

Citi Journalism Awards for Excellence

Broadcast Category

Stephen Long (reporter) and Wayne Harley (producer)

“Bad Call”

Stephen Long’s investigation revealed how companies offering discount phone plans combined with unscrupulous finance companies to cheat customers, in deals worth hundreds of millions of dollars. His **Four Corners** report brought to light compelling evidence of a widespread pattern of misleading and deceptive conduct in the marketing of “telephony bundling” deals. It blew the whistle on scams and corporate malpractice that snared thousands of small business customers nationwide.

The program, based on months of meticulous research, raised serious questions about business ethics, corporate governance and corporate social responsibility - such as, should a major financial institution enforce contracts where there is evidence that people have been misled and deceived into signing the deals, even if the financier was not directly involved in the deception? Why was a major bank signing off on grossly inflated purchase invoices? Was their sufficient due diligence on the part of major financial institutions which found themselves in a business relationship with people who had, in the words of the ACCC chairman, shown themselves by their corporate conduct to be “rogues” and “evil geniuses”.

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In the world of telecommunications it’s called “bundling”. You sign up for a deal that gives you telephone services and electronic goods – in principle there is nothing wrong with that. But in practice, far too often, the marketing of these deals involves deception. The sales rep tells a small business owner they will get cut-price calls and just to make it even more attractive, a computer, a plasma television and a phone system thrown in. They’re either told or tricked into thinking the extra items will be free. Not so: the small business owner discovers they are actually renting the so called “free items” from a finance company for absolutely top dollar.

Then the phone company goes broke. The cheap calls that offset the high-priced equipment rentals disappear. But the small business owner still has to pay up under the rental contract.

If they refuse, the finance company takes them to court and forces to pay tens of thousands of dollars for goods that are worth just a fraction of that amount.

The **Four Corners** story showed that thousands of small business owners have fallen foul to this type of scheme. In some cases, reporter Stephen Long discovered, these deals have been done by misrepresenting the nature of the "bundling" scheme to clients. In other situations, it was straight out fraud. **Four Corners** found evidence that contracts have been altered *after* they have been signed, signatures forged or transposed from one document to another, and goods added to the bill that people never saw or signed for. Finance companies have directly debited money from people's bank accounts without authorisation. And finance companies unwittingly aided the scammers by signing off on grossly inflated purchase orders presented to them by Telco's.

If these were simply isolated cases they would be cause for concern, but found these deals form the basis of a business model employed by many companies across Australia, involving thousands of customers.

The report made public a behind-the-scenes stoush between the ACCC and a major financial institution, Macquarie.

The story had a major public impact. Questions were raised in Parliament and the architect of the business model, whose companies were the subject of widespread complaint and allegations of wrongdoing, offloaded his businesses in a fire sale for a fraction of the amount they had been valued at three years earlier.

Macquarie complained vociferously about the report and vigorously asserted its right to enforce contracts. Yet after *Bad Call* aired, it quietly dropped its controversial litigation against small business customers and settled other outstanding cases on terms favourable its customers.

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TRANSCRIPT

Program Transcript

Read the program transcript of Stephen Long's report 'Bad Call', first broadcast 1 November 2010.

Reporter: **Stephen Long**

Date: **01/11/2010**

STEPHEN LONG: It was a business model that made its owners rich beyond their calling. Harbour side mansions and luxury cars. Telephone deals that promised the earth but left Australia's courts choked with litigation.

GRAEME SAMUEL: You'd have to say that that's ah, clear evidence of evil genius.

LAUREN MAGASDI, LAWYER, ATTWOOD MARSHALL: Multimillion dollars, ah, we could be talking billions of dollars for this. This is a large scam.

STEPHEN LONG: With thousands of customers who've been misled, ripped off, and in some cases, driven under.

CAROLINE STILSON: They look at you straight in the eye and they lie to you. They absolutely lie to you.

MELANIE MILLANE: They're nothing but scum, scum.

STEPHEN LONG: This is a story involving deceit, trickery and in some cases even fraud. Plus, a David and Goliath battle between little businesses and a giant bank.

(To Sally Emsley): What's your feeling about a major company such as Macquarie Bank being involved in this?

SALLY EMSLEY: I think it's disgusting. I think it's absolutely disgusting. They're thieves.

STEPHEN LONG: Tonight on Four Corners, how thousands of people across Australia got scammed by slick sales teams behind the bad call.

Title: Bad Call. Reporter: Stephen Long.

STEPHEN LONG: For at least eight years sales reps have been fanning out across Australia pushing a deal known as telephony bundling. Their target Australian small businesses.

Over the last six weeks, Four Corners has been on the road too, documenting the deception and the damage many telco deals have wrought.

(On phone in car): Yeah, yeah, we're about five mins away, I think.

Today we're on our way to Burleigh heads on the Queensland Gold Coast.

Back from the beach is Nail Affair, a little Beauty Salon run by Caroline Stilson.

But she's had little room to enjoy the surf and sun in the past two years since she got wound up in a new telephone deal.

CAROLINE STILSON, NAIL AFFAIR: A client came into my salon one day and told me about how she joined a telephone company that um, had offered her cheap rates on her phone calls plus for joining their company, she would receive all this free equipment.

STEPHEN LONG: And you thought?

CAROLINE STILSON: Well, it sounds too good to be true, which if, if it sounds it usually is, so I waited a month um, to see whether, for her visit to come back and to see whether she did receive the equipment and whether it was for real, which she said it was, that she did receive the equipment. She was only charged for her month's um, phone calls and that was it. There was no other charges.

STEPHEN LONG: So you decided to contact the company.

CAROLINE STILSON: Yes, well I thought well, great, you know there's my verification that ah what she's saying is true, so I contacted the phone company and they sent out a rep to come and see me.

STEPHEN LONG: The sales rep was from Queensland Communication Company. The rep gave the same spiel. Sign up with the phone company and you'll get cheaper calls plus gifts for free.

Two TVs, a DVD player, a new phone system, all paid for by the power of her own phone bill.

CAROLINE STILSON: Would there be any charge for the equipment? Absolutely not, there is no charge to you for the equipment. You only pay your phone bills. The phone company will pay for the equipment.

STEPHEN LONG: So Caroline signed up. That was a big mistake

(To Caroline Stilson): So Caroline can you show me the supposedly free equipment?

CAROLINE STILSON: Sure this, the TV here, I received two of these TV's, which were supposedly free and this phone system here which has never really worked and I received two hand sets and a DVD player.

STEPHEN LONG: And all up how much was that worth?

CAROLINE STILSON: We retailed it at \$2,800.

STEPHEN LONG: And how much have you paid?

CAROLINE STILSON: Ah, in excess of \$16,000.

STEPHEN LONG: So how did Caroline Stilson end up paying such an exorbitant amount for her free equipment? Well, the sales rep got her to sign a second contract, a rental contract.

(To Caroline Stilton): You signed a contract for the phone services. Did you also sign a rental agreement?

CAROLINE STILSON: Uh, they told me that I had to sign the rental agreement to be able to receive the equipment but not to worry because that actually is paid by the phone company because of the amount of calls that I've made through the phone company, that there would never be any charge, only if I went under a certain amount with my phone bills.

STEPHEN LONG: Not quite. The rental agreement was a completely separate contract with a different company.

A company called Quikfund. Caroline started receiving two bills each month, one for the

phone, and one for equipment. Now Caroline Stilson did get a phone call that ran her through the terms of the deal.

BRAD: Right there Caroline this is Brad here calling in from Queensland Communications just in relation to your application to receive some electronics through Technix Brisbane?

CAROLINE STILSON: That's right.

BRAD: Just going to be going through the electronics as well as the phone system that we are going to be installing for you, and also the call credits and the rental amount that we are going to be supplying you as well.

CAROLINE STILSON: Okay.

BRAD: Two 42 inch plasmas.

CAROLINE STILSON: Yes.

BRAD: One home theatre and DVD.

CAROLINE STILSON: Yes.

BRAD: Two wireless headsets.

CAROLINE STILSON: Yes.

BRAD: This equipment is being provided to your business through a rental agreement through Quikfund and the terms of the agreement I do understand is for the term of 60 months, is that correct?

CAROLINE STILSON: That's right?

BRAD: Excellent, so basically what will happen after settlement date is your nominated bank account or your credit card account will be direct debited with the monthly amount of \$425 plus GST.

STEPHEN LONG: Now that might have alerted the beautician but she heard those words through the prism of what the original sales rep said.

CAROLINE STILSON: When they showed me the um, that contract from Quick Fund, I did query that and that was the first thing I said. I said you, you've got here that um, I'm paying \$456 a month and they looked me straight in the eye again and said no, the telephone company will pay that on your behalf because of the amount of um, phone calls that you make with that company. You will not be charged that.

STEPHEN LONG: But she was and it gets worse. Caroline had signed a five year contract with the telephone company, and that meant she'd also unwittingly signed up to rent her free equipment for five years.

(To Caroline Stilson): And how much do they want to release you from the contract?

CAROLINE STILSON: I've recently received a letter that they will let me out of my contract if I give them another \$20,000.

STEPHEN LONG: So they want \$35, \$36,000 for \$2,800 worth of equipment?

CAROLINE STILSON: Pretty much, yes, that's the only way they'll let me out of the contract.

STEPHEN LONG: And she's not alone.

(To Graeme Samuel): What's the scale of this?

GRAEME SAMUEL, CHAIRMAN, AUSTRALIAN COMPETITION AND CONSUMER COMMISSION: Very significant indeed. We've found far, far too many, literally hundreds if not thousands of small businesses have been caught by these sorts of arrangements.

STEPHEN LONG: For Caroline Stilson the old adage that bad news comes in threes is only too true. Quikfund, the initial party involved in the rental agreement had on-sold the deal to a third party, Enterprise Finance Solutions. And it was Enterprise Finance Solutions that came knocking for the money.

CAROLINE STILSON: Oh they were very nasty. Um, she was very sarcastic on the phone. She said well I hope you've got a copy of your contract. You don't have a leg to stand on. Um, see you in court. Very nasty, very sarcastic, whatever. You know, they were very blasé, it was really very cocky, like well many have tried and many have failed. You're just going to be one of them.

STEPHEN LONG: Caroline Stilson found herself caught up in a maze of companies. Although she signed up with Queensland Communications Company, when things turned sour, she found herself dealing with yet another entity.

CAROLINE STILSON: I dealt with Clear Telecommunications. That was for, with my phone company. Then I dealt with Quikfund because that was with the equipment and then when there was a dispute with payment, I dealt with Enterprise Finance Solutions, and they're the people that are coming after, are wanting payment for the equipment.

STEPHEN LONG: These deals that wrap in phone services and equipment works for some. But they've become a source of controversy.

The business model was devised by Tony Hakim, a Sydney businessman, in the late 1990s.

It's called bundling and it works like this. You sign up with a Telco for say, five years, and you get equipment, TVs, phones, laptops, you name it.

Now the equipment is never free, though the sales pitch might imply it, you rent it for absolute top dollar, big money.

But you do get discounts off your phone bill, known as call credits. And in theory they offset what you pay for the equipment. But here's the catch.

If the Telco goes bust, you lose your phone service, you lose your telephone bill discounts, but you're stuck in an expensive rental contract for the equipment which you might well have been told was free.

And in practice, the system is prone to corruption. As we'll see, it's been chronically abused, manipulated and as industry insiders like to put it, mis-sold.

LAUREN MAGASDI, LAWYER, ATTWOOD MARSHALL: At no stage were the clients told they were ever paying for the equipment. They would basically be paying for telephone services and the equipment would be free or as a gift or as an incentive or a thank you for taking on the telephone services.

STEPHEN LONG: In 2002, Tony Hakim's National Telecoms Group was the sponsor of the Canterbury Bulldogs. The Bulldogs were on top of the National Rugby League comp. They won 17 straight games. But their season ended in shame.

(News footage)

SPOKESMAN: The Bulldogs have revealed today a quite deliberate, elaborate system of payments to players, designed to avoid detection by our salary cap team.

(End of footage)

STEPHEN LONG: The club was stripped of its competition points and relegated to the bottom of the table for salary cap rorts.

NTG had its come-uppance too. In 2003, the ACCC prosecuted Tony Hakim's company for scamming small businesses. NTG admitted it had misled and deceived customers, telling them they'd get equipment for free. Wounded, Tony Hakim withdrew into the shadows.

But a raft of new telcos sprang up, many run by his friends, family members, and former business associates. Though there's no evidence that Tony Hakim was directly involved. They were all offering bundled deals, and pretty soon the complaints against them were mounting.

GRAEME SAMUEL: We're dealing with potentially tens of millions of dollars of money that's involved and potentially significant losses to small business that they can't afford.

STEPHEN LONG: Graham Samuel heads the ACCC, the Australian Competition and Consumer Commission.

Two years ago it launched a new Federal Court action against 28 parties involved in the telco-finance deals and the litigation is ongoing.

(To Graeme Samuel): Is there evidence of misrepresentation even fraud in this?

GRAEME SAMUEL: The, the, the, the issue that we're investigating at the moment suggests that at the very least small businesses, ah small businesses are being misled. Either being misled by misrepresentation or being misled by omitting to state what the realities of the contractual arrangements are.

STEPHEN LONG: One of the companies being pursued by the ACCC is Worldtel. Its Melbourne office has long been abandoned but at its height it had more than 2700 customers.

The legacy of Worldtel's conduct is only too apparent in Woodend, halfway between Melbourne and Bendigo. During the gold rush, it was a staging post for prospectors. Four years ago, it became a goldmine for the copycat company, set up by former staff of NTG. A Worldtel sales rep hit the town in late 2006 and found a rich vein of local businesses to mine.

There was Schatzi's, the local restaurant. Badger Removals. The Local Cleaners. But nothing compares to the way Sign Obsession was conned.

MELANIE MILLANE, DIRECTOR, SIGN OBSESSION: Oh I'm, I'm annoyed and I'm angry and I cannot believe that anyone could have the gall to turn up and walk into your business and be your best friend, yet know every minute and every second that they're in there, they're stabbing you in the back, and they're going to walk away and you could lose everything.

STEPHEN LONG: Melanie Millane and her husband run the business which makes big commercial signs. Incredibly, they were stung for rent on a piece of equipment they already owned.

MELANIE MILLANE: Well this sales person had more front than Myers. She would pretty much turn up here every day. The machine of course was in the office. I've gone out to make her a cup of coffee, she's taken down serial numbers off the machine, the name of the machine, the model number of the machine, and all of those things she's then taken with her back to the office and filled out on pieces of paper I've never signed.

MELANIE MILLANE: We finally get the contract through from this telephone company with the details of this machine we'd already owned and then they were chasing up money for it through a finance company we'd never heard of.

STEPHEN LONG: To add insult to injury, the finance company threatened to repossess the machine.

STEPHEN LONG: And what did they want you to pay for this machine that you already owned?

MELANIE MILLANE: \$20,000, they were then asking back for a machine I'd already owned.

STEPHEN LONG: Melanie Millane cancelled the direct debits and formed an alliance of Woodend locals who began taking legal action.

MELANIE MILLANE (at alliance meeting): We've all got our own finance people, if you want to finance something you ring your finance company. They've come in and all they've talked about is their telephone and we'll give you equipment.

MAN: Well the thing is, as the solicitor said, it's the biggest case of fraud he's actually seen, remember. But still nothing has been done to this point by anyone, so what are these guys running from.

STEPHEN LONG: What is certain is the cost.

WOMAN: All told, probably about \$27,500.

STEPHEN LONG: Andria?

ANDRIA: At the present time probably about \$56,500.

LAUREN MAGASDI: I think it's a scam, I really do. I think that a lot of clients have been misrepresented as to what they signed into. They were fraudulently told information that they shouldn't have been told. They signed documents that were fraudulently altered at a later stage, um, forged signatures that were put onto their, their contracts that they didn't know about. Never even received copies of contracts in some cases.

STEPHEN LONG: At Woodend, some of the businesses have had their credit ratings tarnished and been blackballed for finance, for refusing to pay the disputed bills. Burned at every turn.

STUART BRADY: People don't understand that when these things come along with small business, it's gut-wrenching. It's just eats its way. You work your wringer off for these parasites to come along and they promise you the world to make your life easier and stick it up the big boys, an um, they're not stickin' it up the big boys, they're just sticking it up the little blokes, that's all their doing.

STEPHEN LONG: By late 2006, Tony Hakim was back in the game. Cashed up, he gathered together a series of companies under the banner of his Clear Communications Group and headed to London with ambitions to expand in Europe and the UK. Hakim set himself up in this penthouse overlooking the Thames River.

DYLAN CROWE: The residence was a beautiful home. I mean, it was a penthouse apartment. You know, five bedroom type stuff. So it was great.

STEPHEN LONG: Dylan Crowe is an Australian based businessman who found himself dealing with Clear Telecoms both in Australia and London. On the Gold Coast, his company had initially signed with Axis Telecoms, on a promise that its monthly bills would be strictly capped at \$6000.

DYLAN CROWE: the reason why we signed up is because of th-that capped service. We, the, we, our business operated on the phone 24/7 essentially. You know we were spending quite a significant amount on our telephone bills and it made sense for us you know, to have a capped service in place.

STEPHEN LONG: Within months, Axis was taken over by Clear. Dylan Crowe headed to London to expand his business. Hakim's Clear Telecoms said they could help him out there, and at first they laid on the charm.

DYLAN CROWE: I was picked up from um, the local tube station in a in a brand new Mercedes and eh it felt great to start off with, went to a massive office. You know, there was 30, 40 people buzzing around. And ah you know it looked like they were doing business.

STEPHEN LONG: But it soon went sour. First, back on the Gold Coast the supposed \$6,000 capped phone plan that Dylan Crowe's company had signed up to, had gone ballistic.

DYLAN CROWE: Look, the bills eh, met our expectations for about the first six months,

um and then, you know, after that it, it skyrocketed ah from \$6000 odd to about \$30 000.

STEPHEN LONG: In London, Dylan Crowe was at the time sharing a flat with a Gaby Khoury, a senior manager within the Clear Communication group. Khoury offered to call Dylan's business partners back in Australia. In the course of the conversation he made startling claims about the way he did business.

GABY (Actor's voice): First thing you've got to understand this is a game of survival. It's called survival. The fittest will survive. The smartest will survive. If you were my client and you f**ked me, the first thing I do is I cripple you. I will block outgoing calls, I will immediately cripple your business.

Don't be fooled they got the best boys at the moment out there collecting every dollar and forging every contract. We gotta play hard. We got to play smart. And when I mean hard I mean very sly.

STEPHEN LONG: Not surprisingly, Gaby Khoury wanted the conversation kept quiet.

GABY: I'm trusting you guys, because if not and you guys f**k me, I'll chop Dylan up and I'll send him to you a piece at a time.

STEPHEN LONG: A threat in jest perhaps, but the flatmates became foes when Dylan Crowe disputed his ballooning London phone bill.

DYLAN CROWE: Gabby demanded that I pay the phone bill, um, and, and said that you know if I don't f-f, pay the phone bill then he'll damage my credit rating in London. He threatened me with a range of other things personally as well if I didn't pay that phone bill.

STEPHEN LONG: What did he threaten you with?

DYLAN CROWE: He threatened me you know, with harmful action. Ah, you know, threatened me violently.

STEPHEN LONG: Physical violence?

DYLAN CROWE: Absolutely.

STEPHEN LONG: Dylan Crowe eventually returned to Australia and via Facebook, Gaby Khoury pursued him all the way home.

(Text on laptop): Cocksucker, I will find you one day.

STEPHEN LONG: Clear Telecoms says Dylan Crowe's former company, Prosperity Group, breached its fair use policy, by vastly increasing the number of calls it was making. Prosperity Group says it had made it very clear that it would be moving to a new Gold Coast office, and doubling the number of phone lines in use.

Yet it received an absolute assurance that its bills would be capped at \$6000. It's now taking legal action

STEPHEN LONG: How much is that costing?

DYLAN CROWE: It's well over 350,000. So real money too.

STEPHEN LONG: Down the highway from Dylan Crowe's office on the Gold Coast is the law firm, Attwood Marshall.

Lawyer Lauren Magasdi has been pursuing telcos and finance companies on behalf of hundreds of small businesses across Australia.

LAUREN MAGASDI: It's huge. It is huge. Our particular assessment, um, our initial assessment of our action when we had over 300 claimants was somewhere in the vicinity of 70 million.

STEPHEN LONG: One of the areas worst affected was the South Australian town of Murray Bridge.

STEPHEN LONG: How big are the claims in Murray Bridge?

LAUREN MAGASDI: They range anywhere from about 6,000 to about 180,000. I think that they were one of the hardest hit. In terms of the claims, they're probably the largest claims.

STEPHEN LONG: A company called Fresh Telecoms hit Murray Bridge from one end to the other. Fresh Telecoms was owned by a former bankrupt, Tom Ford.

In the town where the Princes Highway crosses the Murray River, up to 60 per cent of the small businesses got stung, including the community club, the racing club and the golf club, where it's still the talk around the bar.

STEPHEN COCKS, MGR, MURRAY BRIDGE GOLF COURSE: A phone call originally and then we had a person drop in and say to us, great deal for you.

DES GOMMERS, OWNER, GOMMERS TRANSPORT: It was a deal that was too good to be true. And it just turned out that way. (laughs)

STEPHEN LONG: Fresh Telecoms signed up half the town, but none got hit as hard as Des Gommers.

DES GOMMERS: There was a lot of deception and the deception wasn't limited to the people who were selling it. The deception was also with the finance companies being in cohorts with these people. And some very, very clever people manipulating the system then pulling the pin and running away with money.

STEPHEN LONG: Fresh Telecoms went bust in July, 2008. That left people like Des Gommers stuck in a rental agreement with a monumental demand from a finance company.

DES GOMMERS: It's conduct that's reprehensible.

STEPHEN LONG: And when they rang up demanding full payment, what was it, more than a \$100,000?

DES GOMMERS: Yeah \$132,000 the, the gentleman asked for and ah, I said to him that I needed some paperwork. He said 'No well, we want the money in seven days and you have to pay it' and he said 'If you're prepared to take the details I'll give you the bank account number over the phone now' and I said to him, I said 'Mate I said if you think that I'm going to pay you \$132,000 for what I now believe is a scam and pay it without any paperwork or any formal releases, you must have a substance abuse problem'. And he said 'What do you mean' and I said 'Well you're obviously you're on drugs if you think I'm parting with that sort of money'.

LAUREN: This is Des Gommers, this is one of our clients. This was the invoices that were given to them, so this is an invoice from Technology Leasing for an NEC Phone System. Technology Leasing priced it at \$63,254. The actual value was \$13,000.

STEPHEN LONG: It was then that Des Gommers and his lawyer discovered the true scale of the deception. The finance company had signed off on grossly inflated invoices for equipment purchases from Fresh Telecoms.

LAUREN: Ah the Nokias, Nokia 6120 with in-car kits.

STEPHEN LONG: So these are the mobile phones?

LAUREN: Mobile phones, \$16,920 for the mobile phones. The actual value \$4,566.

STEPHEN LONG: So they're being charged, basically triple or more the retail value.

All up Des Gommers was being charged in excess of a hundred thousand dollars for

equipment that was worth around \$40,000. Equipment that he'd been told was free.

DES GOMMERS: Well a lot of these finance companies I believe have been have been basically complicit in this fraud and it is a fraud. Ah, these people knew what they were doing.

STEPHEN LONG: There were some very big name finance firm propping up the deals in Murray Bridge. The manager of the local golf club found himself on the receiving end of a harsh call from the bank known as the millionaire's factory.

STEPHEN COCKS: I received a phone call from a gentleman by the name of Rudd. I can't, can't remember his first name ah. but his name was Rudd and he was quite rude and threatened all sorts of things to say 'Well look if you don't pay this you'll go to jail' and all these types of things and, and actually it was um, a good conversation ending because there's a few words said and hung up on him, mm, mm.

STEPHEN LONG: So you were actually threatened with jail?

STEPHEN COCKS: Yeah that that was from Macquarie.

STEPHEN LONG: Macquarie, home to the highest paid executives in the country. The leasing division behind these deals is the fastest growing part of Macquarie's empire. It had a formal agreement with Fresh Telecoms whose owner, Tom Ford, had worked at NTG.

SALLY EMSLEY, FMR FRESH TELECOMS SALES REP: Macquarie was very very close with Tom Ford.

STEPHEN LONG: Sally Emsley worked for Fresh Telecoms in Adelaide. Initially cold-calling customers, later going out to do the deals.

SALLY EMSLEY: I've actually found a whole heap of paperwork from when I use to work at Fresh Telecoms.

STEPHEN LONG: She says she learned just how close the relationship with Macquarie was when Fresh Telecoms held a conference for its staff.

SALLY EMSLEY: We had a, um, conference weekend and we had two reps from Macquarie that came and explained um, the relationship, that it was um, they were specific in dealing with Fresh Telecoms.

STEPHEN LONG: What kind of advice did those Macquarie representatives give you at that conference?

SALLY EMSLEY: Just to make um, light of the whole contract.

STEPHEN LONG: And Fresh Telecoms did just that, focussing on the free goodies.

SALLY EMSLEY: We were told focus on the equipment because you know, when people can see a plasma sitting in front of them or a surround sound or they wanted a boat, or they wanted a \$5000 cheque or they wanted a shed, you know, it was um, that's what they focus on. It wasn't you're signing your life away.

STEPHEN LONG: And they were told that that equipment came for free.

SALLY EMSLEY: Yes. The only page that the customer would actually see is where they had to sign.

STEPHEN LONG: So the customer didn't know what they were signing up to, they only got the page that said sign here?

SALLY EMSLEY: Yep.

STEPHEN LONG: Sally Emsley says Fresh Telecoms sales people were schooled in techniques to hide the fact that people were signing a rental contract and Macquarie's

involvement.

SALLY EMSLEY: The rental agreement um, was in a whole heap of paperwork and we were told to take the front cover of the Macquarie um, rental agreement off so that they didn't actually see Macquarie Financial contract.

STEPHEN LONG: So you deliberately hid the fact, you were taught to deliberately hide the fact that people were signing up to a rental agreement.

SALLY EMSLEY: Yes.

STEPHEN LONG: We heard similar stories from a number of insiders, but few were willing to speak out. We've disguised the identity of this man who worked for other companies. He was appalled by practices in the industry.

MR X: I was told that I needed to ah, clean this equipment and I later found out that um, the equipment was actually getting resold as new to ah, to customers which is obviously very fraudulent.

STEPHEN LONG: And he says sales staff routinely made the deceptive claim that tricked so many

MR X: That all the equipment in the deals was going to be free. That they would be able to obtain free televisions simply by signing um, up with their um, their phone numbers and phone lines.

STEPHEN LONG: So it was quite clear, sales staff were calling people up and telling them the equipment was free?

MR X: Definitely they said it was free.

(LINEMARKERS AD)

VOICEOVER: Linemarkers Southeast Queensland provide carpark, traffic and safety systems such as line marking, paint removal, signage, wheel stops and speed humps.

ANDREW PERRYIN: For nine years we've been providing specialist occupational health and safety services to factories and warehouses.

(End of footage)

STEPHEN LONG: Andrew Perryn runs a company in South-east Queensland that does line markings for factories, car parks and shopping centres. It's one of more than 170 small companies that took action against Macquarie in the Federal Court. Most settled. Andrew Perryn is among a small number fighting on.

ANDREW PERRYIN, DIRECTOR, LINE MARKERS: The um, involvement of Macquarie in the Fresh deal was never really declared to us when we were signing the contract. Um, we would, the question was who was you know, who's this with and they were just portrayed to us as being their financiers.

STEPHEN LONG: And it was never made clear that if Fresh Telecoms went broke, he would be left owing Macquarie big money under an equipment rental deal.

ANDREW PERRYIN: My real concern was that I'd never heard of Fresh Telecoms before and so I actually asked the question during the process 'What happens if you know the company falls over?' He said 'Well ah, you know, that's the best part of this thing, if it falls over what will end up happening is you will pay a nominal amount for the ah, physical equipment, maybe a dollar, and we just walk away. You've got the whole thing and you're done and dusted'.

STEPHEN LONG: But Macquarie continued to demand rental payments of \$558 dollars a month.

STEPHEN LONG: How much all up were you having to pay under the contract?

ANDREW PERRY: In total, the actual contract was something like \$34,000. The actual value of the goods that really the contract's written for is about \$6,000.

STEPHEN LONG: A huge mark up.

ANDREW PERRY: It is and particularly when part of the conversation I had with Macquarie when the ah, Fresh Telecoms fell over was to ask them about that gap and the man said that ah, the man at ah Macquarie Bank assured me that due diligence is done on every single contract and that they are required by law to make sure that they only pay out the right amount of money.

STEPHEN LONG: The financial companies involved in this, what's your opinion of the due diligence that they undertook?

LAUREN MAGASDI: Mm, what due diligence? Ah they, they should have done due diligence. They should have undertaken proper searches and proper avenues to make sure that the equipment was actually the equipment that the clients were contracting for. These companies should know that this equipment was not at the same value as what was on the invoices.

STEPHEN LONG: So what incentive could there possibly be for finance companies to sign off on inflated invoices?

Well they put a margin on top, often about 10 per cent and 10 per cent of 34,000 is a lot more than 10 per cent of 6000. The bigger the invoice, the bigger the profit for the finance company.

STEPHEN LONG: The willingness of finance companies to accept inflated invoices plays into the hands of rogue Telcos. The figures are ramped up, the Telcos get paid the money upfront, reap millions of dollars, then sometimes mysteriously collapse.

GRAEME SAMUEL: The worst part about it of course is that, ah, under the arrangement that the Telco company enters into with the finance company, ah, the Telco company receives a cash sum upfront, a capital sum and then like a phoenix disappears.

And then suddenly the small business consumer finds that he is no longer dealing with the Telco that he thought he was dealing with, he's no longer getting the service that he thought he was getting, but lo and behold he's got a continuing rental arrangement, financial rental arrangement with a finance company that he, he never knew about.

STEPHEN LONG: Small businessman left completely in the dark about their liabilities under these deals have turned to lawyer Simon Nunan.

A go-to guy for people shocked to find themselves owing money to a division of Macquarie Bank.

SIMON NUNAN, DIRECTOR, EASTERN BRIDGE LAW: None of the documentation that the customers were asked to sign in the cases I've seen had Macquarie Equipment Rentals' name written on it. That includes the direct debit forms.

Um, I've seen direct debit forms that have been stamped with Macquarie Equipment Rentals' ah, name and, and direct debit system user ID after being signed by the customer. That may or may not be proper. That's really a matter for Macquarie Bank to assess because Macquarie Bank's responsible for supervising Macquarie Equipment Rentals as a direct debit system user.

STEPHEN LONG: So it may be the case that Macquarie doesn't have valid authorisation to be taking money out of the people's accounts?

SIMON NUNAN: In my mind there's a question as, as to whether or not a direct debit ah, form that's been signed in those circumstances is effective.

STEPHEN LONG: Four Corners has obtained a Macquarie direct debit that appears to be forgery.

It's dated 10th of May 2007 but made out for a branch of the Bendigo Bank that didn't actually exist until 18 months later. The direct debit was part of a rental deal made by Quikfund, acting as an undisclosed agent for Macquarie.

GRAEME SAMUEL: They have an obligation it seems to me to actually determine who they're dealing with, ah to determine if they're right and they're proper and determine if the transactions they're involved with are appropriate ah, and are legal and or ethical. You'd expect particularly the more reputable finance companies to actually try and assess who it is that they're dealing with, to make sure that they're not dealing with rogues, ah, with evil geniuses ah, as, as, as some have described them. Ah and, and so that that in a sense in, in, in my view raises the moral bar, it raises the ethical bar for the finance companies.

STEPHEN LONG: The courts have been choked with litigation by finance companies pursuing small businesses caught up in these deals. In the Downing Centre Local Court in Sydney, the cases number in the thousands. Macquarie alone has sued more than 300 small business customers.

SIMON NUNAN: A barrister mate of mine made the comment there's two applicants in the in the local court in Sydney. There's the Queen, she brings the, the criminal cases, and there's Macquarie Equipment Rentals, they bring the civil cases.

STEPHEN LONG: And it's continuing to litigate despite the pleas of the ACCC chairman, Graeme Samuel.

(To Graeme Samuel): So you made representations to Macquarie at the highest level with the Chief Executive, Nicholas Moore, and it's still prosecuting people through the courts?

GRAEME SAMUEL: Er and, and I have to say to you this is a source of great disappointment to us. I'd like to think that when ah, the Chairman of the ACCC approaches the CEO of a major organisation like this and says um, based on all my own commercial experience and base on what um, we, we believe ah at the ACCC is a fair and reasonable way forward, that they'd listen to it and react receptively. I have to say we're not encouraged by their reaction at this point in time.

STEPHEN LONG: And it wasn't like that back in the day when Graeme Samuel was with Macquarie.

GRAEME SAMUEL: There was always an assessment made of whether this is the appropriate person that we, ah this was Macquarie Bank, wanted to deal with. You'd expect the same position to arise today and then you'd expect that ah, either transactions would not be entered into with people that are have demonstrated certainly with their corporate history to be rogues, ah and then furthermore, if transactions are entered into with them, that you would deal with consumers in a fair manner.

STEPHEN LONG: At a workshop in south-western Sydney, Greg Stevenson fits cars with souped up exhausts.

GREG STEVENSON, MD, SUREFLO EXHAUST (inspecting a car): Do a two and a half Poly Stainless system. Nice polished mufflers at the back here. Up the front here it's pretty ordinary. Gotta allow for a slip joint so we can pull that section out so it goes through the cross member.

STEPHEN LONG: Two years ago he found himself fitted up by the Telco-finance men. His problems began when he signed up with an outfit called Truscom with the usual inducements of so-called free equipment.

GREG STEVENSON: We signed up and we, we got the equipment and um, we were with them for about eighteen months and then um, all of a sudden the, the phones stopped working.

STEPHEN LONG: It's then he found out he'd been charged for equipment he's never received.

GREG STEVENSON: This is a copy of the contract that the finance company sent me. It's all the same except afterwards someone's fraudulently added telephone diallers by eleven.

STEPHEN LONG: So that was adding in afterwards, a forgery!

GREG STEVENSON: That's right, yep.

STEPHEN LONG: How much did that cost you, the eleven telephone diallers?

GREG STEVENSON: It took a lot of correspondence to get it but they've charged me nearly \$10,000 plus GST. \$11,000 for something I didn't get.

GREG STEVENSON: When I first found out that I'd I got caught, um I felt embarrassed and my wife sort of um, rubbed it in you know how, how could you be so stupid, but later on we found that there's up to forty thousand small businesses who have been caught out in this scam and there's at least um, two or three solicitor's firms who have been caught. And they deal with contracts every day of the week, so you know what hope has a mug punter got?

STEPHEN LONG: Well he was one mug punter who wasn't prepared to cop it. A year ago, Greg Stevenson made it his mission to expose the companies involved through the Telco-Finance scam website. The response has been overwhelming.

GREG STEVENSON: We've had about 4000 emails from lots of different victims.

STEPHEN LONG: 4000?

GREG STEVENSON: That's right. And a lot of the stories are just heartbreaking, you know. People have died, companies have wound up, people have gone bankrupt, they've lost their properties, their homes.

STEPHEN LONG: Have you spoken to any of the business people involved in this and put it to them 'Don't you think you should be feeling remorseful about what you've done?'

LAUREN MAGASDI: I have spoken to a couple of people and I've asked them similar questions and their usual response is 'It's just business, at the end of the day it's just business'.

GREG STEVENSON: There's new companies opening you know just about every other month, so even though the ACCC is prosecuting twenty eight companies, there's probably another hundred companies that that haven't been prosecuted and this scam goes on today.

STEPHEN LONG (on the phone): Tom Ford? Ah, Tom. My name's Stephen Long from Four Corners at ABC Television. We'd like to speak to you about Fresh Telecoms. We're hoping to arrange an interview...

STEPHEN LONG: We never did get that interview with Tom Ford, or with Macquarie, or despite long negotiations, with Tony Hakim. Fresh Telecoms is in liquidation, but Tom Ford rents this multi-million dollar apartment by Sydney Harbour.

Mr Hakim lives a lavish lifestyle at his home in Hunters Hill, one of Australia's richest suburbs.

(Strathfield Car Radios ad)

VOICEOVER: How would you like a new BMW? How would you like a new mobile phone? You could have both.

(End of footage)

STEPHEN LONG: Two years ago his Clear Group took over Strathfield Car Radio. It's now offering bundled deals in partnership with Quikfund. We've heard no complaints, though curiously, they did try to sign up Greg Stevenson.

GREG STEVENSON: They actually came out and tried to sell that same package to me two or three times and they've rang me probably about ten times trying to get me to sign up.

STEPHEN LONG: The telephony bundling model does work for some customers but it's clear that many people have no idea what they're signing up for.

Thousands of people have been deceived and misled by slick salesmen selling the deals.

And some players in the industry have engaged in downright fraud.

LAUREN MAGASDI: This case goes far beyond just sitting in the courtroom, it is a big case.

STEPHEN LONG: So what are you saying there? Do you think that really this should be a matter for criminal investigation?

LAUREN MAGASDI: I do believe so yes.

STEPHEN LONG: What do you think of the people behind these Telco finance scams?

MELANIE MILLANE: They're nothing but scum. Scum. That's what they are.

STEPHEN LONG: What would you say to any small business out there who has someone approach them offering a bundled telephone contract?

GRAEME SAMUEL: Don't, don't deal.

[END OF TRANSCRIPT]

Return to program page: ["Bad Call"](#)

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