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# Personal and social impacts of significant financial loss

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**Abstract**
This paper examines the impact on individuals who suffer significant financial loss. The collapse of Storm Financial is used as a qualitative case study to investigate such impacts, based on elements of grounded theory and narrative analysis. Significant financial loss is devastating, with an individual's emotional wellbeing a primary casualty, and mental health also vulnerable. One's social world is impacted, including relationships with family and friends, engagement in community activities and familial/cultural roles. Financial victims perceive a sense of judgement from society about their losses, further exacerbating emotive and social impacts. These impacts demonstrate that significant vulnerability exists when encouraging self-sufficiency in retirement.

JEL Classification: **D14, D18, G0**

**Keywords**
Financial loss, personal finance, Storm Financial

## 1. Introduction

The Australian financial system is highly complex. This is due to various reasons including a complex taxation regime, changes in rules regarding both contributions and access to superannuation, a plethora of insurance options and platforms, a large range of choice of superannuation funds and investment options, a variety of approaches to utilise and structure debt arrangements and complex aged care provision (Chardon, 2011; McKee, 2010; RWA, 2012). In the Australian context of personal financial management there is also a trend towards self-sufficiency, evidenced in part through the substitution of defined benefit with defined contribution superannuation schemes, where investment risks reside with individuals.

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The combination of complexity, trends towards self-sufficiency and investment risks (as highlighted by the global financial crisis (GFC)) increasingly being borne by individuals suggests that the impacts of major financial losses at an individual level are not understood well enough. Indeed, although study into personal financial is growing, it is still a relatively understudied field. Poterba (2008) highlights that 'the cost of mistakes' is an unresolved issue in the area of household finance, with 'few studies… conducted on this issue'. Some studies consider the impact of wealth shocks on health, but often only consider the impact of small wealth shocks on quantifiable health measures, such as changes in blood pressure (highlighted by Banks, 2010), rather than broader impacts on health, financial means and social activity. Morrison (2009) highlights that with corporate collapses, academic and media attention tends to focus on the corporate entity and the individuals causing the collapse, rather than the financial hardship suffered by others.

As such, we are motivated to consider what the impacts of significant financial shocks are on those who suffer them. We consider the collapse of Storm Financial as a case study to investigate such matters, using a qualitative methodology based on grounded theory and narrative analysis. We find that both the personal and social worlds of an individual are impacted in significant ways, raising the spectre that the trend to self-sufficiency has risks which can impact individuals well beyond monetary losses.

## 2. Storm Financial

Storm Financial (hereafter referred to as 'Storm') was a Queensland-based financial planning business that collapsed suddenly in late 2008. As at August 2008, Storm had total funds under management (FUM) of AUD$4.86 billion and approximately 14,000 clients. Some 3000 clients had also taken out margin loans to leverage their investment, with these loans contributing approximately AUD$1.8 billion of total FUM (Worrells Solvency and Forensic Accountants, 2009).

Storm's basic model was to invest FUM in an equity-based index fund. Investors' contributions were sourced from superannuation and other savings, sales of other assets, mortgages against the investor's primary residence and margin loans against the accumulation of all of these to provide additional leverage. Mortgages were provided by the major banks, most prominently by the Commonwealth Bank (CBA) and Bank of Queensland (BoQ). Additional margin loans were usually provided by Macquarie Bank or subsidiaries of the CBA (Barry, 2009; Ferris, 2011), and the vehicles for investment in the index funds were usually provided through Challenger or Colonial First State.

The strategy to both (re)mortgage an unencumbered home and take out a margin loan has been referred to as 'double gearing' or 'leverage on leverage' (Ferris, 2011; Smith, 2009). Over time investors were encouraged to increase the absolute size of their investment, in line with growth in FUM and house values (Barry, 2009). In a rising market, equity returns would pay for interest on the mortgage and margin loans, as well as provide for the lifestyle requirements of investors. This was seemingly the case for most investors for some time leading up to the GFC (Smith, 2009).

The onset of the GFC precipitated Storm's slide towards collapse (Smith, 2009; Worrells Solvency and Forensic Accountants, 2009). Investors' losses from falls in equity markets were exacerbated by the additional leverage, and loans entered into margin call territory (Barry, 2009; Butler, 2011). The Australian Securities and Investments Commission (ASIC) began formal investigations in December 2008, and Storm entered into administration in January 2009 (owing its main financier the CBA AUD$27 million) and liquidation in March 2009. Many clients lost their homes and/or total life savings, with the scale of losses and trauma attracting much media attention. Total losses accruing to Storm's clients have been reported as approximately AUD$3 billion (Raggart, 2009; St. John, 2011; Washington, 2010), although this figure is disputed.[1]

A significant issue is that many investors received no contact from either Storm or the margin loan provider for the purposes of making a margin call, when their specific loan to value ratio (LVR) was breached. Much has been reported and speculated about this lack of opportunity (Barry, 2009; Ferris, 2011; Raggart, 2009; Smith, 2009; Washington, 2009), especially because many investors may have been able to pay the margin call had they been notified. Instead, many investors discovered as a total surprise in mid-December 2008 that not only were their investments wiped out, but they also owed significant sums to the margin loan provider (Barry, 2009; Washington, 2009). With Storm and the CBA unable to agree terms for continuation of the business, investors' losses were crystallised and investors were left 'high and dry' (Ferris, 2011).

Following Storm's collapse, the Parliamentary Joint Committee on Corporations and Financial Services established an Inquiry in February 2009 (hereafter referred to as the PJCI). The PJCI observed that margin calls were indeed mishandled, with both Storm and the CBA likely at fault. This is one of several points of contention that have arisen with regard to the involvement of the banks with or in the Storm model.[2]

A number of legal actions were threatened, have occurred or are still taking place. Storm was reportedly seeking recompense from the CBA (Barry, 2009; Hughes, 2010), and there have been various compensation or resolution schemes. ASIC decided in November 2010 to pursue civil penalty proceedings against Storm (ASIC, 2012a; Sexton, 2012), and is or was also pursuing the CBA,[3] Macquarie Bank and the BoQ for compensation on behalf of Storm clients (ASIC, 2012a). Private class actions have also occurred, including one against the CBA via the legal firm Levitt Robinson.

## 3. Adopting a qualitative case-study approach

A growing number of papers in finance-related areas use qualitative methods (for example, Cheah et al., 2015; Gippel, 2013, 2015; Ho, 2015; Kaczynski et al., 2014; Neck, 2013; Salmona et al., 2015). In respect of Storm we have an information-rich case study that is tractable and motivating, due to the wealth of publicly available data, the willingness of many to share their stories and the relevance of the collapse to industry reforms. It also considers real people who made real decisions and suffered real losses, in contrast to research that is based on hypothetical circumstances.[4]

Studying a single case is acceptable where that case is chosen appropriately to maximise the potential for learning (Stake, 1995), and in contrast to representative sampling, 'purposely' selecting a particular case is more appropriate when considering a real world problem on its own merits (Patton, 2002).[5] The approach we take is based on elements of grounded theory and narrative analysis. Grounded theory establishes a framework for understanding data after its actual examination, and is concerned with what 'emerges from systematic comparative analysis' through being 'grounded in fieldwork so as to explain what has been and is observed'. Narrative analysis concerns what can be revealed about 'the life and culture' that gives rise to a particular series of observations and associated story (Patton, 2002: 132–133).

## 4. Data

A wealth of qualitative data exists in the public domain with respect to Storm. Firstly, many entities made submissions to the PJCI, broken down as shown in Table 1.

The 168 submissions from Storm investors constitute a form of survey, not as a representative pool of investors, but a select group of those who are interested in the purpose of the PJCI.[6] Any resulting bias is viewed as providing context for the points made rather than a problem per se, as the subjective and personal perspectives on financial loss are informative to us.

Nine PJCI public hearings were held, with details as shown in Table 2.

**Table 1.** Breakdown of submissions to the Parliamentary Joint Committee on Corporations and Financial Services (PJCI).

| Type of submitter | Number of submissions | Number of pages |
|---|---|---|
| Impacted investors from Storm | 168 | 763 |
| Other investors | 74 | 310 |
| Financial advisers/planners | 43 | 486 |
| Other | 71 | 1320 |
| Confidential | 42 | Not known |
| Total | 398 | 2879 |

**Table 2.** 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) |
| [5] 2 September 2009 | Townsville | 112 | 6 (14) |
| [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)[a] |

[a]Australian Securities and Investments Commission (ASIC) and Commonwealth Bank (CBA) representatives and one individual appeared more than once, giving 40 distinct parties and 106 individuals in total.

A group of impacted investors called the Storm Investors Consumer Action Group (SICAG) was formed after Storm's collapse. We contacted this group in 2011 to ascertain interest amongst ex-Storm investors for interviews. As a result, 15 participants (a 'participant' is either an individual or a couple) were interviewed, including two ex-Storm advisers. All interviews were electronically recorded, giving rise to 21 hours of recorded conversation and 402 pages of interview transcripts. All transcripts were checked by us, and sent out to participants within four weeks of each interview for their own checking and corrections.

Observations made by the interviewer during interviews, relating to additional insights not captured within the interview transcript itself, also provided further context for specific perspectives. The observations of others (regulators, banks, advisers, other professional groups, investors and media commentators) provide a useful check of facts and on our perceptions and interpretation of the major themes. We also received a variety of other correspondence throughout this research, including comments from eight financial advisers and seven additional ex-Storm investors, providing another insightful data source.[7]

A summary of the major data sources and the time period covered is given in Table 3.

## 5. Methodology

Developing insights into patterns within the data ('themes') is a key feature of qualitative research (McAlexander and Scammon, 1988; Patton, 2002). Given the advantages of personal interviews in

**Table 3.** 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 | ✓ | ✓ | ✓ | ✓ |

probing these emerging themes,[8] our initial analytical focus was on the interviews themselves. Other data sources were also highly useful, by enabling interview findings to be assessed in terms of significance or credibility, depending on how persuasively certain perspectives were supported or countered elsewhere.

## *5.1. Interpretative approach and validation*

In qualitative research, assurance is required that key themes 'actually have some congruence… with the reality of the phenomenon studied' (Anfara et al., 2002: 29). Although meeting a checklist of criteria and procedures is not sufficient in itself to address this (Freeman et al., 2007), adopting a range of generally accepted procedures is nevertheless useful (see Anfara et al., 2002; Marshall and Rossman, 2010). Our relevant procedures include the use of participant quotations, peer review, purposeful sampling, thick description, member checking,[9] triangulation of data sources[10] and mechanically recorded data. To place this in context, engaging in at least two out of eight named key procedures is considered reasonable.[11]

One critique lies with the select nature and probable bias of those who are willing to write a submission, appear before a public inquiry and/or be interviewed. Issues of exaggeration and/or selective recall of events (whether deliberate or accidental) may feature, and it is reasonable to assume that links exist between the circumstances of engagement with Storm, perceptions of responsibility and reactions to resulting losses. However, this possible bias is not a barrier in drawing out major themes, as these biases relate more to 'how this came to be', as opposed to our focus on 'what happens when'. Also, our adopted approaches above provide some mitigation of such biases.

## *5.2. Presentation of results*

The reasonableness of any analysis can be demonstrated through a systematic adherence to underlying raw data, often by presenting narratives and perspectives in the words of research participants themselves (Corbin and Strauss, 2008; Eisenhardt and Graebner, 2007). Doing so makes the researcher's interpretation understandable to the reader (Patton, 2002), who then has sufficient context to assess their agreement with that interpretation. As such, we exercise judgement as to what quotations are appropriate to include, and give an explicit and transparent aggregation of underlying data into higher level findings. This means that themes can be linked directly back to statements and insights residing in the original data itself. For each theme, these links are presented via tabular summaries, which have two elements in the leading column:

- a statement that describes the point made within the data;
- a brief quotation to indicate why that statement was generated.

We also make some use of summary statistics. We applied a coding process to the PJCI's 356 public submissions, based on whether a submission indicated that a particular impact had occurred, for example, 'impact on mental health'. We also refer to consulting firm Australian Economic Consulting (AEC) Group's submission [154], who surveyed 421 SICAG members in April 2009 and carried out a second survey of 314 members soon thereafter. Such statistics do not substitute for the strength of descriptive analysis, but provides supplementary information where it is not possible to present all descriptive evidence.

Two major themes arose from the analysis. One concerns the impacts on an individual's 'personal' world, which includes both emotive and health issues, and one concerns the impacts on an individual's 'social' world, which includes relationship and community issues. The personal impacts are discussed in Section 6, and the social impacts are discussed in Section 7.

## 6. Personal impacts

Experiencing a traumatic event can result in shock, horror, fear, distrust, stress, withdrawal and a profound feeling of loss. With financial loss, the size of loss relative to wealth and the context of one's expectations with regards to financial affairs are also influential. For example, market losses are especially significant for the baby boomer cohort because of their expectation for retirement to be primarily self-funded (Centre of Excellence in Population Ageing Research (CEPAR), 2012). Also important are the circumstances of loss. Financial losses can arise from a robbery, a gambling loss, poor professional advice, and so on, but each may generate quite different impacts for individuals, even if they are identical in terms of absolute and relative size. When housing arrangements are impacted there is extra financial and emotional stress, especially when moving under duress. Further, it is primarily through housing that bequests are made to other family members (Banks, 2010).

In the case of Storm, the AEC/SICAG survey gives some indication of individual financial losses: 31% of respondents estimated their losses at more than AUD$1m, 59% estimated losses between AUD$200,000 and AUD$1m and 10% estimated losses less than AUD$200,000. Hence, significant individual financial losses have occurred but differences will exist in terms of absolute and relative size, timing of pending liabilities and the means to meet them.

Table 4 highlights two personal features that emerged from all interviews, and many submissions and public hearings: the emotional and mental health impacts of financial loss. Each of these is considered in turn in the following sections.

### *6.1. Emotive impacts*

Financial loss is firstly an 'emotional blow… it is tremendously disorienting, it is frightening' (Mundis, cited in MacDonald, 2002[12]). Reactions can include shock, anger, guilt, distress, confusion, resentment, numbness, disbelief, despair, embarrassment and shame (Better Health Channel, 2012; Iannicola and Parker, 2010). The publicly available data shows that the initial loss was met with strong, yet often varied emotional responses, with 98 of the 168 PJCI submissions made by Storm investors describing some aspect of emotional harm. Furthermore, all 15 interviews involved discussion of how interviewees were still impacted at an emotional level. We examine these emotional impacts in terms of short-, medium- and long-term reactions.

**Table 4.** 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'<br>**Feeling of numbness:** 'I was just numb for probably six months'<br>**Strong sense of anger:** 'They've got to pay for that. That is just not right.'<br>**Fear is apparent:** 'The constant fear of the bleak future ahead with absolutely no financial security'<br>**Frustration:** 'We need to be like a Houdini and get out of it somehow but we don't know where'<br>**Regret:** 'But if we had done in March 2008, what we intended to do… we could see there was problems'<br>**Guilt:** 'we also got our adult children and friends to join Storm, leaving us feeling guilty'<br>**Devastation:** 'I just felt devastated. Totally big hole in your insides. Just totally destroyed' | 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'<br>**Medication and depression:** ' I have been on anti-depressants and sleeping pills for the last 12 months'<br>**Thoughts of self-harm:** 'I have found myself almost suicidal and understanding why people do commit suicide. These thoughts have absolutely terrified me' | **Health** impacts also result | |

*6.1.1. Short-term emotional reactions: shock, numb, anger.* Given Storm's sudden demise, an obvious initial reaction was shock. This was particularly evident when many investors found out directly from the credit provider rather than via Storm that their market positions had been sold. This was often either without their knowledge and/or even against what many perceived as prior instructions and actions to insulate against further losses.[13]

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 from Storm or 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. That this did not occur and that they now faced significant losses and new debt(s) was met with a sense of bewilderment and disbelief. One interviewee recalled reading the statement of advice in the mail, to find out that 'everything had been sold… (I was) so devastated'. This shock was exacerbated by the realisation of their level of personal debt. For many, this was a total unknown up until the point of loss:

> *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. [Interview with Storm investor]

Another aspect to shock was the realisation of what such losses might mean, as the gravity of one's personal situation would sink in:

> It was such a huge shock that it's hard to get over… by the time you got over 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… I have lost like $700,000, $800,000, $900,000 of my superannuation, it's just gone… it will never be recouped. [Interview with ex-Storm adviser]

A predominately short-term reaction to shock is feeling numb to what has occurred, arising from having to face a seemingly insurmountable crisis. One interviewee described the loss as just laying 'you out cold and you don't think there's anything to live for'. Another initial reaction is anger. Not all interviewees indicated that they were angry about what had unfolded, but for those that did, this emotion was palpable:

> 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]

*6.1.2. Reactions when it all sinks in: anger, fear.* The feeling of anger is a longer-lasting reaction than that of feeling numb. This is possibly because anger is a strong emotional reaction in itself, and as such it can be a difficult reaction to move on from. This is attested in the following:

> 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… and I won't forget them… 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 continuing 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. One husband described being 'in tears' as his wife would 'psyche (her)self up to ring (the bank) again' and would herself then 'come off the phone in tears' in response to the conversation that had just taken place. The husband's reaction was that 'they've got to pay for that… whether we owe them the money or not, that is not the way to handle what's going on'.

Anger 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. One investor gave a very honest account of how it has impacted him:

> 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]

Fear has also been apparent, with one couple aged 63 and 62 and facing the loss of their home of 28 years, describing ‘the constant fear of the bleak future ahead with absolutely no financial security’ [submission 202]. Fear can be exacerbated when there is some degree of isolation in other areas of life as well. For example, in submission [283] a solo parent describes their anxiety at being alone and having to work two jobs to avoid the loss of a home, ‘as well as trying to keep up a brave front for my children’. Another investor described the fearful state of her disabled 29-year-old son, who lost his savings and owed AUD$15,000 to pay out his margin loan (public hearing [5]: 106). Such reactions suggest that the impact of financial loss goes well beyond ‘merely money’.

*6.1.3. Lasting reactions: frustration, regret, guilt.* Many reasons for feeling significantly frustrated have been indicated. A first reason is due to what the loss itself represents in return for a lifetime of working and saving, with one interviewee stating ‘to have been so frugal all my life…. I took all my life to save what I had and they managed to get rid of it in 14 months. So it hurts’. There is also frustration with the sense of powerlessness over what unfolded. The investor in submission [21] described ongoing doubt about their own role in their loss, but concluded that ‘we know that there are no answers’. Furthermore, ‘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’.

A major motivation for many to invest in Storm was the desire to be self-sufficient in retirement, in order to have some control in one’s life and give substance to hopes and dreams that had been planned for. Hence, once again what is lost is not just money, but more the ability to deliver on those hopes, dreams and plans. It is this loss of some semblance of self-sufficiency that gives rise to further frustration. One couple spoke of the frustration in ‘having to rely on the Government… we saw our parents go through this type of thing; being on pensions’. Their frustration was even more galling given choices they had made to be self-reliant in many life areas, such as vocational training. As such, their loss is not merely money, but the ability to conduct one’s life in a way that has been representative of their lives and identity up to this point of time. Others commented on issues of security, particularly associated with home ownership, with frustration at now having to ‘work until I die if I want to keep my home’.

A further source of frustration concerns the compromised ability to provide for family. The investor in submission [267] described their despair in losing ‘all sense of security, to lose the freedom of choice, the hurt, the heartache, to lose everything we have worked a lifetime for’, particularly in the context of now not having anything to pass on to their children.

Frustration also arises from not knowing what one’s next steps could be. This conveys powerlessness – control has gone, options are limited and frustration compounds:

> We’ve got no income or anything now… 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… we can’t keep going… yeah, 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]

Another reaction is regret, often associated with not having the opportunity, wherewithal or catalyst to exit from Storm earlier, or at least to stop putting in extra funds when feeling pressured to do so. Another aspect of regret concerns the decision to invest initially. There were two major elements here – one concerning recommendations from others to get involved, and another not heeding the cautions of others:

> 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]

Regret was also expressed with regard to the opportunity cost involved, with one interviewee exasperatingly declaring that 'all the super I put in and I thought I could have spent the whole bloody lot instead of just (losing) it'.

Closely related to regret is guilt, 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, as word of mouth recommendations were common (approximately 75% of Storm's client base was via personal referrals (public hearing [5]: 33)). As the investor in submission [115] puts it, 'people have developed deep senses of failed responsibility in their care of family and friends'. One interviewee even took a quite empathetic stance towards a friend that had encouraged them to invest with Storm:

> 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]

*6.1.4. Overall emotional impact: devastation.* Perhaps the overall emotive reaction is best summed up as devastation, which encompasses a shattering of plans, dreams, hopes and aspirations. For example, the couple in submission [207] described the emotional devastation of losing 'all our life savings, our plans and dreams for the future', and one interviewee stated that 'I didn't feel angry, I just felt devastated. Totally big hole in your insides. Just totally destroyed'.

Although many investors may not be destitute in an absolute sense by lacking life's essentials,[14] neither should this be expected in a developed nation with a functioning welfare system. Rather, the worst possible outcome is that of devastation – in other words, in an Australian context, Storm is close to as bad as it could get.

## *6.2. Health impacts*

Financial strain can exacerbate physical health problems, often through lower engagement with health services or a greater relative cost in being able to do so (see, for example, submission [260]). Health impacts are obviously important for their own sake, but a meaningful participation in one's individual and social worlds also depends on health. One Storm investor stated that '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).

Furthermore, mental health and associated thoughts of self-harm can also be particularly impacted in an adverse manner. Each of these impacts is discussed in the following sections.

*6.2.1. Mental health.* Adverse financial circumstances are frequently linked with mental health issues, such as stress, anxiety, depression and psychological distress (Hunt et al., 2011; MacDonald, 2002). Importantly, any change in circumstances where one has little control over that change can increase the risk of anxiety and depression (Better Health Channel, 2012). As such, financial loss may well be distinctive by generating impacts that are particularly reflective and mentally damaging, especially if an individual blames themselves, is angry with some other entity and/or if it is perceived that this loss could have been avoided. This might be far more marked than with financial loss resulting from an earthquake or a robbery, which may generate a more fatalistic and less reflective response.

Although it is difficult to quantify how many Storm investors have subsequently faced depression, the AEC/SICAG survey indicated that 27% of respondents were taking depression-related medication, and 19% of public submissions by Storm investors indicated an impact on personal health and/or reported a need for medication. Of the 15 interviews, the use of medication was brought up in nine interviews, and the issue of severe depression and anxiety was broached in eight.

*6.2.2. Self-harm.* A tragic outworking of mental health impacts is the potential of self-harm, with thoughts about suicide a possible outcome from financial loss (Better Health Channel, 2012; MacDonald, 2002). SICAG testified in submission [276] that 'sadly, a significant number of SICAG members have talked openly of committing suicide', and nine of the 168 PJCI submissions made by Storm investors indicated that self-harm had been or was being considered. In five of the 15 interviews, thoughts pertaining to suicide and other harmful possibilities were raised,[15] as exemplified below:

> (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]

## 7. Social impacts

A second area of impact concerns an individual's social world. Marriages and close relationships have been impacted, whether a formal divorce, separation or break-up has resulted or not. Relationships with friends and family have also suffered, with a range of negative impacts resulting from very direct judgements and criticisms, or from more subtle changes. In other cases, responses of friends and family have been supportive, with tangible help and emotional support being offered. It may be that the status of a relationship prior to such losses indicates how it will be afterwards, although 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 impact concerns 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. These and other impacts can be due to diminished financial means, or to the emotional bankruptcy now being felt.

Especially debilitating is the perception of judgement from the community at large, which can lead to further withdrawal from society. Overall social impacts have been exacerbated by a 'network' effect, arising from the concentration of investors in family groups and geographical areas. This can result in support networks not being as available or helpful as they otherwise would be. Table 5 summarises how individual quotes and statements built into key themes.

### *7.1. Relationships*

Relationships are a fundamental cornerstone of human experience and, unsurprisingly, increased pressure on household finances can lead to challenges on the quality of relationships (Iannicola and

**Table 5.** 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'<br>**Social circles and families impacted:** 'It's tested our relationship, our friends who you thought were really staunch friends'<br>**Cultural and familial roles: '**It also stops us doing all the sorts of things that we had proposed to do like for grandchildren'<br>**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' | 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'<br>**Complicated by networks:** 'the concentration of Storm clients in regional communities has led to widespread community and client impacts'<br>**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'<br>**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'<br>**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' | Wider **community** involvements impacted for a range of reasons | |

Parker, 2010). Amongst interviewees, there were various indications of marriage stress, with one investor stating that stress associated with the financial upheaval was a significant contributing factor to their marriage breakdown. PJCI submissions have also indicated similar stresses (for example, [93] and [306]). One interviewed husband stated that 'we've never talked to each other so less', and another investor outlines the price that their relationship has paid:

> 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… 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]

Other situations have been adversely impacted due to unresolved issues around allocation of blame for the initial decision to proceed with Storm. One interviewee described their quarrelling because her husband ‘shouldn’t have listened to (our adviser)… I was always sceptical’.

Amongst other interviewees, there was little explicit indication that a relationship had been strengthened through adversity,[16] but one investor did highlight their view that because they had a strong marriage beforehand, it remained strong now.

In terms of relationships with friends and family, some positive experiences have occurred, including financial support. One interviewee also expressed appreciation for the overall emotional support and lack of judgement from friends.

In contrast, a range of negative impacts on relationships have occurred, often from very direct judgements being made. One interviewee spoke of a relative ‘who is so angry she barely speaks to me…. she’s just really angry that I (got into Storm)’. Another interviewee described some friends as ‘pretty awful. I guess you sort of work out who they are then, don’t you?’. This point of friendships being tested in difficult times has rung true for others as well:

> The other sad part also was that (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 (few) years for me. [Email correspondence]

Changes in relationships can also arise from monetary pressures more directly. This can result from the need for extra employment to meet financial demands and time for close relationships being diverted, or from diminished means to engage with former networks.

A common disappointment amongst many of the more mature investors is the inability to now fulfil roles as grandparents as intended. This social role was clearly important to those who had plans in place to provide financially, emotionally and with giving time to subsequent generations. The primary reason that this role could not now be fulfilled was due to financial pressures. However, for another investor it is his emotional state that makes it harder to fulfil such roles:

> *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]

Similar comments were made about the parental role as well as the grandparent role, as well as in the context of extended family. One interviewee expressed concern that ‘a couple of (older) cousins (are) not in a position to, you know… the boot should be on the other foot; we should be helping them’.

## *7.2. Community impacts*

The helplessness felt by one investor has had implications for their involvement in wider, social and formerly therapeutic activities:

> 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]: 90–91]

Whilst such an implication may seem a trivial thing to some, the social interactions and involvement through hobbies or other outlets is essential to any human's overall wellbeing. As well as social limitations arising from a greater vulnerability to mishaps, the loss of money also limits participation in various social outlets more directly. One interviewee described themselves as being 'confined to barracks', because 'I haven't the money to buy the food for entertaining'.

For others, an even stronger factor in increased social isolation has arisen from their emotional state. One interviewee stated that they 'just hibernated. I was too ashamed to go out… your lack of self-esteem'. Another interviewee stated that they do not engage in social activities anymore because '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'.

As well as reduced social participation, social contributions can change as well. Although reductions in community contributions are not the only outcome, an ex-Storm client did highlight the 'ruin that this has forced upon community organisations' through reduced volunteer capacity (public hearing [4]: 85). An interviewee highlighted that they 'had to give up all charities… I used to be in a lot', indicating wider impacts that can eventuate.

Increased social isolation further arises from the 'network' factor of family members and friends getting others into Storm, resulting in less ability for that network itself to now lend support to others. SICAG, other investors and financial planners have attested to this community impact.[17] In other words, there can be less social and geographic diversification of the impact of losses than might otherwise be the case.

### 7.3. Community perceptions

Reactions from the community at large have had a significant impact on investors. Where community reactions are perceived as being laden with significant and negative judgement, the response from investors can be understandably defensive. The impact of adverse community perceptions were discussed in 11 of the 15 interviews, mainly centring on the indignation arising from others' judgement when significant hardship and emotional turmoil is being dealt with; the accusation that investors were greedy; and, as one interviewee stated, being viewed as part of 'a whole bunch of totally and utterly unsophisticated mums and dads who didn't have a clue'.

Many considered it particularly important to defend the accusation that investors were greedy. Several interviewees described the moderate lifestyles that they were accustomed to, including 'never being out of Queensland', living in the same house their whole married lives, not being 'one for flash cars' and, in contrast to Storm's 'grandiose' plans, not being 'extravagant people'. One interviewee described the stigma that still exists in Townsville, where 'there's a lot of misunderstanding' and where Storm investors are all 'put in the greedy basket'. The investor in submission [202] described the shame of being 'judged as greedy, naïve, stupid and worse'. It is apparent, therefore, that perceptions really do matter:

> 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]

Others addressed another public criticism – 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', and that to partake in Storm's strategy, one would have to dispense with common sense. In reference to these perceptions, one interviewee stated that 'we might have had all our advisers in one basket but how many advisers do you have, you know?', and that 'we certainly didn't have all our eggs in one basket… (we were) in index funds'.

Investors also felt indignation as to why others feel they can make judgement on them. One interviewee stated that ‘Australians have no sympathy whatsoever for a financial disaster victim’, and another simply stated that judgements should be left aside as ‘I don’t think the public realise just how devastating it’s been’.

The overall impact of adverse community impacts is to add further shame and hurt, and as such, further isolate many investors. As the investor in submission [306] stated, ‘public opinion has been cruel… these comments has been utterly debilitating, to the point where we feel that nobody gives a damn’.

## 8. Conclusion

Sudden and significant financial loss is devastating, and the case of Storm highlights this in several areas of an individual’s life. In terms of an individual’s personal world, the emotional impact is strong, varied and raw. An initial sense of shock and numbness gave way to strong feelings of anger for many, not just about the losses but also the manner in which those losses came about. Feelings of frustration, regret and/or guilt applied to most of those impacted, and were particularly exacerbated where other family members and friends had been impacted as well. Others felt much fear regarding what such losses meant for their future, and even more so where dependants are involved. An apt summary of the overall emotional impact is a devastation of dreams and plans.

Adverse impacts are particularly pronounced in the realm of mental wellbeing. Examples of stress, anxiety, depression and a need for medication abound, and were explicitly discussed in the majority of interviews. Several talked candidly about their struggles with feelings of self-harm.

In terms of an individual’s social world, relationships are invariably impacted. 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. In some cases, relationships have strengthened. It may be 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 complexity of human experience does not lend itself to universal claims in such matters, and we did not attempt to do so.

A particularly debilitating outcome for many was the decreased ability to now partake in cultural and familial roles in the manner that 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.

Wider social influences are highly influential. For pragmatic reasons such as a lack of funds, involvement in sporting, charitable and other community pursuits can decrease. For others, an increased sense of social isolation relates to the emotional bankruptcy now being felt, or for reasons of embarrassment 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.

Overall social impacts are exacerbated by the ‘network’ effect, arising from the concentration of investors in family groups and specific 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 adverse emotional reactions.

It is apparent that the underlying risks and impacts associated with financial losses can be considered in very human terms. If Australia is encouraging greater self-reliance for financial provision and planning, such impacts highlight the need to factor in the important human risks resulting from major financial losses. There is a clear need for regulatory, professional and commercial entities to be cognisant that fundamental human needs underpin the existence of any financial system, and that the costs of poor outcomes can involve far more than a loss of monetary provision.

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## Notes

1. 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'.
2. Various allegations exist, including borrowers' signatures being witnessed on home loan documents in towns the borrower has never visited; substantial overstatement of investors' ability to make loan repayments; and large margin loans without credit checks (Beaman, 2009; Washington, 2011).
3. However, ASIC's legal pursuit of the CBA for compensation on behalf of Storm investors ceased in September 2012 when it announced that a settlement for compensation had been reached (ASIC, 2012b, 2012c). This compensation of approximately AUD\$136 million was in addition to the approximately AUD\$132 million paid in an earlier CBA resolution scheme (ASIC, 2012c; Marx, 2012). Both settlements were met with some scepticism by investors (Marx, 2012).
4. Various studies ask questions such as 'What would you do if…?'. Certainly such questions can be useful, but we note that 'hypothetical actions are hypothetical, and some might argue that such data reflect cheap talk' (Weber et al., 2011).
5. A detailed discussion of potential design strategies (including shortcomings on too heavy a reliance on adopting certain theoretical perspectives) are addressed more fully by Bruhn (2013).
6. Nevertheless, the volume of submissions is noted: Bernie Ripoll stated that the number of submissions received 'is the largest number (this) committee has ever had and… is an indication of the level of interest in and the importance of what this inquiry does' (public hearing [4]: 1).
7. This correspondence arose primarily from presentations made to date, including ANU colleagues (2011, 2013); a US Society of Actuaries conference (2011); an academic, actuarial and regulatory audience at the University of Auckland (2012); Mutual Life & Citizens (MLC) financial advisers (2014); and the Actuaries Institute Financial Services Forum (2014). It also arose from feedback on two papers published in financial industry journals early in the research: 'Surprises from Storm' (*Journal of Financial Advice*, August 2012), and 'Aftermath of a Storm' (*The Australian Journal of Financial Planning*, March 2013).
8. Personal interviews are adopted by many studies in the area of personal finance (for example, Financial Services Authority (FSA), 2009; McAlexander and Scammon, 1988). One benefit is the potential to explore issues in depth (Patton, 2002), notably when considering real life rather than hypothetical experience (FSA, 2009) and when the phenomenon in question is rare (Eisenhardt and Graebner, 2007). This is because they allow a focus on aspects of the case that emerge as important, as the interview itself occurs (McAlexander and Scammon, 1988), and without the restriction of standardised questions or categories that may be prominent in other approaches, such as surveys and questionnaires (Patton, 2002).
9. Member checking is highly valued (Marshall and Rossman, 2010; Stake, 1995), and we adopted this by seeking feedback from participants on interview transcripts, and from others on industry articles. Although the volume of feedback was not overwhelming (a not uncommon occurrence: for example, Stake, 1995), feedback that did arise was useful, informative and insightful.

10. An additional aspect of triangulation arises through the differing contexts of each data source. In a submission, someone has time to think about what they write. In a public hearing, someone is being questioned verbally by a panel of political figures in an open forum with many others present. In an interview, someone is in an informal setting with an audience of one. The questions being asked are open-ended with little pressure to answer, and there is safety in being able to revisit what has been said and recorded. Across these contexts there is effectively a triangulation of interpretative judgements about any views that are expressed – a tangible advantage when dealing with the 'subtle variations in ongoing human experience' (Denzin and Lincoln, 2005: 21).
11. 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 (Anfara et al., 2002: 30).
12. Jerry Mundis is a former business editor of *The New York Times*, who was suddenly faced with a AUD$50,000 debt and 'no visible means to repay it' (MacDonald, 2002).
13. 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.
14. This is not to underplay the enormous financial strain facing many investors, which may well be more akin to absolute destitution. One interviewee described an elderly lady who 'was crying on my shoulder' at a public meeting, and who had 'absolutely zero possessions… she had to sell absolutely everything'.
15. To clarify: four of 15 interviews involved the discussion of both medication and depression/anxiety, one involved the discussion of both medication and thoughts of suicide, and four involved the discussion of all three of medication, depression/anxiety and thoughts of suicide.
16. Some marriages may have strengthened significantly, but nothing specific was stated to this end. Given the size of the financial shock, it is still early days in terms of post-collapse events and recovery.
17. For example, see public hearings [4: 86] and [6: 70] and submissions [202], [220] and [277].

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