



The impact of severe financial losses

Aaron Bruhn

© **Australian National University**

*This presentation has been prepared for the Actuaries Institute 2014 Financial Services Forum.
The Institute Council wishes it to be understood that opinions put forward herein are not necessarily those of the Institute
and the Council is not responsible for those opinions.*



The impact of severe financial losses

An interest in the human side of the financial services industry morphed into a larger piece of research.

Could be called “getting behind the numbers” – I prefer to say it is “understanding what the industry exists for”.

Not a lot of attention on ‘personal finance’ (real-life issues?) in academia. So let’s have a go.

Supervisors:

- Dr Tim Higgins (Actuarial) (ANU)
- Prof Tom Smith (Finance) (UQ)
- Prof Doug Foster (Finance) (UTS)
- Prof Michael Martin (Statistics) (ANU)



How?

Consider the 2009 collapse of Storm Financial as a case study

- Margin lending product
- Mainly sold to retirees or those close to it
- Highly aggressive (and iterative) leveraging strategy
- Long story as to its collapse in 2009... but the result was 14,000 investors impacted and \$3bn? \$4bn? \$800m? of funds gone.



Context

What are your financial dreams, aspirations, goals for the future?

- hits a market with genuine concerns about the age pension
and who perceive a clear message to be self-sufficient

The circumstances of Storm's collapse are complex.

- Not resolved by the administrators, a Parliamentary Inquiry, the courts, ASIC, legal action, etc...

Who's to blame? Banks, Storm, Individuals, ASIC.... this differs to other traumatic events, e.g. natural disasters linked to fatalistic acceptance. Not in Storm's case!



Data

From the subsequent 'Ripoll' Inquiry (precursor to FOFA)

398 submissions (2879 pages)

9 public hearings (823 pages)

Interviews with Storm investors and advisers

24 people interviewed (33 hours)

Other

Extensive media commentary, reports, etc

Correspondence with investors, advisers

Observations



Okay but....

Isn't hearing what investors have to say just 'story-telling', or even *'retrospective sensemaking by image-conscious informants?'*



One's own biases

Nevertheless, declaring one's own perspective is important, because the primary tool of analysis is the researcher.

I'm no socialist but..

"Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone." (John Keynes)

I'm no capitalist but...

"Do not muzzle an ox while it is treading out the grain," and "the worker deserves his wages." (Paul's first letter to Timothy in the New Testament) i.e. there should be fair reward for fair effort

Neither forced philanthropy nor turning a blind eye sound useful to me!



Context of Impacts

Financial:

A survey carried out by AEC / SICAG 2009 survey revealed that 31% of (approx 400) respondents estimated their losses at more than \$1m and 59% estimated their losses as between \$200,000 and \$1m.

Relational:

Important to understand that investors trusted the following when investing:

Storm;

The advice of others;

The associated Institutions;

AFSL, FPA and academic credentials;

Themselves.



Impacts

Personal

Emotional

Health

Social

Marriages and other relationships

Cultural and familial roles

Community involvement, shame, networks

Trust

Control (\neq choice!)



Emotional impacts: 98/168

Trust is key to any relationship. So given Storm's sudden demise and the range of entities relied on when deciding to invest, the emotional impacts are obvious, deeply held, and long lasting.

Shock;

Numb;

Anger;

Fear;

Frustration;

Regret;

Guilt.

Financial Services Forum



**Scoring Goals
in a Changing World**

5-6 May 2014 • Hilton Sydney



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. [investor at public hearing]

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 ...Mate, I'm dirty mate and I won't forget them mate. No way in the world... [interview with Storm investor]

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]

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]



Health Impacts

Direct and indirect.

*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]*



...but especially mental health

(I am) 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]



...and self-harm (9/168, 1/3)

(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]



Social impacts - marriages

I've been divorced. Lots of stress... there were other issues but the final thing our marriage could manage was ...the extra stress of this. [interview with Storm investor]

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]



Cultural and familial roles

My wife is heartbroken and sick with worry about the future... 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]

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]



Social 'connectedness' reduced

Many examples...

- Not playing sport
- Pulling out of charities
- Can't afford hosting a coffee
- Can't afford Christmas cards
- Isolation in many other ways
- JDWT.....



Community perceptions

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... [public submission]



So... who are you going to trust?

We mentioned earlier that “Trust is key to any relationship”

So in what areas has ‘trust’ been impacted?

Storm – the obvious target

All financial advisers – an understandable extrapolation

Banks – the most strongly held view

Lawyers – post-event actions do count (a lot)

Government – multi-faceted

Oneself – perhaps the most damaging one.



Trust in Storm?

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]

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. [interview with Storm investor]

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]



Trust in all advisers?

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]

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. [public submission]



Trust in Banks?

127 out of 168 public submissions by Storm investors referred detrimentally about the role of banks and credit providers – remarkably, more than the 118 submissions that were adverse towards Storm.

Not just a Storm issue– 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.

Convenience? Recompense? Cultural? Or real?



Trust in Banks?

Loans. Incomes. Signed/unsigned forms. House valuations.
Margin calls. Post-collapse service. Compensation schemes.

*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)... That's nothing compared with what's been happening to us since. Nothing, you know?
[interview with Storm investor]*

An 'awful' realisation sinking in....



Trust in lawyers

Concerns with process and outcomes.



Trust in Government

Complex, multi-faceted.

- Where was ASIC?
- Licensing means what?
- Public utterances or silence.
- Post-collapse responses.
- Service providers.
- Regulation in general.



Trust in oneself

Responsibility?

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. [public submission]



Ok, but....

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 from Storm Investor]



So if trust in many things goes... where to now?

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]



Impact on 'control'

Most people need and desire to have some control or say over their own fortunes, financial or otherwise.

Everything post-Storm points to losing that.



My major surprise: what money means

- What 'money' is can be inferred by what is lost when it is gone.
- A means to an end? But not just material ends...
 - other essential aspects of human life – independence, health, ability to face the future, a sense of achievement...

It's just destroyed my whole future, my whole life. Everything I've ever worked for, I will never ever achieve... 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]



Conclusion

- Significant financial loss is devastating
- The collapse of Storm Financial presents a very sad tale of loss.
- Not necessarily about destitution but devastation – of plans, dreams, expectations, options,
- i.e. the ability to have control over one's life and choices.

“At least with cancer, you have options and they are explained to you. With this, what are the options? Who can help?”



Conclusion

New light on the old adage: *“With choice comes responsibility”*

More widely: If numerical / financial / risk literacy is low, and if:

“chance can, for a time, make a hero out of a fool, or a goat out of (the) conscientious” (Hedberg 1973),

→ then is a push to self-sufficiency “sending lambs to the slaughter”? (Smith 2009)