

Regulators asleep at the wheel as Storm crashes

ASIC and government inaction was behind much of the suffering caused by the financial planning group's fall

A FINANCIAL planning nightmare well and truly became a reality over the holiday break, when Townsville-based Storm Financial went into receivership. The collapsed company owed \$78 million to creditors and left behind wealth-crushed customers, with 700 joining a class action with law firm Slater & Gordon.

Many of the casualties in this tragic crash could have been saved these losses if regulators — ASIC and past federal ministers responsible for administering the industry — had not been asleep at the wheel. Also, if the Financial Planning Association had a much bigger whip and was prepared to use it to protect the name of its members, there might have been fewer losers from this sorry saga.

There is a paucity of financial planning transparency in this country and as a result too many clients of financial planners are left in the dark. Typically, the hard questions are only asked when the you-know-what hits the fan. The poor education and understanding of mum-and-dad investors is underlined by a story in the *Byron Shire News*. Believe it or not, one 68-year old client who lost \$3.4 million with Storm told the newspaper he "won't hear a word against the company that set him on the path to economic ruin". Copping losses with the stock market down 40 per cent is all part and parcel of being a long-term investor with a solid exposure to the stock market, but I believe Storm overcharged and over-leveraged its clients.

Last year I wrote about Storm without naming it, for legal reasons, but I invited ASIC to contact me as I wanted to spill the beans on what I thought was outrageous. One woman came to me and asked if I thought a \$70,000 charge for a



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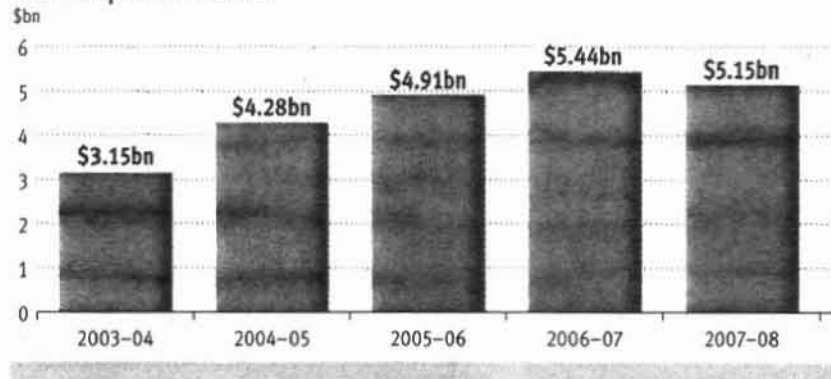
market before it dived in November 2007, and that her husband cash in his defined benefit super fund. There aren't many planners who would come at that. No one from the Australian Securities and Investments Commission contacted me. One chief executive of a leading financial institution told me he informed regulators about Storm's practices to the highest levels, but thought he had been ignored. Regulatory slackness and disengaged governments permitted the sub-prime home loan problem, which has been at the core of the financial markets meltdown.

The current main man at federal government level is Superannuation and Corporate Law Minister Nick Sherry, who is promising changes to improve transparency in the financial planning sector. His plan for financial planning includes a national margin lending regulatory regime and new short-form, plain-English product disclosure documents that will include all fees and charges, including commissions, paid by margin loan providers to advisers who sell the product. There will also be super changes, which I will look at next week. But be warned: major changes are afoot. But what about fixing up financial planning so we can avoid Storm-like problems in the future?

One of the country's most respected thinkers on super is chartered accountant Robert MC Brown. He has owned a financial planning business and is blunt on failed reforms of the past. "We can regulate the industry and require disclosure and transparency until the cows come home, but the problems will never be resolved until the industry's leadership concedes remuneration is the principal driver of behaviour both

CASHING IN

Financial planner revenue



result in the industry becoming a true profession."

Brown is not comfortable with financial planners accepting commissions that can sway judgment and he dislikes consumers being charged more just because they have more money, which happens with percentage charges. He says industry leaders know he is right. "However, the consequences of addressing the real issues are unthinkable, because without the controlling and biasing influence of percentage remuneration structures, the power of dealer groups and financial institutions will be reduced," he says. "That's simply unthinkable for most of them, and serious analysis of it is deliberately deflected by reference to the importance of choice, transparency and disclosure.

"All of these are worthy objectives, but they won't resolve the issue."

and what they are charged is prevalent at the moment. He prefers for financial planners, just as a lawyers generally price their work he wants deception taken out of financial services. "Surely, if the teaches us anything, it is that remuneration behaviour," he says. "This is a phenomenon and it is not isolated in the US. The fundamental corrupting influence of the financial industry's structure, not just a fee

"If we cannot learn that less events, we will repeat the crisis again."

I don't think all financial planners with the same brush, but we need a picture of the industry.