planning, public hearing [2], p.93]

Another excerpt from a Storm investor illustrates their disillusionment with what transpired with Storm. Notably, their experience and perception is not just based on Storm, but also the events since then which consolidated a distrust and disbelief in the ethical standards of various institutions that they have had to engage with. The result is the somewhat draconian, but entirely understandable, approach they would now take when dealing with financial professionals again. This shows further that their view on ethical disposition of participants is not established nor damaged solely on single experiences, but via the aggregation of ongoing engagement and interaction.

[539] In the financial advice industry, there is massive temptation. Absolutely massive temptation. A lot of money at stake. If someone came to me and said, "I'm going to invest money with these people; they're really good" I would say, "From the moment you ring them to the moment you sign your documents and the moment – every moment from then on that you deal with them, not only do you get their written documents full of the jargon and the disclaimers and the bulls--- that they give, you will tape-record every single conversation. You will state to them very clearly what your risk exposure tolerance is and you will record and you will have them repeat back to you significant things like what's your level of risk tolerance. Get them to articulate exactly what they are doing with the money, what they are buying" because what we learned out of this, even though we asked all those questions and we went through all the due diligence we could, what we have found since is that people who were not even intentionally lying, who made comments to us that, in hindsight have proven to be incorrect, are now running so far and seeking legal advice to cover their butts, that they are of no assistance to us. [interview with Storm investor]

It is also important to note further that even with high levels of knowledge and a high level of ethics, this still does not eliminate risk and does not provide any guarantee that outcomes will not be adverse. As highlighted by St. John (2011), even where financial intermediaries bear appropriate responsibility for advice given, this does not imply that a guarantee is given of the outcomes of that advice nor fidelity of the products recommended.

7.4 What it all boils down to: Trust

Our direct observations in chapter six highlighted the primacy of trust, and how this is impacted in a variety of ways in the event of traumatic financial loss. So it is here too in our discussion of what we can infer more broadly from such circumstances, that trust again is deduced to be a core issue of importance.

Undoubtedly, trust is an essential ingredient of human relationships and as such, trust is also a cornerstone foundation of the financial services industry[433]. The way in which it is essential in a financial context is multi-faceted:

- Those who do not understand investments or the market, trust those who can offer a professional service because they say they do understand it[434];
- In the face of risk and uncertainty which is perceived to be complex, trust can be the "short-hand way of making investment decisions" (Smith 2009, p.532);
- Such reliance on trust can and will over-ride regulatory tools such as disclosure[435];
- The scale of what is at stake is enormous and yet trust can be given so easily[436];
- The scope of trust bestowed upon financial professionals is large, with the belief that the customer is at the forefront of decisions made[437];
- The nature of trust bestowed is seen to be influenced by the trust placed in other professionals such as medical doctors, implying a 'credibility transfer' due to the perceived association of professionalism with each[438].

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433 Iannicola and Parker (2010) state that "relationships and trust are cornerstones of the financial advice industry". What we add to this from the case of Storm is that it is not just the advice industry, but the financial services industry as a whole.

434 PJCI member Senator Williams, public hearing [3], p.87.

435 "Because of the large number of people who suddenly find themselves with super payouts, and it may be their first investment ever or they may have discovered shares through Telstra or whatever... for those people disclosure and all of that sort of stuff means nothing because they are basically taking advice from a person" (Ms Julie Owens MP, public hearing [3], p.85).

436 PJCI member Senator Mason compares how people can spend significant time over home, car and CD purchases, "yet they will instantly hand over the power to someone else to spend half a million dollars... people's life savings can be given to someone and with the stroke of a pen—you look after it. It is an enormous trust, isn't it, to financial advisers?" (public hearing [6], p.44).

437 For example, the CEO of MLC (public hearing [2], p.7); PJCI member Bernie Ripoll MP (public hearing [7], p.116).

438 As one interviewee stated: "you then should just be able to trust – well, you give it to this crew to go and look after it, you know... you go to your doctor and you trust that you're getting the right advice.. and it wasn't actually as if we only went to one financial adviser" (interview with Storm investor).

Put simply, trust is needed for individuals to operate in society and the financial system itself is built on a trust that financial promises entered into will be honored. Without this, the system itself cannot work, and individuals cannot rely on that system. The excerpt below highlights this acceptance by an investing couple, and highlights why such trust is bestowed:

> [540] *Wife:* (My husband said), "Well, who do you trust? We have to trust somebody with your money."
> *Husband:* I've never been through a financial adviser before in my life until I retired. [interview with Storm investor]

7.4.1 So much is at stake

In line with Flyvberg (2006) who suggested that detailed case studies can spring surprises on the researcher, this section discusses one such surprise to us: what money actually means to people. Whilst most (including us) would hold that the accumulation of money does not enable contentedness of its own accord, the evidence from Storm is that in order to have contentedness in life, monetary affairs cannot be in turmoil. Indeed, the previous section indicates the importance not only of trust for its own sake, but also for what is at stake as a result of granting such trust.

7.4.1.1 What money does

Money is more than a means to buy things and its sudden loss means a real loss of options in life. Though it can represent a loss of status (in line with comments of Allen et al. 2000[439]), it also aligns with other important insights such as from the Financial Literacy Foundation. Indeed, whilst "money can't buy happiness, good money management can make a big difference to people's lives and therefore their happiness" (FLF 2008, p.36), and having the attitude that money is just a means to an end can limit motivation to see

[439] "We are rewarded with money for meritorious acts and honored with money on ceremonial occasions. We are induced to perform undesirable chores with the promise of money and punished for not doing our duty by money being withheld. We admire those who have money and ridicule those who do not. Money measuring how good or how bad someone is when we are young clearly foreshadows money measuring how successful or unsuccessful someone is when we are older" (Allen et al. 2000, p.428).

good financial choices as a way to achieving goals[440]. Such goals of course may be as varied as the people who have them – they may include wealth maximization, security, status, survival, a way out of difficult circumstances, or some other ends. As such and not unexpectedly, attitudes to money will also range across individuals, from casual nonchalance to a strong attachment which can then result in a rigorous pursuit for more.

Importantly however and as noted in chapter six, whilst not downplaying the possibility of destitution for some as a result of Storm, typically this is not the issue for those in a society like Australia. Goals are more likely to be about realising certain dreams and plans, and meeting certain lifestyle expectations[441]. As such, many people may prefer a moderate or conservative approach to achieving such goals[442], which does make Storm a slightly unusual case with so many people being involved in such a high risk strategy. We have already seen the rationale for involvement expressed by investors in chapter six, and indeed, others in the PJCI also suggested that reasons for such involvement are not simply described as wanting 'more' money:

[541] *Bernie Ripoll MP*: Doesn't everybody want to make a lot of money?
Mr Graham HODGES, Deputy CEO of ANZ: No, I do not think they do. Some people just want health and happiness. [public hearing [2], p.5]

What others do want from their money can also be inferred by what they lose when it is gone. The excerpts below from Storm investors indicate that money can be in fact a means to an end – but rather than just material ends, a real underlying provision arising from money concerns other essential aspects of human life – independence, health, ability to face the future and other things that allow a life to be led:

[542] I think a lot of it is because I've lost the independence of having a good income. [interview with Storm investor]

440 Whether those goals are "security and peace of mind, as well as more specific goals which may have significant and lasting value" (FLF 2008, p.38).
441 Public submission 391 from the National Institute of Accountants.
442 Especially so "where they do not have substantial means" (Deputy CEO of ANZ, public hearing [2], p.49).

[543] Ah, well the main thing is the finance; it would have to be. People say money is not the most important thing, but it is really, you know? Now if we had – if we were still in the position that we were, everything would be fine, wouldn't it? (My wife) wouldn't be crook. Everything would be fine. So yes, the financial side of it. (My wife's) health was caused by that, you know? [interview with Storm investor]

[544] The pain the Storm disaster has caused is immeasurable. It is not just about the money. It is the worry about the future. [public submission 58 from Storm Investor]

7.4.1.2 What money means

Money may provide what is required to live a life in a particular manner, but as well as that it is also a representation of work and achievement over a lifetime. This association with and reward for one's efforts also suggests an explanation for why its loss hurts so much – not only is the provision for life choices impacted, but also a representation of such reward and recognition of a life's work. This aspect of what money actually means was commented on by many in the course of the PJCI, as the views below demonstrate:

[545] It's just destroyed my whole future, my whole life. Everything I've ever worked for, I will never ever achieve… most of us are from an era where you worked hard all your life, got your home and then when you retired, you had a stable roof over your head that was unlikely to be taken away and you could spend the rest of your days in your home… He took that away from us, all the years we've worked hard, he took it all away. So it was like, what a waste of – all the time I had to work and be away from my kids and I went without and things you had to put up with were all for nothing. So what was our life worth? What were we here for? [interview with Storm investor]

[546] Financial products need to be considered like another product. The difference is that people's life efforts are often at risk. [public submission 398 from Law Academic]

[547] All of this has had an enormous effect on our lives, of course. It has affected our health; we are suffering from bouts of depression, anxiety and nerves. It has had a marked effect on our relationships with our family and friends. To have lost everything that we have worked

for over the last 50 years is certainly heartbreaking. [Storm investor, public hearing [4], p.36]

[548] Not only had we lost 25 years of blood, sweat and tears in our family business, we still owed a short fall. [public submission 164 from Storm investor]

[549] It has taken me some time to write this submission and it is very harrowing to go back over the events which led to the loss of 30 years of hard work for myself and my wife. [public submission 263 from Storm Investor]

A related impact is what money provides for in terms of legacy. Bequest obviously is a motivation for many when considering financial plans and goals (MacDonald et al. 2011), and the loss of potential bequest arising from such losses can exacerbate the sense of loss of a life's achievement. And it is not a loss only for the impacted individual – the loss can also impact future generations. Although the trauma of such loss may not translate to similar trauma for subsequent generations, nevertheless it is an impact of some significance due to the downstream effects:

[550] Financial planning practitioners are in the privileged position of looking after their clients' wealth — a matter second in importance only to their health. In fact, financial planners can provide advice that benefits several generations of the same family and not just the current client. [public submission 251 from Financial planning business]

7.4.2 The ultimate impact

We have shown that significant financial loss is anything but a trivial circumstance, but can clearly be traumatic with severe impacts on both the personal and social worlds of an individual. The nature of the loss can be as influential as the loss itself, as can the reaction of others (especially institutions) to that loss.

The culmination and ultimate impact of losses, the nature of these losses, and the responses of others after the event, is a loss of trust in a range of areas of one's life. This is significant because trust is needed to function in society, and trust is needed for society to function. In a specifically financial context, the role of trust is succinctly put this way:

[551] The result is more than the loss of funds which culminated with the credit crisis, it's a loss of confidence and trust critical for any financial system. [public submission 398 from Law Academic]

Winning such trust back in a financial system is not a straightforward task, and one which can be undone again:

[552] Transparency and trust will be the battleground of the next decade in financial services. It is not going to be so much about products, bells and whistles. You cannot have trust if you do not have information and understanding. [CEO of MLC, public hearing [2], p.12]

[553] Many people don't seek advice, not because they don't want it, but because they don't trust it, and therefore, they don't value it. [public submission 342 from financial planner]

Where does this leave those now without such trust? What is left is not just a financially devastated circumstance, but a real and very human challenge to trust again – and not just in financial matters:

[554] Who do you trust? Your financial adviser? Like you just feel like you can't trust anyone and that was really hard too. You couldn't – anybody, the shopkeeper or anyone; you just felt like, can I trust you to do the right thing by you?... that's why I said to (my husband), who do we go to? Who do we trust now? [interview with Storm investor]

7.5 Summary of Chapter

In this chapter we discussed issues and challenges with the Australian system of financial provision. In terms of presented evidence to support this discussion, the contribution of non-investor contributions is relatively more significant than that for chapter six. A breakdown of sources utilised within chapter seven is provided in table 14.

Table 14: Breakdown of sources referenced within chapter seven

	Interviews	Public submissions	Public hearings	Other correspondence	**Total**
Investors	14	6	4	0	**24**
Storm employees and advisers	4	0	0	0	**4**
Financial planners	0	8	4	3	**15**
Others	0	10	22	0	**32**
Total	**18**	**24**	**30**	**3**	**75**

Given this chapter's focus on wider issues including regulatory implications, the 43% contribution by 'others' such as banks, professional associations and PJCI members themselves is unsurprising. The 20% contribution by financial planners is also understandable in that light, and naturally enough individuals still have a view and a voice to be held in such matters – hence their 32% contribution overall.

This chapter highlighted that the current three-pillar system for financial provision does not have the advantage of independence between the pillars, and that in a push to self-sufficiency many individuals do not regard all three pillars as equal contributors. We offer an alternative view of the three pillar system in Australia. Rather than being based on 'mechanisms' of income, an alternative view is based on sources of trust. In this context our alternative three pillars are government, non-government institutions, and oneself. This view dovetails into the findings presented in chapter six where we saw that these three sources were major casualties in terms of impacted trust, arising from Storm's collapse. As such, this framework highlights real sources of vulnerability that exist for individuals in their goal and perceived duty to seek financial self-sufficiency. We also suggest that in a more general sense of wellbeing, the role of housing, others, and employment could similarly be considered as additional pillars.

The trend towards greater individualisation of financial provision has occurred in conjunction with other risks increasing as well, particularly those associated with greater longevity. We discussed these and additional challenges in this chapter, including aspects of the wider environment where complexity is seen to be a particular challenge. The role of regulation within this environment was also discussed, with questions raised as to the effectiveness of a regime with a heavy reliance on licensing and disclosure. Such issues are exacerbated by levels of financial literacy which are lower than what they need to be for individuals to function effectively. This in turn suggests a real need for professional financial advice, which presents its own challenges in that assessing the value of advice is not straightforward for even an informed investor.

A major issue underlies most of the discussion in this chapter and indeed was also brought out in chapter six – that being the relationship between those with more information and influence, and those with less. This information asymmetry demands that for true efficiency and fairness to operate in the overall system, there is key and fundamental reliance on one factor in particular – that being the ethical disposition of all participants within that system. We offer that this somewhat intangible factor may well lie outside what regulation can provide, a view certainly shared by many contributors to the PJCI. In the context of the financial services industry, any loss of trust undermines the ability of an individual to work within that system, which will likely lead to poorer outcomes.

Storm's collapse highlights that money does indeed matter, but not for its own sake – it is the subsequent loss of control and options that is tangibly impacted. Significant financial loss is therefore anything but trivial, and where trust and control is lost, this highlights the strong dependence of overall wellbeing on financial wellbeing. Any system which places excessive risks upon the attainment of such financial wellbeing should naturally be subjected to critical scrutiny.

Chapter 8: Conclusions

8.1 Overview

This thesis has investigated the impact of significant and sudden financial loss at the level of the individual person, using the collapse of Storm financial as a case study. It has considered what such financial losses have meant for a sample of investors. This has allowed a discussion of the detail of such impacts, and has also allowed a discussion on what this infers for the wider context of financial provision in Australian.

In this final chapter we summarise the adopted approach and source and use of data. This includes an overview of those factors which gives some cause for confidence in the credibility of presented results. We then summarise the overall findings, and then finish with some concluding remarks.

8.2 Adopted approach

By reviewing relevant literature and past studies utilising qualitative research, we considered that using elements of 'grounded theory' and 'naturalistic inquiry' were useful for seeking insights relevant to our research goals. When utilised within a case study framework, the advantage of such approaches was the enabling of a way to engage with and interpret available data relevant to our research goals.

In this context, the collapse of Storm financial offered an important and informative case study. In particular, a detailed study was made tractable by the magnitude and profile of losses suffered and the substantial wealth of qualitative data. We review this data below, and then provide a summary of the approach to construct and present themes and findings from that data. Following this a case for the credibility of findings is summarised.

8.2.1 Data

The data relating to Storm financial was extensive and arose from multiple sources. This included:

- 356 publicly available submissions to a Parliamentary Inquiry, constituting 2,879 pages of written documentation;
- 9 public hearings that occurred as part of that Inquiry, constituting 823 pages of written transcripts;
- 27 interviews with 15 different individuals/couples (24 people altogether) who were involved/impacted by Storm, constituting 33 hours of recorded conversation;
- various observations from interviews, public meetings and from others; and
- a variety of other correspondence with financial advisers and ex-Storm investors.

8.2.2 Constructing and presenting themes and findings

By taking a highly systematic approach when engaging with the data, key themes ‘emerged’ in relation to our research goals. This systematic approach operated as follows:

- An initial consideration of possible issues arose from reading a selection of public submissions to the Parliamentary Inquiry, as well as reviewing and synthesising a vast range of media attention and commentary on Storm’s collapse (as presented in chapter three);
- This first step helped shape the approach to interviews, by suggesting a series of relevant questions and further lines of possible investigation;
- The advantages of in-person interviews in allowing familiarity, flexibility and depth of inquiry then allowed us to suggest an initial assessment and emergence of the major themes, and hence an initial framework for further analysis;
- With this initial framework in place, other data sources were examined to glean their contributions – these contributions variously shaped, corrected, or supported the initial framework of major themes;
- This allowed a discussion and significance of these themes to be examined in more depth than otherwise, with all data sources analysed in an iterative manner to ensure that all supporting points were accurate in the context in which they were made.

Naturally as qualitative researchers we brought and recognised our own sense of interpretation and intuition as a primary tool of analysis when engaging with the data. Importantly however, by presenting evidence sourced directly from the data in its full context (where possible), such analysis was demonstrably grounded in the data itself. As such, there was substantial emphasis on presenting verbatim quotations from the full range of data sources and research participant contributions. In addition, where relevant and tractable to do so, a range of summary statistics were also presented for particular insights. Such statistics came from surveys of ex-Storm investors, a coding of the 356 public submissions, a statistical summary of interview findings, and from analysing the frequency of some statements made in public hearings.

8.2.3 Ascertaining confidence in results

Ensuring and demonstrating the credibility of findings from any study (qualitative or otherwise) is important and we adopted a number of approaches and procedures to assist with this. However, we recognise that as with any research into human affairs, what we consider as 'findings' may merely scratch the surface of what are complex issues for those suffering from significant financial loss. Nevertheless, there is cause for confidence in the credibility of the points made. This arises from:

- the variety and substantial volume of data available;
- the public availability of much of the data;
- the triangulation of data[443];
- the systematic nature of the process taken to examine that data;
- the extensive member checking with interviewees and SICAG members;
- the feedback provided by others (peers) throughout the course of the thesis;
- an adherence to the underlying data via the written account offered;
- 'time-sampling' via repeated interviews with some participants;
- the use of mechanical recording devices for the fidelity of interview transcripts; and
- an acknowledgement and management of both our and others' biases involved in the research questions of interest.

[443] Both in the number and variety of data sources (taking 'triangulation' in its social science sense to mean two or more), but also in the nature of each data source's derivation as discussed in section 5.4.3.1.

In particular, the important issues of bias and selective memory of events was raised several times in the course of this research[444]. This is and was always a challenge with our particular research goals, but for at least four reasons we suggest that this has been mitigated somewhat:

- Research indicates that individuals are reluctant to admit to failings in their own knowledge and decisions made, particularly in the context of financial products (DiCenzo et al. 2011). Yet, we have seen ample evidence of such admission of personal shortcomings by investors, indicating a genuine openness about their circumstances and perceptions;
- In many interviews with couples, there were examples of differing recollections of certain details of events: timings, monetary amounts, conversations, phrases used by others, and so on. Even with single interview participants, some details of their own circumstances (notably dates) had more than one possibility from certain accounts. However, there were some details that were clearly consistent across many recollections. It is these less ambiguous responses that we focussed on (though not exclusively, as there is no requirement for such research to not present contradictions);
- The strong predominance of some views across multiple data sources is borne out in many of the key points raised; and
- The main research question itself focuses on impacts at the individual level, including perceptions. Too much sanitising of such perceptions to fit the interpretative belief of the researcher rather than the views of individuals themselves, would be an inappropriate approach.

Additionally, we provided as much context as possible for the major points made, and this has meant that the coverage across many participants is substantial. A summary highlighting the breadth and frequency of data sources used as direct evidence is presented below, to allow further qualification of confidence in the findings.

[444] For example, highlighted by an ANZ executive in stating that "people's appreciation of their own risk profile before the event and after the event can often be clouded" (public hearing [2], p.49).

Table 15: Breakdown of all data excerpts used

	Interviews	Public submissions	Public hearings	Other correspondence	**Total**
Investors	258	87	45	13	**403**
Storm employees and advisers	30	2	8	1	**41**
Other financial planners	0	17	9	7	**33**
Others	0	26	47	4	**77**
Total	**288**	**132**	**109**	**25**	**554**

Thus, we contend that there is a reasonable, broad and appropriate coverage across all data sources, supporting claims that the results testify to a reasonable interpretation of the underlying and core issues at play.

8.3 Findings

In this section we summarise the findings of this thesis. Firstly, this concerns the main research question: what are the impacts on people when they experience a significant financial shock? Secondly, this concerns insights into some of the major features of the system of financial provision in Australia. Thirdly, we then highlight those impacts which are particularly 'distinctive' firstly to financial loss when compared to other adverse circumstances, and then highlight further those which appear to be even more specifically distinctive to Storm's collapse itself.

8.3.1 Impacts of a significant financial shock

Sudden and significant financial loss is devastating. The case study of Storm highlights that this devastation is evident in several areas of an individual's life, and much of the devastation can be viewed in light of what was relied on when choosing to invest. Indeed, those interviewed all indicated their trust in various aspects of what was presented to them when considering an investment with Storm: an ASIC-granted AFSL licence, close associations with major and trusted banks, membership of professional bodies, the adviser, the experiences of friends and family with Storm, and ultimately, trust in one's own judgement and decisions. On the other side now of significant losses, many investors doubt whether their future can operate with the same level of trust as before.

We explored the detail of such impacts in terms of one's personal world, one's social world, and how a resulting impact on 'trust' and 'control' in one's life affects their interaction with the environment around them. Such a framework also reflects behavioural influences upon an individual when they make financial decisions – there are personal biases and beliefs, there are social influences, and there are overarching environmental influences at play as well.

8.3.1.1 Impact at a personal level

In terms of an individual's personal world, the emotional impact is strong, varied, and raw. The initial sense of shock was palpable for many Storm investors, and this gave way to strong feelings of anger for many. Others responded with ongoing feelings of disbelief and feeling numb towards not just the losses but also the manner of those losses. Feelings of frustration, regret and guilt applied to most of those impacted, and was particularly exacerbated where other family members and friends had been impacted as well. Others felt much fear of what such losses meant for their future and where the investment with Storm was to provide for dependants, this sense of fear and angst was especially apparent. An apt summary of the overall emotional impact is a devastation of dreams and plans.

The strength of such emotional impacts is further reflected in the realm of mental wellbeing, with adverse impacts particularly pronounced. Examples of stress, anxiety, depression and a need for a variety of medication did and still abound, and were explicitly discussed in the majority of interviews conducted. Many investors in both interviews and other data sources talked openly and candidly about their struggles with feelings of self-harm.

8.3.1.2 Impact at a social level

In terms of an individual's social world, there is an unavoidable impact on relationships including marriages. For some the added stress was too much for a marriage to bear, and for others it has damaged relationships with spouses, friends and family. Negative impacts could arise from either very direct judgements and criticisms being made, or more subtle changes that have arisen. What was particularly poignant in interviews was the willingness and openness of some participants to share their own stories in this matter.

Notably for some, their dire circumstances provided the opportunity for some relationships to strengthen and prove more valuable than before. It may be the case that the nature of a relationship is accentuated by such traumatic circumstances – where there were stresses previously, these have been exacerbated, but where there was togetherness, this has been strengthened. However the complexities and varieties of the human experience does not lend itself to universal claims in such matters, and we did not attempt to do so.

Wider social influences are highly influential in the period after financial loss. For pragmatic reasons such as a lack of funds, a decreased involvement in sporting, charitable and other community pursuits can eventuate. For others, an increased sense of social isolation relates more to the emotional bankruptcy now being felt, or for more reflective reasons of embarrassment, fear and vulnerability. Adverse perceptions and judgements of the community at large can bring further angst and damage upon individuals, leading to a further withdrawal from society.

A particularly debilitating outcome for many was the decreased ability, for both financial and emotional reasons, to now partake in cultural and familial roles in the manner which had been planned, dreamed of and anticipated. This was especially so for those who were grandparents, or those who had other family members that they intended to support.

Overall social impacts are exacerbated by the 'network' effect, arising from the concentration of investors in family groups and concentrated geographical areas. This can result in support networks not being as available or helpful as they otherwise would be. Such outcomes can only serve to further increase social isolation, which in turn further reinforces ongoing and adverse emotional reactions.

8.3.1.3 Impact on trust

The direct impact upon trust is broad, complex, deep, and above all, very real. Overall, many institutions and professions whom were formerly trusted, are now viewed through highly sceptical eyes and are very likely to remain so. Most obviously, Storm's strategy and many of its personnel are now seen as sources of misplaced trust, but it is of interest that such distrust is not universal amongst ex-investors.

Wider professional bodies are also distrusted now by many. The financial planning profession in general is a particular target, as are elements of the legal profession in the wake of how some compensation and settlement arrangements have occurred since Storm collapsed.

More complex are elements of distrust in government, and notably for those in the public sphere, it is not enough for officials to merely intend or say something – messages are more believable and trusted when all arms of government align to give a consistent picture. Many Storm investors would point to a complex and changing environment in the context of financial provision, mixed views on direct government responses to the collapse of Storm (and others), and a confused picture of what regulation means and what regulators do, as indications that government does not portray a deep care about their needs.

The strongest sense of distrust however relates to the disenchantment, anger and adverse perceptions of the banks and credit providers involved with Storm. Importantly, this lack of trust has arisen as much from events post-collapse as it has from anything else. This severe loss of trust in what should otherwise be a cornerstone institution in one's financial affairs, is a particularly damaging outcome of Storm's collapse.

Many investors also now admit to less trust in their own judgements and ability, arising from the aforementioned feelings of frustration, guilt and regret. In an environment when self-provision for one's financial wellbeing is strongly encouraged - and notably for the most vulnerable phase of life when employment has ceased and significant risks around longevity, investment volatility and health are at the fore – the loss of trust in not just oneself, but also the environment in which one exists, is concerning. Such widespread distrust is an outcome that is not favourable to any party involved - individuals and institutions alike.

8.3.1.4 Impact on control

The aggregated impacts upon emotional, health, social and formerly trusted spheres of one's life, has resulted in a lack of control, options and choices for many individuals. Given that any financial contract and indeed any human relationship centres on trust, then when such trust is broken, it leaves the impacted party at a loss of where to turn and in whom to trust. This is a major factor why the ability to have some control over one's life is greatly diminished. The interviews in particular highlighted that investors need to feel that they have some say in their life. But a resulting uncertainty about the future, a lack of ability to do anything about it, and a real and enhanced sense of vulnerability to future life circumstances has left many wondering what their efforts in life to date were all about.

The need to now engage with Centrelink for financial support is the epitome for many of a lack of control. Indeed, any degree of 'self-sufficiency' and being able to provide for oneself and others from the efforts of one's working life is now perceived as unattainable for many. Importantly, the avoidance of destitution is not the primary issue in the case of Storm for many but neither should it be in an Australian context – but it does represent something akin to the next worst outcome for many, which is now not having options in one's life. Perhaps this itself indicates that destitution is not so much an amount of monetary provision, but more to the degree to which choices and some control can be exercised.

8.3.2 The system of financial provision

The existing framework of financial provision in Australia consists of the 'pillars' of the age pension, superannuation savings, and other savings, which all act as mechanisms of such provision. When considered in terms of sources of reliance and trust, we postulate that a framework of government, institutions and oneself gives a better indication of the true source of provision. As such, the loss of trust that eventuates in the case of Storm implies a loss of trust in these three pillars of (former) reliability, and as such it highlights real sources of vulnerability that exist for individuals in their goal and perceived duty to seek financial self-sufficiency.

This trend towards greater individualisation of financial provision has occurred in conjunction with other risks increasing as well, particularly those associated with greater longevity and complexity. In the context of these risks, the effectiveness of a regime with a heavy reliance and focus on disclosure is questionable, especially where levels of financial literacy are lower than what they need to be.

This highlights the crux of many issues highlighted by Storm's collapse – that of information asymmetry between various participants involved in the financial services industry. In the case of Storm, an 'outcome' asymmetry can be considered as important as well, whereby individuals suffered devastating losses, but institutions did not. Such asymmetry demands a focus on the ethical disposition of all participants.

8.3.3 'Distinctives'

Some impacts on Storm investors are clearly in line with those often associated with other traumatic experiences. The fact that financial loss is painful, devastating, isolating, impacts relationships and health, and often presents limited chances of recovery is certainly not unique to financial loss, nor to the particular circumstances of Storm.

It is apparent however that significant financial loss presents some features that are different in nature to other traumatic experiences. The sense of frustration (and regret) with the lack of control available after financial loss is apparent, especially where decisions were made earlier to get involved. This is qualitatively different to trauma arising from a natural disaster for example, where a belief that 'nothing could be done' and a sense of fatalism may be part of the later coping strategy. Unfortunately in the case of financial loss, whilst little may have been able to be done whilst the damage was being borne out, there was still the initial decision to invest and being exposed to risks as a result. An excerpt of an investor attests to this:

> After all the Queensland Disaster with the floods there are people worse off than us, bush fires, floods. I realize are Nature's cruel way and they happen so quickly. Financial Advisers on the other hand have time to convince their clients how good investments are, unfortunately most folks listen. The difference between Natures Disasters you don't get much time to think about it and very little warning. Financial Adviser you have time & stress to think about if you are doing the right thing. [email correspondence from Storm Investor, February 2013]

The other distinctive feature of financial loss is the fact that money itself is an enabler of other facets of life – from options in housing, to involvement in some cultural and community pursuits, and to an engagement with society at large. Thus the loss of money is not just an impact in terms of dollar value – all that it enables one to do is also compromised, which itself asks a bigger question of what money actually means.

Not only do we see some impacts of financial loss differing to those from other traumatic circumstances, but the specific example of Storm itself presents a further refinement and specificity of impacts as well. What is characteristic about losses with Storm includes the network effects arising in part from the reliance on the testimony of friends and family to get involved and in part from the geographic and demographic focus of Storm, which leads to a concentration of impacts in certain spheres; the widespread level of resulting distrust[445]; and the extensive and intense domino-like effect of one impact leading into others such as emotional and social impacts. In this sense, the following excerpt from a Storm adviser highlights some of the real and debilitating impacts, which are exacerbated in the case of Storm:

> On every single day since January, I can vow to you, I have spoken to somebody who has contemplated suicide seriously, or who is contemplating it as we speak now and has displayed suicidal tendencies. There have been severe strains on marital relationships. Healthy people have had cardiac arrests. There has been loss of dignity and self-worth; severe depression; and… a tremendous breach of trust, leading to a suspicion of people generally, including betrayal. [Storm adviser, public hearing [6], p.92]

[445] The Storm adviser of public hearing [6] (p.92) and the Storm investor of public hearing [4] (p.48-49) give very clear accounts of how wide ranging, and widely felt, has been the impact on trust in all areas of life.

It is therefore noteworthy that the issue of 'dependence' is also to the fore in the case of Storm. There are dependencies between impacts; people themselves are not agents which are independent from others; and financial loss can be just one life stress amongst many, so that the impact of financial loss is dependent and influential on the impacts of such other stresses - either to leverage the impact of other circumstances, or to itself be felt more keenly as a result. Unfortunately in the case of Storm, the sad irony is that much of the angst being felt is against the backdrop of efforts to be self-sufficient, rather than be dependent on the provision of government and others.

8.4 Concluding remarks

The cost of devastation of one's financial affairs is significant, and its impact is far more than a loss of money. The damaging impact of a loss of trust is prevalent and this is of major concern, as no society or ordered system ultimately works without trust. Arguably the regulatory system involved in managing and allocating such trust across the financial environment is shown to be inadequate. Its foundations of market efficiency are premised on not only participants having appropriate information and knowledge, but also that <u>all</u> participants have such wherewithal and can act on it appropriately. Unequivocally, this is not the case, nor is likely to be. Professional relationships and services exist because of information asymmetry, and thereby power asymmetry as well. This places the onus on the professional standards and ethical disposition of the service provider(s) to act in accordance with the responsibility that this power asymmetry bestows. Few Storm investors would claim that ethical and responsible service has been their experience with service providers. And rather than cast more responsibility at the feet of individuals, it is apparent that not all service providers have the appropriate knowledge and risk management in place when providing their services.

A worrying observation is that the offloading of investment, longevity and a host of other risks onto individuals has meant that the exposure to such risks in the Australian environment may be only just beginning. A lesson of Storm is, in whom will such individuals trust?

8.4.1 Contribution

By highlighting the costs and implications of poor outcomes, this thesis makes a contribution to furthering the understanding of personal finance, an area which has not had the attention it is due. Importantly, it also provides a record of the extent of consequences when things go wrong and as such, provides insights for those involved in such matters in the future. It may even highlight for anyone who has forgotten, the reason why the financial services industry exists at all – to meet real needs of real people.

As to the utility of this thesis for those who have contributed to it and participated in providing feedback along the way, and by way to offer further assurance as to its overall fidelity and interest, a selection of excerpts received as feedback is given below.

> I have just read your article in the Australian Journal of Financial Planning and congratulate you on this and I would like to see more as you write them. You speak of hindsight and we have plenty of this through history unfortunately investors, financial engineers and advisors tend to forget as headlines move. It gets frustrating as an advisor to see disasters time and time again that should have been avoided by the investor with good advice and investment fundamentals. The more articles like yours that speak of the client outcomes rather than the financial porn we generally get the better off we will all be. Well done. [email from financial adviser, April 2013]

> As a Queensland based business we've helped and comforted a number of ex-Storm clients. I also have come to know a Storm *victim* in my personal life and I found your insights re the non-financial impacts added to my small appreciation of what it must be like for them. [email from financial adviser, July 2013]

> I am an affected Storm Financial investor and I just had the pleasure off reading your article Aftermath Of A Storm, passed on to me by SICAG. Thank you for your thoughtful insights, they have helped me toward coming to terms with some of my demons. [unsolicited email from Storm investor, July 2013].

> Your (article) describes our own circumstances and describes in words that I would dearly wish to have expressed myself, the many dimensions of the impact of the Storm catastrophe.

> I shamelessly admit that it has brought me to tears and I feel sure that there are many among the Storm investor group who will be nodding their head in acknowledgment of what you have identified (and) expressed. [email from co-chairman of SICAG in response to article in Australian Journal of Financial Planning, June 2013]

We anticipate further contributions in two areas that the case of Storm highlights, but could not give attention to in this thesis. The first of these, as indicated in section 7.2.1.4, is an examination of what factors are important in recovery from significant financial loss over time. If interviewees are agreeable, following this up over time and providing a series of 'nested' case studies within the overall case study of Storm may be informative. Early indications from interviews to date attest that the role of support networks of other people (albeit compromised in many cases for Storm investors), employment options, and a range of lifestyle and other changes being made are important factors to examine further. Undoubtedly age too will be important, as the unfortunate reality is that the cost of adverse outcomes are likely to be harder to recover from, at more mature ages.

The second area concerns risk. This concerns both its evaluation in cases such as Storm, as well as its presentation to investors. Some contributors to the PJCI spoke to this issue[446] and its importance is also raised by others[447]. We also received emails from financial planners highlighting this issue as a key one for further consideration.

For now however, making a contribution to an understanding of the impact of significant financial losses has been the main research goal. As one final excerpt attests:

> The perception in the media was that the clients of Storm Financial – the unwitting victims of this debacle that was unfolding – were greedy highflying gamblers. Little attention was given to the human tragedy that existed behind the headlines. [public submission 276, from SICAG]

It is hoped that this research contributes something to this end.

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[446] For example, the Institute of Actuaries of Australia (public hearing [3], p.89).

[447] For example: "I believe that one of the primary weaknesses of much personal financial planning is an inadequate focus on risk and how to manage it" (Rappaport 2008 p.180).

Appendix A: PJCI

Terms of reference[448]

On 25 February 2009 the Parliamentary Joint Committee on Corporations and Financial Services resolved to inquire into and report by 23 November 2009 on the issues associated with recent financial product and services provider collapses, such as Storm Financial, Opes Prime and other similar collapses, with particular reference to:

1. the role of financial advisers;
2. the general regulatory environment for these products and services;
3. 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;
4. the role played by marketing and advertising campaigns;
5. the adequacy of licensing arrangements for those who sold the products and services;
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;
7. consumer education and understanding of these financial products and services;
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.

In conducting its inquiry, the Committee has made a decision to focus specifically on non-superannuation products and services.

[448] Sourced directly from:
http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=corporations_ctte/fps/info.htm, accessed 28 August 2012.

Additional term of reference

On 16 March 2009 the Senate agreed that the following additional matter be referred to the Parliamentary Joint Committee on Corporations and Financial Services as part of that committee's inquiry into financial products and services in Australia, adopted by the committee on 25 February 2009 for inquiry and report by 23 November 2009:

10. The committee will investigate 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.

Recommendations released in November 2009

Recommendation 1: The committee recommends that the Corporations Act be amended to explicitly include a fiduciary duty for financial advisers operating under an AFSL, requiring them to place their clients' interests ahead of their own.

Recommendation 2: The committee recommends that the government ensure ASIC is appropriately resourced to perform effective risk-based surveillance of the advice provided by licensees and their authorised representatives. ASIC should also conduct financial advice shadow shopping exercises annually.

Recommendation 3: The committee recommends that the Corporations Act be amended to require advisers to disclose more prominently in marketing material restrictions on the advice they are able to provide consumers and any potential conflicts of interest.

Recommendation 4: The committee recommends that the government consult with and support industry in developing the most appropriate mechanism by which to cease payments from product manufacturers to financial advisers.

Recommendation 5: The committee recommends that the government consider the implications of making the cost of financial advice tax deductible for consumers as part of its response to the Treasury review into the tax system.

Recommendation 6: The committee recommends that section 920A of the Corporations Act be amended to provide extended powers for ASIC to ban individuals from the financial services industry.

Recommendation 7: The committee recommends that, as part of their licence conditions, ASIC require agribusiness MIS licensees to demonstrate they have sufficient working capital to meet current obligations.

Recommendation 8: The committee recommends that sections 913B and 915C of the Corporations Act be amended to allow ASIC to deny an application, or suspend or cancel a licence, where there is a reasonable belief that the licensee 'may not comply' with their obligations under the licence.

Recommendation 9: The committee recommends that ASIC immediately begin consultation with the financial services industry on the establishment of an independent, industry-based professional standards board to oversee nomenclature, and competency and conduct standards for financial advisers.

Recommendation 10: The committee recommends that the government investigate the costs and benefits of different models of a statutory last resort compensation fund for investors.

Recommendation 11: The committee recommends that ASIC develop and deliver more effective education activities targeted to groups in the community who are likely to be seeking financial advice for the first time.

Appendix B: Information for interviewees

Attachment 1: Background information letter sent to participants

Dear [X]

Thankyou for your time to talk on the phone the other day. By way of follow up, I am lecturing at the Australian National University (ANU) in Canberra as well as studying for a research degree (Ph.D). As part of this, I am looking at the policy, risk management and personal implications resulting from the collapse of Storm financial and other financial providers. To this end I am hoping to interview a number of people who were personally impacted by the Storm collapse.

The expectation of the research is that it will produce material suitable for publication in a peer-reviewed journal in a related area – for example, public policy, finance, financial planning, behavioural economics, actuarial science, or education. It is intended that the findings will be able to inform the public debate around the provision of financial advice, as well as providing insights about regulatory reform as well as the public policy process.

The interviews would have a 'semi-structured' approach, where there are some specific questions I would to ask to establish common themes or points of difference across different interviewees, but also be open to talking about what else you consider important. If you would like to contribute but do not wish to participate via an interview, arrangements can be made for postal questionnaires instead of interviews if that is preferred or more convenient

It is important to point out all answers and insights would be aggregated with other responses, so as to not identify any specific perspective with a particular individual. Full confidentiality of participants would be assured. A range of additional ethical issues apply to research of this nature and for your information and consideration, an information sheet is attached.

Please also allow me to stress that there clearly is no obligation to participate in this research – it is entirely voluntary. If however you are open to participating in this research, please read, complete and send back the 2 page information sheet and 1 page acceptance note (labelled pages 2, 3 and 4) in the enclosed reply-paid envelope and I will contact you again in June or July of this year. Please retain the 2 page information sheet (labelled pages 5 and 6) for your own records.

Additionally, if you are agreeable to being interviewed in person, an amount of $25 will be paid per family group (individual or couple) as a contribution to any travel expenses incurred in attending the interview. For all interviews, I envisage being able to travel to wherever is convenient for you, so that the interview can take place a short distance from your residence. Further details regarding payment are also on the attached information sheets.

If before making a decision to participate or not you wish to discuss any of this further, please feel free to contact me anytime at the contact details given above. Alternatively, you can contact the ANU Human Research Ethics Committee if you have any concerns or queries that you would prefer to ask them directly.

Yours sincerely,

Aaron Bruhn

Fellow of the Australian Institute of Actuaries (FIAA);
Fellow of the New Zealand Society of Actuaries (FNZSA)

Attachment 2: Ethics information sheet sent to participants.

INFORMATION SHEET AND ACCEPTANCE NOTE

Topic: An investigation into the personal and policy impacts surrounding the collapse of Storm Financial and other financial service providers

Researcher name and contact details:

Mr Aaron Bruhn Telephone: (02) 6125 4904 Email: aaron.bruhn@anu.edu.au
Lecturer in Actuarial Studies
School of Finance and Applied Statistics
ANU College of Business and Economics
Australian National University, Canberra
ACT 0200

Research supervisor:

Professor Tom Smith Telephone: (02) 6125 8123 Email: tom.smith@anu.edu.au
Professor of Finance
School of Finance and Applied Statistics
ANU College of Business and Economics
Australian National University, Canberra
ACT 0200

Research methodology:

A series of semi-structured interviews and/or questionnaires will be conducted with individuals who were impacted by the collapse of Storm Financial, and who also made a public submission to the Parliamentary Joint Committee 'Inquiry into financial products and services in Australia'. The purpose of this is twofold:

(i) Do contributors consider that the Inquiry's recommendations are appropriate, and do contributors consider such reviews to be a useful forum to have their voice heard [the public policy perspective];

(ii) Assess / describe the impact on individuals from such collapses and the extent to which people financially recover, or otherwise, over time [the personal impact perspective].

The expectation of the research is that it will produce material suitable for publication in a peer-reviewed journal in a related area – for example, public policy, finance, financial planning, behavioural economics, actuarial science, or education. It is intended that the findings will be able to inform the public debate around the provision of financial advice, as well as providing insights about regulatory reform as well as the public policy process. The use of information gained from interviews will be in line with the ethical considerations below.

It is important to note the following key ethical considerations:

1. Participation is completely voluntary. If you indicate that you wish to participate, then at any time after that indication you are free to withdrawal, without any need to provide a reason for your withdrawal. If you decide to withdrawal at any stage, then you have the choice to also withdrawal all information that you have personally provided to date. If you choose to do this, then all copies of that information will be destroyed and not used further for the purposes of this research.

2. All interview answers and identities of those participating will be kept confidential as far as the law allows. In particular, all insights and findings will be presented on a level aggregated across all participants. Individual participants will not be directly identified in any presentation or paper relating to this research.

3. In order to provide an accurate summary of each interview, if you are agreeable an electronic audio recording of each interview for later transcription to a written record would be made. However this is entirely voluntary on your behalf, and the interview can proceed without such a recording if that is your preference.

4. The recording, storage, dissemination and management of all responses collected over time would be carefully managed. In particular, all paper transcripts of interviews will be kept in a locked cabinet in the ANU office of the primary investigator. All related material will be in a secure locked cabinet for five years after any publication arising from the research.

5. Within one month of the interview a record that summarises the interview will be sent to participants for their records. Participants then have an opportunity to inform the researcher of any corrections or changes that they wish to make.

6. Participants will be sent a copy of any published paper(s) directly relating to information obtained from interviews.

7. The research is funded by the ANU, with no outside sources of funding. If this situation were to change, participants will be notified accordingly.

8. Interview participants will receive a payment of $25 per family group as reimbursement for any travel costs associated with attending the interview. This will be sent out as soon as possible, after the interviews have taken place.

9. The research is under the supervision of an experienced researcher at the ANU (Professor Tom Smith, with details given above).

10. The researcher has no association with Storm Financial, nor with the Parliamentary Joint Committee 'Inquiry into financial products and services in Australia'.

11. Additionally the research operates under the research ethics protocols of the University, and any questions or complaints of this nature can be forwarded to:

Human Research Ethics Committee
Office of Research Integrity
Research Office, Chancelry 10B
The Australian National University, ACT 0200
Tel: (02) 6125 7945
Fax: (02) 6125 4807
Email: Human.Ethics.Officer@anu.edu.au

Attachment 3: List of indicative interview questions sent to participants

PART A: For all participants

Questions 1 – 3 relate to your situation at the time when you first entered a business relationship with Storm Financial:

1. What were your main reasons to seek out financial advice from Storm Financial?

2. At the time of implementing and acting on their advice, would you say that you were reasonably happy with the advice being given and the choices being made? Why or why not?

3. Did you feel at the time that you had "peace of mind" about your future financial affairs?

Questions 4 – 13 relate to your situation since the time Storm Financial went into administration in January 2009.

4. Can you describe the impact on your lives as a result of the collapse of Storm Financial? Please only include anything you are comfortable to share. Examples include changes in financial plans for the future, impacts on immediate and extended family, personal health impacts, changes in living arrangements, etc.

5. Have you sought out financial advice since January 2009? If not, can you explain why you haven't – for example, distrust, lack of affordability, lethargy, a focus on day to day living, etc.

6. If you have sought out financial advice since January 2009, can you describe:
    a. The reasons why you have done so;
    b. The type of advice sought (for example, budgetary assistance, options around housing arrangements, advice to deal with debts, tax advice, etc)
    c. How you have selected the provider of the financial advice;
    d. Your contentment or satisfaction, or otherwise, with the advice given.

7. Compared to January 2009, do you feel you are any better off now in terms of recovery from the financial shock you have suffered? This may be in terms of financial affairs, personal affairs, or any other area of life (your answers to question 6 may provide prompts for you to consider your current situation). Please describe areas where you feel you are better off, as well as areas where you feel you are worse off.

8. For any areas in which you think you are in a better position now than January 2009, what do you think the main factors have been in getting to this better position? For example, support from friends, family, changed perspectives, etc.

9. For any areas where you do not feel you are in a better position now than January 2009, can you describe the reasons why it has been difficult to recover.

10. Purely in terms of your financial future, do you feel that you will ever recover from the collapse of Storm Financial, to a point where you are content with your financial affairs?

11. What do you feel you need now to have contentment with your financial, or wider life, affairs from now on?

12. If there were some major lessons that someone else could learn from your experiences, what would you say they would be?

13. Is there anything else you would like to add about the impact of Storm Financial's collapse on your own personal affairs?

Questions 14 and 15 establish your circumstances and perceptions of the change in your financial affairs since first entering a financial relationship with Storm Financial[449].

14. How has your financial position changed between when you first entered a financial relationship with Storm, when they went into administration and now? The table below may

[449] Note: In most interviews, questions 14 and 15 were subsequently not pursued. Given the fact that participants were more than happy to discuss at length their perceptions and thoughts towards the overall events, the judgement was made at the time that proceeding with these questions would be a big diversion the themes emerging from the interviews. It also would have been difficult for many participants to locate the exact details of their affairs at that time, given that for many, revisiting what was a very painful period was difficult enough.

be of assistance to answer this question, but is not necessary if this level of detail is not your preference.

		When you first entered a business relationship with Storm Financial	Immediately after Storm Financial going into administration (January 2009)	As of today
Assets:	Value of primary housing residence (if owned)			
	Value of other real estate assets (e.g. investment properties)			
	Value of other physical assets (car, household goods, etc)			
	Value of superannuation savings			
	Value of other savings			
	Value of any other assets			
Liabilities:	Mortgage on primary housing residence (if owned)			
	Mortgage on other real estate assets (e.g. investment property)			
	Loans on other physical items (e.g. car finance, hire purchase for household goods)			
	Debts on credit facilities (e.g. credit cards)			
	Value of any other liabilities			

15. As best as you are able, can you estimate on a scale of 1 – 10 your satisfaction or contentment with your overall financial position at each of the following times. A "1" represents extremely dissatisfied, and a "10" represents extremely satisfied.

When you first entered a business relationship with Storm Financial	Immediately after Storm Financial going into administration (January 2009)	As of today

PART B: For those who made a public submission to The Australian Parliamentary Joint Committee on Corporations and Financial Services "Inquiry into financial products and services in Australia" (Ripoll Review)

1. Since making your public submission, have you kept up to date with the findings / recommendations of the Ripoll Review which were released in November 2009?

2. If so, do you consider the recommendations of the Review address the concerns or thoughts you raised?

3. Are there some areas of the Review that you consider have gone too far? Are there other areas that you consider have not gone far enough? Please describe here reasons for your thoughts on each area.

4. Do you consider that you had a fair opportunity to contribute to the overall process under the Review?

5. Would you consider it worthwhile to submit again to such a Review? Why or why not?

6. Are you familiar with the Federal Government's response to the Ripoll Review, which was announced in April 2010?

7. If so, do you have any comments on the Government's response?

Appendix C: 'Surprises from Storm' article

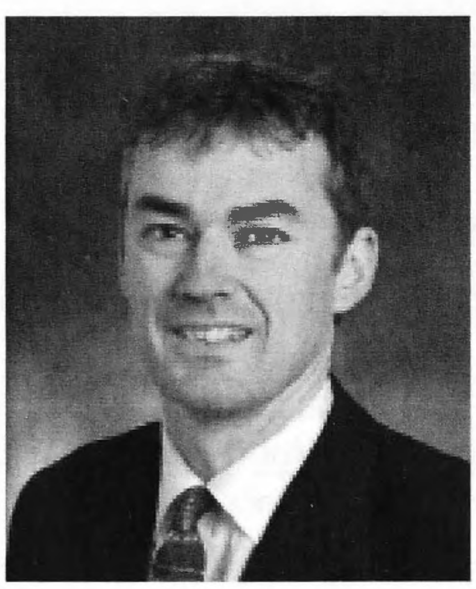
PROFESSIONALPATHWAY

ACCELERATE YOUR LEARNING GAIN PROFESSIONAL QUALIFICATIONS

COMPETENCY

Surprises from Storm

BY AARON BRUHN BSc BA DipGrad MSc FIAA FNZSA
Lecturer, Australian National University



Aaron Bruhn lectures in actuarial studies at the Australian National University, having previously worked as an actuary in the New Zealand life insurance industry and public service. He is a fellow of the Actuaries Institute and the New Zealand Society of Actuaries.

He is aiming to write more detailed papers on the aftermath of Storm Financial's collapse in the next 6-12 months. If anyone has an interest in this work, they are welcome to contact him at aaron.bruhn@anu.edu.au .

The author would like to thank Bridget Browne of ANU for her review of this paper. However, the views and any error(s) within are attributable solely to the author.

The author also acknowledges and thanks all interviewees, who willingly shared their time, insights and personal stories.

The demise of Townsville-based Storm Financial in 2009 may be very familiar to readers. Storm Financial went from total funds under management of well over A$4bn in August 2008, to liquidation in March 2009. Large investment losses had led to Storm's position with the credit providers / banks becoming untenable, and what then caught individual investors out was a total breakdown in the process around making margin calls on the investment loans. For various reasons, many investors were not given the opportunity to meet margin calls, and their holdings in the share investments were sold without their explicit knowledge at the time. The first that many knew of this were phone calls to tell them that they had a limited amount of time to pay back the losses on these short-sold investments.

CONTENTS

2 COMPETENCY

SURPRISES FROM STORM

The extent of the financial loss suffered by many investors was exacerbated by the fact that they took out investment loans against existing assets (including, in many cases, the family home) to enable investment in an indexed (share) fund. Investors were typically, but not exclusively, retirees or those close to retirement. Although this article will be deliberately sparse around judgments to do with the overall story of Storm, quite clearly in many cases the advice to partake in the one-size-fits-all Storm model was inappropriate. The model consisted of a highly leveraged strategy to invest in a 100% equity index, for retired people with few option(s) around future employment and alternative ways to derive financial security. This does not mean it was an inappropriate choice for all people, but certainly for some it was not an option that would have matched a more considered analysis of their financial affairs and life stage.

A series of interviews (fourteen to date) have been carried out with investors involved with Storm Financial, and what follows is a discussion of some of the more surprising themes that have emerged from an initial assessment of responses.

COMMISSION LEVELS

A most surprising theme is that those interviewed did not seem too perturbed about the commission structure charged by Storm. The commission arrangements were that 7% of any new investment loan would be charged as an initial fee, but with no ongoing or trail fees or commissions. This may seem outrageously high, yet those entering the Storm model were happy to have that paid for from their loan, and were happy that the trade-off with no ongoing commissions meant that they might get better value in the long run[1]. The question of whether a 7% up-front fee is, in fact, 'better value' than a more traditional commission structure has an answer of course, which is.... 'it depends'. For example, consider a comparison between the Storm model and one with an initial commission of 1.5% and ongoing (trail) commissions of 0.40%. The following table compares the relative performance across two different scenarios of investment earnings, for a single lump sum investment of $1,000.

	Investment return of 10% p.a.		Relative advantage conferred via Storm model (%)	Investment return of 15% p.a.	
Investment horizon (years)	Funds under management (Storm)	Funds under management (Alternative)		Funds under management (Storm)	Funds under management (Alternative)
5	$1,498	$1,555	-3.7%	$1,871	$1,942
10	$2,412	$2,454	-1.7%	$3,762	$3,828
15	$3,885	$3,875	0.3%	$7,567	$7,547
20	$6,257	$6,116	2.3%	$15,221	$14,879

[1] Of course, the surprise in this is tempered by the fact that the interviewees are a select audience, who have invested into Storm and therefore must have already accepted the commission structure and justifications around it. What is perhaps more of a surprise is that in hindsight, for these investors that have seen their money disappear, there is not widespread frustration with, or condemnation of, this particular aspect of Storm's model.

It is apparent that for these examples, the Storm model generates a better result for the investor the longer the investment horizon, and that the magnitude of the difference in dollar terms is higher with greater investment returns. There are no real surprises there so, as for many questions involving future uncertainty, whether one option can be said to be 'better' than another all depends on the assumptions made in the meantime. It should be noted however that this is a very simplified example and critically takes no account of the influence of the volatility of future returns.

Of course, even if investors were happy with this arrangement, the bigger question is whether they were then inappropriately encouraged to re-leverage their investment loans at regular intervals, due solely to the incentive for Storm to pocket another 7% of any resultant increase to the investment loan. This is of course the major concern underlying the Future of Financial Advice (FOFA) reforms – not just the actual level of fees and commissions, but more the type of behaviour that is incentivised.

THE FUTURE FOR INVESTORS

One theme from interviews is the despondency about potential recovery. This is not meant to be insensitive towards those impacted investors as there is no question at all about the magnitude and impact of losses suffered, but it caught the author off guard to see the effect of this in conjunction with the fact that many do not see any real way out. Or perhaps more correctly, they do not see a way to get anything remotely close to where they once were, or that in order to do so, it will take an external influence to do this (such as a significant legal victory, or a philanthropic act from a bank). This differs depending on the demographic group – as a blanket generalisation, those still employed and with younger families have both the means and the daily reminder to forge ahead as best as they can, whereas those no longer employed and perhaps slightly more socially isolated have that much less opportunity to cope from here on in. The impression though is also that even if financial fortunes are restored in some way, as with all traumatic events there is always scar tissue and something lost – trust in others, trust in oneself, a fear of future choices, and so on, that, being of a psychological nature, are never straightforward to restore.

PERCEPTIONS OF PARTICIPANTS

Among the strongest views expressed to date, have centred on the attitudes and views now held by ex-Storm investors towards various participants in Storm's failure. The most obvious is the advisor and the surprising element is that despite their role as the face of Storm to investors, it is not universally held that this is where the majority of the blame game lies. Naturally there are exceptions to this, one more extreme comment being "my advisor was lucky I didn't have my gun handy" (paraphrased). Many of the investor-advisor relationships were based on longer term and pre-Storm associations and friendships, and though it is true to say that most, if not all of these relationships have altered post-Storm, this has not necessarily translated into apparent anger.

It is also interesting to note that those interviewed do not generally hold the view that problems arose because the advisors did not have sufficient 'education'. Several interviewees commented on the academic and industry credentials of advisors that were made clear to them as prospective investors, either in seminars, in person, or due to the various certificates hung on the walls at Storm's head office. What could be deduced in this case then is that 'education' as a blanket requirement for advisors is certainly no fix-it to issues within the industry. Although it is common sense and in fact an essential requirement that any profession should impose minimum standards and provide discipline where those standards are breached (and if not, then government or its regulator can and should act hard), perhaps the elephant in the room is more of 'empathy' rather than 'education'. But how do you 'teach' empathy, that someone else's interests matter as much as your own? Professional bodies can, and do, assist in developing this with standards of membership and behaviour via codes of conduct, but perhaps the financial services industry, more so than other professions, has a difficult issue to deal with here'.[3]

[3] The unenviable position does exist in financial matters that sometimes given advice may work out well, and sometimes it may not, with the determinant of the quality of the outcome a

Appendix D: 'Aftermath of a Storm' article

4 COMPETENCY

In the case of Storm, much of the anger and disdain is focussed instead towards the credit providers (banks). With hindsight being a wonderful friend (acknowledged by many interviewees), many wonder now how it was that banks approved the scheme at large as well as details around individual loans. Many claims have emerged of unsighted yet signed documentation, estimations of income far above the reality with details not checked before approval, and so on. There are many issues around the need for margin calls not being communicated (the responsibility for which interviewees have generally aligned with the banks), and then the selling up of investor's positions without their knowledge. This is probably the main frustration – "how could they do this" sums up the general angst felt.

It would be fair to say that there is now an unease and shock with the realisation that banks are primarily a profit making enterprise like any other, rather than predominantly a service industry in the sense that was perhaps understood previously (where 'fiduciary care' of the customer was thought to be a priority). This perhaps lies in the fact that the financial world has a great deal of history rooted in Friendly Societies, Mutuals, Co-Operatives and of course as Government-owned entities, where collective care and fortunes mattered. This has meant that customers of banks have expectations about, to paraphrase again some interviewees, "fiduciary duty", "responsible practice", "honouring of agreements", "simple politeness and awareness", and "care of the customer". The feeling of betrayal is so much so that for some, physical recoil occurs when faced with marketing efforts made by (some) banks, and high scepticism exists about any claims of genuine concern for the customer. Ongoing legal class action against some banks continues.

The regulator ASIC is also not, or at least was not, on many Christmas card lists. Even accepting the fact that margin loans were not under ASIC's umbrella at the time of Storm's demise, strong perceptions exist about the total hollowness of 'regulation' to the everyday investor. Their query is, is it protection or is it not? The belief of interviewees that ASIC inspected Storm's offices, studied its model, and was aware of its strategies well in advance of the GFC, yet did not or could not disclose any concerns to interested investors, has not inspired confidence[8].

A further factor that has also engineered mixed feelings is the manner in which some lawyer-negotiated settlements between investors and banks were conducted. Having investors faced with decisions to accept or reject what they are told is a take-it-or-leave-it deal, at a time when their trust in most things around them has been shattered, with pressure to make decisions within short time periods, has not gone down well in many cases. There is a definite perception, as one interviewee has commented (paraphrased): "the advisor did us, the bank did us, the regulator didn't do anything, the lawyers did us – who's next?" It is fair to say that a loss of trust in major institutions which make the modern world tick over is not a healthy outcome in anyone's language.

subjective judgement by the investor. In other words, if advice is measured solely by the investor's assessment of the result at some time in the future, then this is taken as the measure of the quality of the original advice. But this is not necessarily a fair proposition – it may be a very good piece of advice for someone to invest in cash for some time period for some given set of reasons and goals, but the investor may be disgruntled in ten years when they ask, "If only I had invested in shares…". Although there are ways around this too with documenting the original decision and conducting an explicit financial needs-analysis or its equivalent, the probabilistic nature of financial outcomes does mean that the journey from advice to outcomes is necessarily one of probability, not certainty. In other words, like with other professions such as medicine, there is good practice which nevertheless can result in undesirable outcomes, but there is also practice which can be professionally negligent. In financial affairs, it may not be straightforward for a disgruntled client to differentiate between the two.

[8] ASIC itself commented on its position at various time post-collapse. For example, at a public hearing in Canberra on 24 June 2009: "ASIC is an oversight and enforcement body…it is not supposed to intervene in the operation of the market. It is not there to prevent business failure or loss to retail investors. It cannot and does not take action merely on the basis of a flawed business model…responsibility for flawed business models lies with management and the board of a company…ASIC could not refuse a license because it did not approve of an applicant's business model. The role of the licensing regime is not necessarily well understood by retail investors. There may be a perception amongst some retail investors that an Australian financial service license means that the service provider has been approved by ASIC or that the license is in some way an endorsement of quality". http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=corporations_ctte/fps/hearings/index.htm Nevertheless, investor perceptions remained of the overall inadequacy with regards to their situation.

Final targets of frustration for investors are themselves, and the reactions of those around them. Investors hearing commentaries and opinions that they were simply "uneducated cowboys who rolled the dice and lost" (or something close to that) results in either a fiery defence, or more likely it deepens further a damaging sense of guilt and regret. Public utterances, or deafening silence, by politicians and other public figures are both taken on board. Indeed, sticks and stones and words will always hurt more than is appreciated. It is noted that those ex-investors interviewed included teachers, bank managers, police, engineers and other workers, and whether it was the motivation trotted out by Storm or genuine concerns held by investors, almost all interviewees said a similar thing – they did not want to be reliant on the Government in the future, and that for the targeted demographic of those close to or in retirement, this was the direction they felt they were given when the compulsory superannuation via the SGC was introduced in 1992.

There is a definite sense of regret for many looking back at decision that they made, and this reflects on the fact that a great loss of control of one's life has resulted. In fact, this lack of control is perhaps the strongest overall theme that has emerged from the interviews. Sadly, some interviewees spoke openly, but not proudly, of strong feelings of self-harm soon after Storm's collapse, due to this combination of helplessness and regret.

MONEY DOES MATTER

It is no surprise that money matters to people, but the surprise is to what extent it does matter - but not for its own sake. Indeed, it is 'just money' but it's also the means to have control or a say in your life. When that control is gone, it is hard to replace, and also hard to trust oneself with future decisions. Indeed, most investors in the period following Storm's demise have been faced with a range of decisions: whether to accepting 'final' settlements; whether or not to join class actions; whether to spend some money fixing the house after cyclone Yasi struck in February 2010 with the thought that "what's the point, the bank will take the house anyway"; whether to undergo that medical treatment or to risk delaying it, and all sorts of decisions that have required energy, advice and thought. But as one interviewee said when comparing to a recent battle with cancer: "At least with cancer, you have options and they are explained to you. With this, what are the options? Who can help?"

CONCLUDING REMARKS

The story of Storm then is about a large group of people, who, upon getting advice from educated advisors who ticked the required regulatory requirements at the time, hit a financial storm of severe market losses arising from the GFC, combined with a total breakdown in communication between Storm and some credit providers. Significant financial loss resulted for thousands of investors, some of whom sadly are not in a position to (ever) recover to any significant extent. Perhaps a main lesson from the story of Storm is that for those working in the industry, it is not just someone's financial affairs that you are influencing – the quality of the advice and service that they get impacts their wellbeing in all areas of life.

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AFTERMATH OF A STORM

Aaron Bruhn

Readers will be well aware of the many high-profile financial collapses in recent years, such as Westpoint, Opes Prime, Basis Capital, FinCorp and Storm Financial. The collapse of Townsville-based Storm Financial in early 2009 in particular provides much food for thought for individuals, advisers, regulators, credit providers, and others who are connected to the financial services industry.

By way of background, many of Storm's clients borrowed against their existing assets to allow investment into an indexed share fund. The assets which were borrowed against often included property that was already owned outright (including the family home). Investors were typically, but not exclusively, retirees or those close to retirement. Storm Financial had total funds under management of well over AUD $4billion in August 2008, but then fell to a position in January 2009 where it had to be placed into administration. Liquidation followed in March 2009, and since then a number of things have occurred which, though seemingly with the intent to put things right or find out what went wrong, have left many investors even more frustrated and despondent about their fate. The subsequent actions include a Parliamentary Inquiry, various settlements between some banks as credit providers and some of Storm's investors, and ongoing legal action.

A number of interviews have been carried out with investors who were involved with Storm Financial. The main goal of the interviews was to understand or appreciate the perspective of 'what now for shattered investors', rather than a more investigative work into what happened, why things happened the way they did, and so on. With such interviews there are always a number of aspects to account for when appreciating an interviewee's response – indeed, feedback already received from others has centred around the expected biases that might expect to emerge with such a sample of interviewees[1]. However, the focus has not been the 'why' and 'how' of Storm's collapse – but of far more interest personally is the 'what now'. For that reason, this article is deliberately sparse with judgements about the actions of various groups involved, and rather, what follows is merely an opinion on some of the significant themes to emerge.

One thing that the sad story of Storm highlights is seemingly not the first thing that would come to mind from such an extreme case of financial loss is that the service provided by the financial services industry is hugely important to the general wellbeing of people. This may be an obvious point to those who at the coalface of the industry and who fully appreciate what the industry actually exists for, but the outcome from Storm perhaps underlies the whole rationale of the financial services industry in a roundabout way – this is that the industry is fundamentally about people and their needs, and when financial outcomes take a turn for the worse as it did with Storm, things can go very badly for those impacted, and not just financially. What this implies is what is called the 'contrapositive' statement: that for people generally to be content in their lives, their financial affairs need to be in good order[2]. Fundamentally, when you are working, or advising, or administering, or reviewing, or planning things to do with someone's financial affairs, it is not solely one segregated area of their life that you are influencing – the entire life of that person can be enhanced or adversely impacted through such influence.

Financial situation after Storm

One noteworthy point is that although many investors have experienced nothing short of a total calamity in a financial sense, and that this should never be underplayed, a large proportion of investors nevertheless are not facing destitution – but rather, most face devastation – of dreams, plans, and the means to have control of one's choices. Perhaps destitution is not really about a certain level of wealth, but is about to what degree options and choices are available to people. This relates to the underlying role that money plays in our lives – and whilst it is true that what has been lost is, colloquially, 'just money', this is not the point – that money for many people represents the means to provide for their goals and dreams in most areas in life. In effect, it is the currency to have some control on one's choices and options.

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Perhaps the most striking feature arising out of Storm is the diversity, scope and depth of the impact on people's lives. In the aftermath of Storm's and no doubt other collapses, impacts include a vastly heightened vulnerability to relationship difficulties, family stresses, health issues (particularly in the area of mental wellbeing), unease with social interaction and a sense of judgement from others, and many more 'human' factors. Many of these impacts are what could be termed 'first order' – for example, the significant stress involved in losing one's life savings and place of abode itself is calamitous enough in terms of mental health, but a range of 'second order' impacts also occur.

To continue the example of health, many former Storm investors would now not undertake medical treatments due solely to the cost involved. Even though medical treatments were formerly considered essential to their quality of life, many have also cancelled their medical insurance. And those that can keep insurance in some form often delay medical treatments to maximise entitlements net of deductibles. The lack of funds normally means therapeutic activities such as taking grandchildren out are now a guilt-ridden time to be endured. Quite obviously many of the impacts are inter-related and this underlies the fact that an individual's financial affairs are not one isolated aspect of life which should be viewed as artificially segregated from the rest of their life – their financial wellbeing has a value and importance within the overall context of an individual's circumstances, which varies from person to person.

It is a perhaps even a comment on modern day society to state that these outcomes are exacerbated and compounded where individuals face some degree of isolation. This isolation appears in many forms – a change in friendships after financial ruin, frustration from family at a parent, a brother, a sister or a spouse. In addition, there are often an exclusion from circles that were commonplace beforehand (not deliberately or pointedly so, but often where money was required to be involved), a total embarrassment at what has happened and so voluntary withdrawal from some aspect of society may occurs. It is not meant to be a trite or simplified additional comment to make, but how many individuals would appreciate a neighbour, a friend, a family member being there to help or to listen without judgement – it is as important and helpful here as in any other life-changing circumstances. One interviewee made this clear when describing the gratitude felt when a relative handed over a vehicle for his family's indefinite use, shortly after his own car broke down with an expensive repair bill ahead. The implication is that acts of kindness and generosity certainly help alleviate financial pressure, but they also go well beyond that.

Trust matters

A further area of loss for those impacted is trust. The financial advisor is of course part of this, but surprisingly from interviews to date, it is not universally held that this is where the majority of the blame game lies. Two other areas of blame lie with institutions, and just as damagingly, with oneself. In the case of Storm, there is much anger and disdain held towards the credit providers (banks) where it was believed that they would provide a reasonableness check to investment loans granted to individuals and they (or Storm) would not sell up an individual's portfolio without the chance to make extra payments to keep it going; the actions (or as many interviewees have observed, the inaction) of the Australian regulator ASIC[3]; and even the manner in which some lawyer-negotiated settlements between investors and banks were conducted. As one interviewee has commented, "the adviser did us, the bank did us, the regulator didn't do anything, the lawyers did us – who's next?" Ongoing legal class action against some banks continues in the case of Storm. It is fair to say that a loss of trust in major institutions which make the modern world tick over is not a healthy outcome in anyone's language.

Also, many investors blame themselves – with hindsight everyone's best friend – but on top of that is the issue of moral regret associated with also advising family and friends into the scheme, or indeed being recommended to join by family and friends. If you have relied on yourself, family, friends, professional advisors, and institutions to look after you and your family's interests, and then that decision goes devastatingly wrong – it seems that all or most of these levels of trust fall over like dominoes, and those impacted really struggle to know where to turn to next.

More practically in terms of lessons for investors – one factor that seems to complicate things is the danger of 'mission creep'. According to Wikipedia, this is the expansion of a project or mission beyond its original goals, often after initial successes. In a financial sense it could be considered as 'why make gains of \$X, when you can make gains of \$(X + Y)?' What is not understood so well is the increase in risk involved in moving from gain (or goal) X, to some bigger gain. This is complicated in a financial setting because most people do not have a concrete and concise goal as such – often it is more case of see how well one can do, and as more nice carrots are held out as to what greater wealth can buy, taking the next step of more return (but unstated, or underplayed, or misunderstood, or not-really-believed higher risk) is fait-accompli for many. This comes back to perhaps a more fundamental question of how people see their lives and involves a question which probably not many ever ask – this is, 'What will it take for me to be content?' In a financial sense, an answer to that question gives something concrete to work to and plan for. Critically, it should be appreciated that subsequently trying to achieve something other than that will involve a different degree of risk than what was initially considered.

The quote

One noteworthy point is that although many investors have experienced nothing short of a total calamity in a financial sense, and that this should never be underplayed, a large proportion of investors nevertheless are not facing destitution – but rather, most face devastation – of dreams, plans, and the means to have control of one's choices.

The quote

The lack of funds normally means therapeutic activities such as taking grandchildren out are now a guilt-ridden time to be endured.

Risky business

The issue arising from the above point is, of course, 'risk', and the obvious fuel to throw on the Storm fire is simply to say that the investors should have been more aware of the risk involved – but this misses the point on several fronts in this case. Certainly it was a high risk endeavour and it is reasonable to say that for many people, the advice to invest in the Storm model was inappropriate – a highly leveraged product, in 100% equities, for those in or close to retirement with little options around future employment and alternative ways to derive financial security is not going to fit many people's appetite for risk. However, others may well have understood the risks, or considered the chance to turn what they perceived as a meagre superannuation entitlement into something more substantial as a reasonable option, or for others who were younger and deriving good incomes from employment, it quite possibly fitted their goals and risk appetite.

These are all very possible and reasonable positions where investors were comfortable with the loan to value ratios involved, the relative size of cash buffers built up, their interpretation of the historic volatility of the equity market, their own ability from other funds to make margin calls, and their particular investment horizon. What was more specific to Storm though, was that it does not appear to have been fundamentally a question of 'market risk' that led to an unravelling of the scheme – but more one of 'operational risk' where many investors were not even given the chance to meet margin calls because the credit providers and Storm itself, did not have things in place (or more to the point, they seem to have disagreed in hindsight who was responsible for doing so) to contact investors as loan to value ratios were breached. The first that many investors knew of problems specific to their situation was when they were rung up, by the respective credit provider, and told that their position had already been sold up or down, to be more precise.

So where an obvious critique would be to lob grenades about the nature of the risk involved, it should be borne in mind that the risk that undid Storm was not the known risk around market fluctuations, but the unconsidered (the 'unknown unknown', to quote Donald Rumsfeld) risk that the administrative process would collapse. Undoubtedly, the latter would not have occurred had the impact of the GFC throughout 2008 not pressured Storm's position with its credit providers, but nevertheless it is too easy and simplified a target to say investors were undone by the market risk they should have been more cognisant of. This does not, of course, underplay or shift focus from shortcomings around the 'one size fits all' model adopted by Storm nor the importance of understanding 'risk', but the fact is that risk has many shapes and forms.

However, a concern is that the communication of 'risk' in this context does not stress enough the downside of an investment choice. Risk aversion would suggest that the joy someone gets from making 10% on an investment, is less than the anguish suffered from a 10% loss, yet the downside risk of such possibilities is usually couched in terms which equate 'risk' to 'greater returns in the long run', or 'high volatility of returns'. These terms are unhelpful and potentially misleading in many cases – rather, 'risk' can mean 'there is a probability of ruin for you', or even more colloquially, 'things can go really bad'. This is not to scare off anyone ever taking reasonable risks, but it could put things in terms that mean something to the everyday investor and which account for the fact that a degree of risk-aversion reigns in most people's decisions. In other words, in the context of someone seeking financial advice it should be okay to emphasise loss above that of gain in many situations. In the case of the group of Storm investors who put up their family home for leverage in addition to other assets, had they been presented with 'risk' in terms expressed as 'your chance of losing your house is x%', it is not unreasonable to say that many would have re-considered their position.

Conclusion

The story of Storm is a sad one in which thousands of investors have suffered enormous financial loss. What is lost when things take a turn for the worst in a financial sense is the ability to have control of one's life, as well as a level of trust in those things which were formerly given some trust. Sadly and ironically, the means to have greater control in one's life choices is no doubt a major motivator to engage with professionals in the financial services industry in the first place. How the industry and regulators work to build ongoing trust and assurance in the industry is no doubt an ongoing challenge. FS

Aaron Bruhn is aiming to write more detailed papers on the aftermath of Storm Financial's collapse in the next six to twelve months. If anyone has an interest in his work, please feel free to contact him at aaron.bruhn@anu.edu.au.

Notes

1. *In particular, feedback to date from presentations to academic colleagues, actuarial conventions, and mixed audiences of regulators/consultants/academics, and from within some interviews themselves, has included views such as: "everyone has selective memories in hindsight", "don't believe everything the individuals tell you", "yes but the investors had it good for a long time", "people always want to blame someone else", and so on. The author's view is that all these comments probably apply to many people much of the time (Storm investors or otherwise), but the purpose of the interviews was not to get into the detail of why and how and who said what. Rather, it was to establish the impact on people's lives when they suffer major financial loss. A series of later (probably academic) papers will address issues around the fidelity of the interview process and findings.*
2. *To put this generalisation simply, if "financial affairs going bad" implies "people are sad", then for "people to be happy" implies "financial affairs need to be going well". People can certainly be sad despite having their financial affairs in order, but it seems to be a genuine struggle to cope well and enjoy life when financial affairs take a turn for the worst.*
3. *Aside from the fact that margin-loan based products such as that promoted by Storm did not fall under ASIC's regulatory umbrella at the time of Storm's collapse, many investors nevertheless consider it inappropriate that ASIC had private (now public) reservations about the scheme, but did not provide any specific information or concerns to interested investors*

Appendix E: Overview of industry perceptions of Storm's strategy

In terms of public submissions made to the PJCI, 14 out of 43 public submissions from financial planning businesses and seven out of 21 financial service organisations / institutes / associations documented some concern about the overall strategy offered by Storm. The four major areas commented on were risk levels and tolerance, assumptions underlying the investment strategy, the use of the one-size-fits all approach, and the self-selection aspect of investors joining Storm.

For the purposes of acknowledging a fair consideration of the critiques of Storm's strategy that follow, it is important to also note that Storm's founder, Emmanuel Cassimatis, gives further, detailed insights and a defence of many aspects of Storm's strategy in an extended 2 hour discourse with PJCI members in public hearing [6]. An ex-Storm adviser also gives a defence of Storm's strategy in public hearing [4], with his overall view that the key issue is not one of Storm's strategy (which he maintains is reasonable) but rather the action(s) of the CBA. As he states:

> It does not matter what levels of protection one can put in place or what risk management tools one can put in place at the end of the day. It is impossible to factor in product failure from a bank as a risk to a management tool, for me or for any client. Do you understand that point? [public hearing [4], p.4]

Nevertheless we give a brief overview of the specific concerns expressed about Storm's strategy, using a selection of views from financial planners and others connected to the financial services industry.

Risk levels and tolerance

The main aspects of risk that were highlighted concerned the overall level of risk being high and inappropriate, given the likely tolerance levels of the target market, as well as communication of that risk to investors:

> As recent events such as the collapse of Storm Financial have shown, a proportion of clients still end up adopting a financial strategy that, on any objective test, is inappropriate and involves an excessive level of risk, given their circumstances. [public submission 319 from Institute of Actuaries of Australia]

> I am deeply distressed for the reputation of my industry to learn of the errant behaviour of a fellow financial planner, to structure and offer such products of this nature to any person, but particularly for persons who had had no prior exposure to the stock market or indeed leveraging. The clients are basically illiterate in financial products and most certainly don't have a speculative investment risk tolerance. For semi retired persons nearing the end of the wealth accumulation stage of their lives, I submit that the advice provided was grossly irresponsible. [public submission 332 from Financial planner]

> It seems unlikely that so many people would have mortgaged the family home, their only asset, if they had understood that there was a significant risk that they could lose it as a result of a decline in investment markets. [public submission 385 from AXA]

> (Storm was) able to exploit the fear of a poor retirement and put billions of dollars at extreme risk. They simply took no account of the clients' financial risk tolerance. [public submission 324 from Financial planning company]

Assumptions underlying the investment strategy

Two main aspects of the investment strategy were highlighted. Firstly, the underlying understanding of and belief about continuing equity market returns. Secondly, the dependence on margin lending as an investment vehicle.

> For many working within our industry, Storm was not a failure of the financial planning industry or a failure of the FSR Legislation. It was a failure of the Storm model, principally

reliant on the Stock Market continuing to "bull run". [public submission 330 from Financial planning company]

The advice given by Storm Financial Planning's planners was stupendously wrong. Their understanding of financial markets was woeful; their understanding of retail client's psychology nowhere near sufficient. Yet they managed to convince a relatively large number of people to pay their fee. [public submission 168 from Financial Planner]

Over the last 28 years, top marginal tax payers had only a 23% chance of making reasonable money from margin lending. That is not investing – that is gambling. [public submission 293 from Financial planning company]

In the case of Storm Financial, it had experienced a financial meltdown in the relatively mild 2002 bear market, where its Ozdaq Hi Tech Index collapsed causing numerous margin calls for clients. In some cases Storm Financial stepped in to meet margin calls for clients by lending them funds. It would have certainly been clear to any competent financial planner at this time that the Storm Financial model had serious flaws. However it is now apparent that Storm Financial did not heed nor learn from the 2002 warning. [public submission 154 from AEC Group, consulting firm]

No planner worth their salt should claim to be able to pick the timing, or even frequency of share market volatility. Where a client presents though at close to the end of their working career, without other significant financial resources, there are enough known knowns to tell a good planner that a gearing (and double gearing on top!) strategy is not appropriate. [email from financial adviser, June 2013]

It is opportune here to highlight one aspect of the basis underlying the investment strategy, as put forward by Storm. We refer to the following excerpt:

Senator McLucas: What did the (education sessions offered by Storm) cover?
Mr Cassimatis: It covered technical aspects of finance, the psychology of investing, accounting principles, financial principles and risk. Specifically, because our space was leverage, it gave explanations as to how wealth can be enhanced significantly using leverage, and it also gave quite horrific examples of how equity gets destroyed when markets are negative, but then in the end it is the averages that count. [public hearing [6], p.22]

It may be that the reference above to the primacy of 'average returns' is meant to highlight that such strategies require a long term rather than short term horizon and as such it is long term *trends* that are more important than shorter term fluctuations. Other than the risks involved with gearing, with such an inference we have little issue. If however there is a belief that a long term *average returns* are what count most of all, then this misses the key point of risk. For example, if returns on an indexed fund over ten years were +20% for each of the first nine years, but then a fall of 50% occurred in the tenth year, then as for Storm, any geared strategy is going to be under severe stress unless it is very conservative. Yet, the ten-year average geometric return of +9.9%[450] looks highly attractive and in any appeal to a long term horizon, the risk associated with fluctuations may well be underplayed. In contrast for example, a ten year period where the return every year is a constant +9.9% will give a vastly different outcome, depending on the gearing strategy[451]. In other words, it is most definitely not just the averages that count in geared strategies.

As such, the use of margin lending is one of the more debated issues within the overall investment strategy. Certainly no submissions supported its utility to the extent, market and manner utilised by Storm, but nevertheless it was and is not considered an inappropriate strategy *per se*.

> IFSA does not believe that a high level of leverage is, in and of itself, inappropriate or that investment strategies involving debt are inappropriate for retail investors. However, IFSA recognises the additional risks that leverage can introduce both to a financial product and to

[450] Here, the arithmetic average of +13% is significantly higher than the geometric average of +9.94%, but the geometric average is the more informative and useful one to base any discussion and planning on.

[451] A simplified example makes this abundantly clear. Suppose a strategy starts off with \$100 of assets and \$40 of liabilities by way of margin loan (to give net assets of \$60 and an LVR of 40%), and suppose that at the end of each year the overall position is rebalanced to maintain that LVR of 40%. Suppose also that one of two things occurs: (1) returns are +20% per annum for 9 years and then -50% in year 10, versus (2) returns are +9.9% for each of 10 years (note that each of (1) and (2) have approximately the same 10-year average geometric return). Then, the net position after 10 years under (1) is \$133, and under (2) it is \$276 (a difference of 238% of the starting net position). Even more stark is when the LVR is changed – suppose now the initial assets are \$100 and the initial liabilities (borrowings) are \$60 to give an LVR of 60%, and that this again is maintained throughout 10 years. The net position after 10 years under (1) is -\$384, under (2) it is +\$365 (a difference of 1873% of the starting net position). The risk increases substantially with each increase in LVR: with an LVR of 70%, the difference is 8,347%, and with an LVR of 80%, the difference is an astonishing 82,377%. Notably, this also assumes an interest rate of 0% on the margin loan itself so as to focus on the differences in LVRs in terms of investment outcomes – with an interest rate of approximately 10% likely on the margin loan, then the higher the LVR, the more pronounced also this interest burden would be. Clearly and unequivocally, it is not the averages that matter in such a strategy.

> an investment strategy. [public submission 317 from Investment and Financial Services Association]

> If you asked most financial advisers for their view of margin lending as a product set, they would say: 'Handle with care.' If you asked for their view of a double-geared margin lending product, they would say, 'Handle with serious care.' [CEO, Association of Financial Advisers, public hearing [7], p.42]

> I suspect in the case of Storm it is the advice that has failed. If you take a margin lending product on its own, it has not failed; it is an appropriate product. [CEO, MLC Limited, public hearing [2], p.14]

> Gearing is a legitimate strategy for the right type of client. [email from financial adviser, April 2013]

In fact, despite their poor experiences with such a strategy, some of those interviewed still held it to be a workable approach in some circumstances, albeit with different parameters to that which they had with Storm:

> *Wife:* And yet the whole thing was - and then we were told over and over again it's not a get rich quick scheme.
> *Husband:* It's not.
> *Wife:* It's only an income scheme.
> *Husband:* We've got a friend here who is one of the richest guys (locally) and he says, "Quite frankly, it sounds like a pretty good scheme to me except you were very unlucky for it to have hit the global financial crisis."
> *Wife:* And that it was too highly geared.
> *Husband:* And too highly geared.
> *Interviewer:* …The actual model itself?
> *Wife:* The model itself would have worked if it had been geared at about 25 per cent and I think. [interview with Storm investor]

Furthermore, others such as those in excerpt [322] have again gone into a gearing strategy, but with more conservative parameters. An ex-Storm adviser also continues to attest to the value inherent with some gearing strategies:

> *Interviewer:* With the product that was being sold, is it still an approach you think has value?
> *Interviewee*: Absolutely. I used the model well before I got involved with Storm and it works… the issue here was the borrowing… was just so large, okay? It was just far too much… that level of debt that clients and the company carried that eventually it led to the GFC and Storm's demise. So the model unquestionably works if the debt levels were set at appropriate levels much more moderate than they were… the level of debt to pensioners, to people who weren't working, was crazy... I mean I would use the model, but you either had to be employed, you had to have a very good understanding of where we were going and we certainly left retired people out of the gearing strategy… on reflection, gearing for retirees is dumb, right? … Now with the benefit of hindsight, it doesn't work for retirees at the level of debt that was loaded, okay? [interview with ex-Storm adviser]

Of further interest also and in contrast to the reported Storm strategy, Macquarie Bank stated that they give advice along the following lines to those taking out a margin loan.

> We sent every customer a margin investment lending document…We said: 'When borrowing to invest there are additional risks that you should consider. These risks include margin calls as a result of market volatility; increased exposure, which can potentially increase losses; interest rate risks et cetera.' We then said: 'We recommend that you seek appropriate financial advice to ensure you adopt a strategy that suits your specific circumstances and discuss the strategy with your financial adviser to address any potential margin calls.' And then we gave clients some insights as to how they should manage risk. The points that we made were these: 'Be conservative in the amount that you borrow, always borrow within your capacity so you can accommodate any interest-rate rises, check the lending ratios before implementing the plan, diversify your investments, reinvest dividends to reduce your loan as a proportion of your total portfolio, make interest payments regularly, ensure that you have stable cash flow to meet interest payment obligations, monitor your investments closely, and invest for the long term'. [CEO, Macquarie Bank Limited, public hearing [9], p.15]

What is abundantly clear then, is an awareness that the use of margin loans has risks and features that need careful management.

One-size-fits all

The use of the 'one size fits all' approach in offering investors an option with Storm was also an issue of major concern, to a range of parties.

> An adviser needs to tailor an investment strategy to the client. To do so the adviser needs to understand the client's own financial situation, their objectives, and their attitude to risk. That so many of the clients affected by these failures had very similar investment strategies suggests that there was not sufficient regard paid to their own individual circumstances. [public submission 385 from AXA]

> Countless lives have been ruined by the double gearing that Storm encouraged for its clients. Storm and its advisors failed every one of the three main requirements about giving suitable advice[452]. What was their compliance manager doing? [public submission 293 from Financial planning company]

> Storm Financial consistently imposed the same one size fits all leveraged strategy with no regard for their client's risk tolerance or ability to service the loans. [public submission 154 from AEC Group, consulting firm]

> Storm Financial's advice was completely inappropriate for many of its clients. It was not personal financial advice; they simply offered one solution, which was for clients to borrow heavily against their homes and to use this to leverage further into margin loan and invest 100% into Australian shares. Storm Financial had a square hole and jammed people into it no matter their shape and size. For example, Storm Financial had clients on the Aged Pension and minimal other income signing up to borrow $1 million. Irrespective of market conditions, how is that appropriate financial advice? [public submission 178 from Financial Planning business]

[452] Namely, to know your client, know your product, and ensure your advice is appropriate to the member (s945A(1) of the Corporations Act 2001) (public submission 293 from Financial planning company).

We feel that Storm has failed every part of the Corporations Law. Firstly, knowing your client, because they used the one size fits all; secondly, knowing the product—they did not do the research that we did, and that is not very hard; and, thirdly, ensure that the advice is appropriate for the member, which they did not do. [Financial Consulting Group, public hearing [2], p.96]

CEO of IFSA: A pensioner who relies solely on the old-age pension and has a $400,000 home should not be geared up to billyo; it just should not happen.
Senator Mason: I appreciate your comments. In effect you would say, without putting it too bluntly, that Storm Financial, in pursuing this one-size-fits-all approach, is clearly in contravention of the Corporations Act. That would be your contention?
CEO of IFSA: Yes. [public hearing [3], p.53]

I believe that you've got to find a solution for each individual person. You don't have one solution fits all, that's bulls---. [interview with ex-Storm adviser]

So your question is the one size fits all, yeah that was a problem because they were lumping retirees in with the general public and that's where most of the problems have emerged now… the one size fits all obviously, clearly doesn't work. It doesn't work because the guy in Cooktown requiring $90 a week and being genuinely happy, needs a plan very different to the guy that wants two planes. [interview with ex-Storm adviser]

Self-selection

Storm's approach to let potential investors 'opt-in' to their commoditised, rather than individualised advice offering (with advice effectively 'packaged' as a part of the product), was also commented on. This issue however generated slightly more subtle and considered critique when compared to the issues above.

Deputy CEO, FPA: There were what we have would term some very unusual circumstances that occurred in relation to Storm. One of them was a practice which is very uncommon, the concept of prequalifying clients… clients were asked to qualify themselves as being suitable for the strategy—'If you want to achieve these goals and these outcomes then this is the sort of client you need to be. So are you in fact that client?' Clients themselves consented to be identified in that particular way. Whether that was a misunderstanding on their part or a mis-selling on the part of Storm is yet to emerge in our investigations and prosecutions. It was that essence, that clients themselves were part of this dialogue, perhaps inappropriately. That satisfies the prequalification example of knowing your client. To contemporise this if you like, the argument from Storm Financial was the idea, 'We can work with you to achieve great wealth in an extraordinary journey to capitalism, if you are prepared to be on this particular journey.' So clients were invited to qualify themselves into the relationship.

Bernie Ripoll MP: Is a good point. How does that comply with the regulation, with FSR?

Deputy CEO, FPA: It does in fact comply with the law because the client is then required to satisfy how they—the advice is provided relevant to the client.

Senator Mason: This is a breach of professional expertise.

Deputy CEO, FPA: That is absolutely the point, Senator. In fact, we do not believe it complies with our expectations. That is an important distinction in this process.

Senator Mason: This is a professionalised industry. You cannot let people prequalify and determine what they think they are.

Deputy CEO, FPA: That certainly is a significant issue that arises in Storm. [public hearing [3], p.30]

The institute's perspective on (the issue of Storm clients self-selecting in) is that the responsibility still goes back to the adviser and the advice being provided. The client may self-select and say, 'I am interested in going forward with this,' but in the current environment it is still the responsibility of the adviser to provide appropriate advice… part of the role of the adviser is to say, 'This is not appropriate for you.' As it seems to be the case with some of the examples out of Storm, the advice was not appropriate. If a person is retired, is paying off their home and is elderly, gearing is not an appropriate option, and if the client is saying, 'This sounds great; I want to head down that track,' a professional needs to take a position and say: 'No, it is not appropriate for you. There are other solutions.' [Head of Financial Planning, Institute of Chartered Accountants in Australia, public hearing [7], p.15]

Other aspects

Other industry-related submissions highlighted more detailed criticisms. For example, a financial planning business (submission 178) highlighted that the focus on gearing towards the top end of acceptable limits meant that it was "just a question of time before markets corrected and clients were margin called". Furthermore, when combined with the high initial fee model, this provided motivation for Storm to push for maximum leverage as often as possible.

Furthermore, the FPA mentions risks associated with index funds including: in major bear markets there is no easy exit; the use of high LVRs without the benefit of institutional investors to provide a buffer to retail investors, thereby magnifying risks; and income from the investments has a high dependence on highly cyclical stocks and property (public submission 277).

We note that one major fault, and in some ways the fault of Storm's model that most investors would have been most oblivious to, is what we termed 'concentration risk'. Some interviewees made an analogous comparison of the strategy to borrow firstly against the home and then against total investment assets via a margin loan (so as to generate 'passive' income from 'good' debt), with that of taking out a mortgage for a non-investing home owner. Whilst these are both similar in that money has been borrowed, that is about where the comparison ends. In the latter case, the ability to service a mortgage depends on earner's income (and if investment earnings were available, they would be independent of that income). In contrast, the ability to service both a mortgage and investment loan in the case of Storm depends entirely on investments held. Some submitters to the PJCI observed the essential risk to this point. But then, at the very time that investment values fall and thereby raise the LVR, this is also the very time that income from those investments is likely to be compromised in servicing the loans. Depending on the size of money put aside for a cash 'dam' (as labelled by Storm), a point will be breached when servicing the loans themselves is under pressure, adding further pressure on the LVRs. In other words, when it rains (investment markets drop), it doesn't just pour (LVRs increase due to decreasing investment values), it actually turns torrential (loan servicing runs the risk of being compromised, on both mortgage and investment loans). This does not make such a strategy inappropriate for all people – but in all probability it was inappropriate for the majority of Storm's investors. One financial planner essentially made this point.

> The issue, to me, was that when you borrow to invest you should have cash flow to support that. Essentially, this model borrowed the cash flow, and that is where everything started to tumble down. If I am doing margin lending and, indeed, if I am doing double gearing—and

> the gentlemen before said, 'I do not think you should have it,' but that would be my personal strategy out the window—I have got to have the cash flow to support it. The failing here was about borrowing to pay for it as well as to build that wealth to pay for their retirement lifestyle. [financial planner, public hearing [4], p.95]

Overall, where a defence of the overall strategy has been given (such as in the public hearings mentioned above and also in submission [281]), we note further that: (1), those who actually paid out margin loans suffered major losses as well; and (2), the concentration risk above would trump most reasonable protective measures in a big enough market fall (short of having costly cash 'dams' and ratios set at levels so as to render the leveraging strategy pointless). Furthermore, although it is generally held that the GFC was certainly the catalyst that set off events leading to Storm's collapse[453], this in fact was and is not the basis for the overall criticism of Storm's strategy.

> The requirement for appropriate advice is significant. We believe that the activities of Storm with respect to some of their clients were not appropriate. They did not give appropriate advice. And that act existed well before the crisis. [CEO, Investment and Financial Services Association Ltd , public hearing [3], p.59]

[453] See, for example, the discourse with Mark Weir, SICAG Co-Chairman, public hearing [6], p.69.

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