Australia: Financial collapses devastate small investors

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12 June 2007

For the third time in 18 months, an Australian property investment scheme has collapsed, leaving thousands of ordinary people, mostly retirees, financially and personally devastated. The May 28 failure of Australian Capital Reserve (ACR) means 7,000 small investors face the loss of their life savings, totalling up to $330 million. With the earlier collapses of Westpoint, in 2006, and Fincorp, in March this year, almost 20,000 investors stand to lose up to $1 billion.

Worse could be yet to come. Tony D'Aloisio, recently appointed by the Howard government to head the Australian Securities and Investments Commission (ASIC)—the agency that is supposed to monitor the financial industry—said last week that small investors have more than $8 billion in about 83 high-risk, mostly property-based, deposit schemes.

The financial ruin facing thousands of elderly people is one of the consequences of the deregulation of financial services, which has given property developers and others virtual free rein to exploit vulnerable people. More fundamentally, it is the product of the "free market" policies, implemented by conservative and Labor governments alike, that have stripped working people of retirement security and forced them to provide for themselves through various private investments.

For years, all three investment schemes were permitted by ASIC to conduct aggressive and slick advertising campaigns specifically targetting retirees and featuring images of happy older couples. The ads enticed them to inject money in return for high rates of interest, with their investments supposedly fully secured against "first mortgages" over property assets. The ads were designed to tap into retirees' fears about income insecurity, under conditions where it has become impossible to live a decent life on the government's $260-a-week aged pension.

These unscrupulous methods have been common knowledge in business, government and media circles for years. Australian Broadcasting Corporation commentator Alan Kohler last week described the modus operandi of the schemes as follows: "You set up a vehicle for raising unsecured funds to put up a building, give it a secure sounding name and then flog it to unsophisticated people, either through slick advertisements or commissions to sales people who masquerade as financial advisers."

A Melbourne *Age* editorial noted: "Market experts and the regulator could see the crashes coming years ago... Marketing was aimed at older investors (Fincorp investors' average age was 60) and played on their faith in property. Many thought they were investing in a form of mortgage trust and had no idea of the high risk."

In reality, the victims held only unsecured loan notes, while the mortgages were held by the companies themselves, or by the banks and other financial institutions that underwrote the lending. Once the property boom of the past decade began to falter in 2004, falling real estate prices spelt disaster for the schemes, which were based on speculative housing developments and over-priced valuations.

In April 2004, for example, a project called Sydneygate, owned by ACR's parent company, Estate Property Group, in Sydney's inner suburb of Waterloo, was valued at $120 million. The land had been bought in late 2002 for $48.3 million, but Estate boosted its value by producing an "incredible master plan," according to a property valuer, despite a downturn in the market for apartments. Such methods kept ACR's assets ledger artificially healthy, permitting it to hoodwink small depositors, even though regulatory officials were well aware of its misleading practices.

ASIC's D'Aloisio told a Senate committee last week that the agency had had concerns about ACR for seven years, but had never launched a formal investigation. ASIC raised concerns about the "inadequate disclosure" to investors contained in ACR prospectuses, and intervened nine times. But it took only ineffectual action.

From 2004 to 2007, ASIC issued four interim stop orders, yet allowed ACR to keep soliciting for funds. Only in April did the watchdog finally halt ACR's fundraising, making its collapse inevitable. The reasons for the order included failing to inform investors of risk levels, omitting to disclose

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changes in the company's financial position, and overstating profits and net assets from inflated property valuations.

Likewise, in March 2006 ASIC lifted a blocking order against Fincorp, permitting that company to raise a further $72 million from unsuspecting small investors before it went into receivership on March 23 this year, owing $200 million to individuals and $95 million to banks and finance houses. An ASIC analysis of Fincorp's 8,000 investors showed that only 150 had invested more than $200,000, and that the average amount was about $200,000.

In an interview with the *Age*, D'Aloisio sought to justify ASIC's record, arguing that these statistics could indicate that many investors knew of the risks, and had limited their exposure. In fact, the figures confirm that the vast majority of the crash victims were people with only small sums to invest, and who lacked the inside knowledge that larger investors have of the ruthless financial industry.

D'Aloisio also ruled out setting up a special taskforce to consider the issues raised by the collapses of Westpoint, Fincorp and ACR, saying they posed no systemic threat to Australia's $2 trillion financial market. He said ASIC was not signalling a move to stamp out the types of lending on which the failed companies had relied. Debentures were, for example, an "efficient form of raising capital".

D'Aloisio's comments typify the callous indifference within official circles towards the plight of retirees, and their overriding concern to facilitate the operations of the capital-raising markets. Similar contempt has been expressed in the media coverage, with commentators routinely using pejorative terms, such as "unsophisticated mum and dad investors". Noticeably, Prime Minister John Howard, Treasurer Peter Costello and Finance Minister Nick Minchin have made no statements on the ACR scandal.

Last week a group of Westpoint investors rallied outside Prime Minister John Howard's electoral office on Sydney's lower north shore to demand better government protection for self-funded retirees. They denounced Howard, Costello and ASIC, holding placards reading: "Victims of Howard's Fair Go", "Costello's WMID [Weapon of Mass Investor Destruction]" and "Westpoint, Fincorp, ACR. Where was ASIC?"

Like the Labor government before it, the Howard government has kept aged pensions deliberately low—about a quarter of average earnings—and applied stringent assets and income means tests to compel people to pay for their own retirement via superannuation and other investments.

According to the Combined Pensioners and Superannuants Association (CPSA), more than 600,000 age pensioners have an annual income of under or just over $14,000. "The age pension provides around $250 a week [$440 for couples] to pay for groceries, doctor's bills and prescriptions, power, water, transport and accommodation costs, such as rent, council rates, home maintenance and replacement of furniture and whitegoods," the CPSA stated in a pre-budget media release.

Figures released last month by the Westpac Bank and Association of Superannuation Funds of Australia (ASFA) estimated that a couple living comfortably in retirement required an annual income of $47,766, while those seeking a "modest" retirement lifestyle required $25,780.

A 2004 Westpac-ASFA survey found that only one in eight people aged 39 to 60 thought their current savings would be adequate to fund their retirement expectations. Seven in ten said compulsory superannuation payments were not enough to provide an adequate income. More were expecting to work in retirement, and 70 percent believed that governments needed to do more about the ageing population. "The number of people uncertain and worried about their future has grown significantly," ASFA's Philippa Smith commented.

It is precisely these fears and concerns, fuelled by government policy, that have increasingly exposed retirees to the anarchy of the property and financial markets. Various media outlets have expressed nervousness about the resulting social polarisation and disaffection. The *Age* editorial, for example, concluded: "An ageing population means the numbers at risk of losing their retirement savings will increase. Thousands of investors already have every right to feel the system has failed them."

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