

The background is a complex, abstract collage of various images. It includes architectural elements like a classical building with columns and a modern skyscraper. There are also portraits of people, including a smiling woman. Financial symbols such as dollar signs and currency notes are visible. Technological motifs like circuit boards and binary code (0s and 1s) are interspersed throughout. The collage is composed of many overlapping, semi-transparent rectangular and square fragments in shades of green, teal, and yellow, set against a dark background.

Banking Ombudsman
annual report

11
12

Trust us to be fair



20

years

Scheme participants

(as at 30 June 2012)

ANZ National Bank

ASB Bank

Bank of Baroda New Zealand

Bank of India New Zealand

BNZ

Citi New Zealand

Credit Union Baywide

Credit Union South

Heartland

HSBC New Zealand

Kiwibank

Nelson Building Society

Rabobank New Zealand

SBS Bank

TSB Bank

The Co-operative Bank

Westpac

*(plus related companies,
subsidiaries and staff financial
advisers)*

20,000+
cases completed

\$36.9million
in compensation

62,000+
banking customers helped

3
Ombudsmen

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The Banking Ombudsman

Established 1 July 1992

Over \$890,000
compensation
facilitated for
customers

Award of
\$100,000 for
direct losses

scheme
participants

The Rt Hon Sir
Gordon Bisson
first Chair

First award issued
against a bank

First dispute
completed on 14 July
1992, involving unfair
treatment in relation
to a cheque account



**Nadja
Tollemache**
first Banking
Ombudsman

6 staff
241
cases received

Computerised
case management
system introduced



Liz Brown
second Banking
Ombudsman
– July 1995

Inconvenience
award of \$1,000
introduced

First newsletter
published

705
cases received

**Hon Sir Ian
Barker QC**
second Chair
– Sept 1997

Second award
issued against
a bank

First complaint
about computer
banking services

First case note
compendium
published

Award for
inconvenience
increased to \$2,000

Terms of reference
amended to decline
jurisdiction when
the bank has made
a reasonable offer of
compensation

Substantial increase
in complaints about
early repayment costs

First mystery
shopper survey

First external
review

Start of decline in
complaints about
cheques

Awards increased to
\$120,000 for direct
losses (\$150,000
for insurance-related
cases) and \$4,000
for inconvenience

1112
cases received



**92
93**

First edition
of the Code of
Banking Practice
– Jan 1992

**93
94**

Consumer
Guarantees Act
1993 enacted

Privacy Act 1993
enacted

Cheques most
popular method of
non-cash payment
in New Zealand
(54%) – credit
cards only 5%

**94
95**

Around
1000
ATMs

Around
11,000
eftpos
terminals

Second private sector
dispute resolution
scheme established
(Insurance and
Savings Ombudsman)

**95
96**

**96
97**

Second edition
of the Code of
Banking Practice
– Nov 1996

Financial
Transactions
Reporting Act
1996 enacted

**97
98**

The Asian crisis
starts

First electronic
banking service
launched

**98
99**

Most of Code of
Banking Practice
extended to
cover small,
medium-size and
farming business
customers
– June 1999

Rapid drop in
interest rates in
second half of
1998

**99
00**

**00
01**

Dotcom bubble
burst

**01
02**

12

scheme
participantsResults for
individual
participants
first publishedSecond
independent
audit of
investigation
process

12 staff

First website

Facilitation
process
introducedLowest
number of
cases since
96/97766
cases receivedReview of the
scheme by Hon
Anand SatyanandNew time
targets set for
investigations:
40% of cases
to be resolved
within 60
working daysAwards increased
to \$200,000
for direct losses
and \$6,000 for
inconvenienceBanking
Ombudsman
Scheme Limited
established July
2007Two ING
investment funds
frozen in March
2008 generating
a systemic issue
spanning five
yearsThird award
issued against
a bank715 disputes resolved
– highest number of
cases and disputes
ever handled

21 staff

Deborah Battell
third Banking
Ombudsman
– Aug 2009Online complaint
functionality
added to websiteBOS leaflet
translated into
five languages1924
cases receivedWaiting list
introduced in Jan
2009 to handle a
very rapid increase
in workloadNew website
launched
bankomb.org.nz

17

scheme
participantsFirst complaint
via facebookThe last ING dispute
completed; giving a total
of 684 related disputes
and \$26,481,393
compensationQuick guides
launched1587
cases receivedMinister approves
BOS as dispute
resolution schemeScheme opened
up to non-bank
deposit takersAward for
inconvenience
increased to \$9,000Prof Ron Paterson
third Chair
– July 2010Waiting list removed
– Dec 2010Fourth award issued
against a bankFacebook page
created02
03Credit Contracts
and Consumer
Finance Act 2003
enactedThird edition
of the Code of
Banking Practice
– Dec 200203
04Australian and
New Zealand
Ombudsman
Association
formed
– July 200304
05Around
2000
ATMs05
0606
0707
08Global financial
crisis startsFourth edition of
the Code of Banking
Practice – July 2007International
Network of
Financial Services
Ombudsman
Schemes formed08
09The Financial
Service Providers
(Registration and Dispute
Resolution) Act 2008
enactedAround
2400
ATMsAround
130,000
eftpos terminals09
1010
1111
12Fifth edition
of the Code of
Banking Practice
– July 2012

9293

Number of cases received

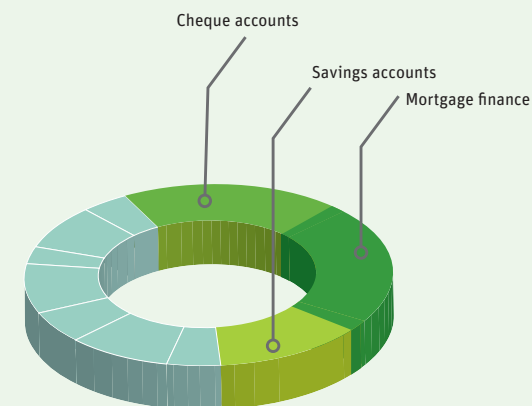
241

Plus 59 telephone enquiries

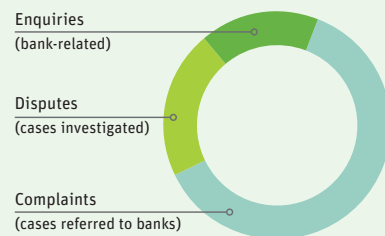
Complainants



Top 3 products complained about



Composition of cases completed



Average working days to complete disputes

87

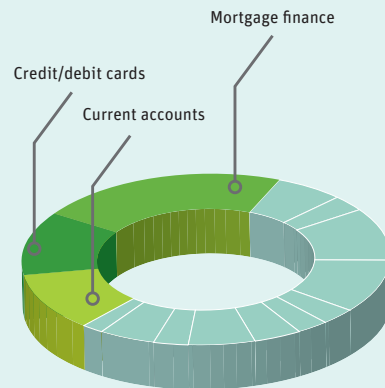
Number of staff



Number of participants



Top 3 products complained about



Complainants



Number of cases received

1412

Plus 1196 telephone enquiries

11
12

Number of participants



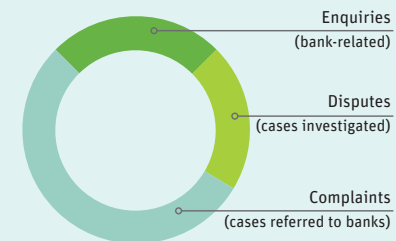
* plus 481 related companies,
subsidiaries and staff financial advisers

Number of staff

Average working days
to complete disputes

(disputes received since 1 Jan 2011)

Composition of cases completed



From the Chair



As it marks its 20th anniversary, the New Zealand Banking Ombudsman Scheme is firmly established as an institution where complainants and banking service providers can obtain fair, independent dispute resolution services, with an emphasis on sorting things out promptly.

A recent newspaper headline aptly described the Banking Ombudsman Scheme as “the place to turn when banking goes bad” (D Clement, *New Zealand Herald*, 24 March 2012). Sometimes customers need an independent referee to help sort out disputes with their banking service provider.

The banking sector in New Zealand is mature, highly competitive and firmly regulated. While the continued high demand for the services of the Banking Ombudsman indicates that the scheme remains a necessary part of the landscape, it is heartening to see banks themselves becoming more attuned to taking customers’ concerns seriously and sorting out problems.

Insights into the work of the scheme in 2011/12 can be found in the many case studies in this year’s Annual Report. They reflect a flexible and solution-focused approach that aims to resolve the individual problem. As noted by my

predecessor as Chair, Sir Ian Barker QC, “The scheme calls for a broad equitable treatment of complaints – not one based solely on legal rights.”

Education is also a key role of the scheme. The Banking Ombudsman is often the first port of call for journalists seeking informed, independent commentary on emerging issues in the financial services sector. Through its educational resources, the scheme aims to prevent future disputes and raise industry standards by educating the sector about lessons from complaints.

An effective Ombudsman scheme, which expects high standards of professionalism from the sector it oversees, must constantly look to improve its own practices. This year we surveyed a sample of complainants, and all the scheme’s participants, about how they found our services. The results, summarised in this report, show that the Banking Ombudsman Scheme is working well in many areas, but highlight the importance of regular and open

....while the scheme remains a necessary part of the landscape, it is heartening to see banks themselves becoming more attuned to taking customers’ concerns seriously and sorting out problems.

communication to help the parties understand the complaints process and the reasons for decisions.

As the wealth of information in this Annual Report demonstrates, it has once again been a busy year for the scheme. Despite a slight drop in overall complaints in 2011/12, there was an increase in the number of cases that became formal disputes requiring investigation. Many of these involve



lending-related issues and financial hardship on the part of consumers facing difficult economic times. Complex cases, which the parties themselves have been unable to resolve, are challenging but rewarding.

The Banking Ombudsman Scheme is overseen by a five-member board, which I lead as independent chair. We take a keen interest in the work and strategic direction of the scheme. We draw on a broad range of skills amongst our directors, with two prominent consumer advocates, Sue Chetwin of Consumer New Zealand and Mary Holm, financial columnist, and two experienced bank CEOs, Kevin Murphy and Peter Clare. I thank them for their contribution over the past year.

The achievements recorded in this Annual Report are a tribute to the professionalism and skills of Banking Ombudsman Deborah Battell and the staff. The success of any organisation

ultimately depends on the quality of its leadership and staff. The board is grateful to our energetic Ombudsman and her dedicated team for their hard work over the past year.

We look forward to continuing to improve our services in the years ahead. As we enter our 21st year, we salute our predecessors, who had the vision to create this scheme, and the many individuals who made it a reality. New Zealand can take pride in having a reputable Banking Ombudsman to highlight emerging financial issues for the public, draw attention to consumers' rights, and ensure good quality dispute resolution services for the benefit of customers and financial institutions.



Professor Ron Paterson | Chair



We look forward to continuing to improve our services in the years ahead. As we enter our 21st year, we salute our predecessors, who had the vision to create this scheme...



From the Banking Ombudsman

“

Twenty years ago, New Zealand's first voluntary industry-based Ombudsman came into existence. The New Zealand Bankers' Association established the Banking Ombudsman Scheme to provide an independent and impartial alternative dispute resolution mechanism for the banking industry and its customers.

We were first to be granted the use of the Ombudsman title by then Chief Ombudsman, Sir John Robertson. The scheme was also world leading in that, right from the start in 1992, the banking industry had a Code of Practice in place and participants were required to have their own internal complaints resolution processes linked to the external Ombudsman process. At a time when consumer protection was a hot topic (the Consumer Guarantees Act came into force the following year), the banking industry led the charge.

In 2012, the Banking Ombudsman – now an independent company and Government-approved dispute resolution scheme – continues to hold the industry to account. Over the last 20 years, we've answered tens of thousands of calls, letters and electronic communications (emails, online complaints, facebook queries) from banking customers. From these contacts we've helped customers and participants resolve around 20,000 cases (1,432 last year), the effects of which have gone well beyond the individual complainants.

Evolving role

We remain focused on lifting industry standards, but how we do this is evolving. Although resolving individual cases remains our core business, we always look at the bigger picture, seeking to ensure everyone benefits from the cases we resolve. Our involvement has led to systems improvements, better information disclosure, better service and compensation for affected parties.

We are increasingly anticipating and preventing problems, educating and empowering both banking customers and scheme participants to avoid complaints or resolve them without our help. Our web-based Quick Guides and other resources aim to engender better understanding of how the industry works and improve financial literacy.

We are also continuing a shift towards a more informal, open approach to dispute resolution. This means resolving cases earlier (where we can) by listening and talking with both parties to help find agreed solutions.

Complainant feedback

Complainants may not always agree with our decisions, but they should be able to understand why we have made them. Earlier this year, for the first time, we conducted an in-depth survey of complainants' attitudes towards the scheme to find out how we could improve customer satisfaction.

Complainants who were disappointed by the decision we'd reached told us that they understood we were consumer advocates and that by accepting their complaint for investigation, we thought they had a good case. While understandable, such views misconceive the Ombudsman's role. As Nadja Tollemache said in her very first report, "An Ombudsman is not an advocate for the complainant nor an apologist for the organisation complained about, but an independent person whose task it is to attempt resolution of the dispute or, if that proves impossible, to decide the matter on the basis of what is fair and reasonable in the circumstances."



Complainants also suggested we needed to set clearer expectations of what we can and cannot do at an early stage, and make sure they understand the process we follow and the possible ways forward. This is a delicate balancing act, as we cannot prejudge an issue.

These days complainants also want us to make better personal connections so that they feel heard: they want us to pick up the phone, and use fewer standard letters and stock phrases. The challenge is to maintain the necessary distance to avoid being overly influenced by either side, while ensuring that everyone feels understood.

...we've helped customers and participants resolve around 20,000 cases (1,432 last year), the effects of which have gone well beyond the individual complainants.

Informed customers

Customer expectations of their banking service providers are also changing. Customers want fast and easy access to information (using the latest technology) and responsive service that helps them manage their finances.

Mismatched expectations between the banking industry and their customers underlie many of

the complaints we receive. We see customers distraught because they thought their banking service provider would prevent them from making poor investment, business or property decisions or because it has changed its lending policies or products. We hear frustration that a banking service provider can't act instantly – to make transferred money immediately available or to provide services on weekends. And we witness surprise that a banking service provider hasn't given individual service – for example, proactively moving money between a customer's accounts to avoid an overdraft fee.

On the other hand, we see customers who have not taken responsibility for managing their accounts properly or who have not kept their promises with respect to repayment arrangements. What is missing in this equation is clear and open communication between banking service provider and customer, a responsibility that both sides must carry. We also recognise the part we can play here in

helping raise awareness and understanding of how the banking industry ticks and what banks can do better to prevent complaints.

A competitive industry

The banking industry is highly competitive and increasingly attuned to meet the needs of modern customers. Overall, the industry places a high priority on improving its complaints resolution processes and on learning from mistakes. Banking service providers value being a member of a well-established dispute resolution scheme with a strong track record.

However, some scheme participants continue to view referral to the Ombudsman as a failure of their own processes and resist external involvement. By the time we become involved, cases have often become difficult to resolve, with both sides entrenched in their views.

I encourage participants to focus on effective resolution (the outcome) rather than strict adherence to a process. Banking service providers should change their customers if they fail to inform them about the scheme's existence. Slavishly following internal process rather than thinking about how best to resolve a case puts the relationship between a banking service provider and its customer at risk. The majority of customers who ask to be referred to the Banking Ombudsman want an independent

view. Giving them access to this at an earlier stage can expedite resolution and increase customer satisfaction.

Looking forward

With two decades under our belt we know our industry well and enjoy a good reputation. We continue to look for ways to add value and do things better. While we have broadened our scheme in recent years in response to legislative change, we remain committed to the quality of service we provide and to our strict criteria for membership. Customers can truly "trust us to be fair".

As we mark 20 years, I acknowledge the legacy of my predecessors, Nadja Tollemache and Liz Brown, and the support of my Chair and board. To our highly competent and dedicated staff, I say thank you, and happy birthday.



Deborah Battell | Banking Ombudsman



Our organisation

Our vision

To be a world class Ombudsman service that is trusted and valued.

Our core values

We observe the core Ombudsman values of accessibility, independence, fairness, accountability, effectiveness and efficiency.

As a scheme, we are also committed to:

- **Integrity:** all our relationships are based on trust and integrity, we are impartial and we do what we say we will do.
- **Excellence:** we know what to do, we do everything to the best of our ability and we do it better every time.
- **Respect:** we listen and seek to understand different points of view.
- **Adaptability:** we both respond to and lead change, we look for solutions to problems and learn from mistakes.

Our board

The Banking Ombudsman Scheme is a company, Banking Ombudsman Scheme Limited, governed by a board on which banking service providers and consumers are represented with neither having a majority. The Chair of the board is independent of banking service providers and consumers. The main function of the board is to ensure the independence of the Banking Ombudsman and to make sure that the scheme is well-run and effective.

Chair

Prof Ron Paterson

Bank representatives

Peter Clare (from April 2012)

Kevin Murphy (from April 2012)

George Frazis (to April 2012)

Andrew Thorburn (to April 2012)

Consumer representatives

Suzanne Chetwin

Mary Holm

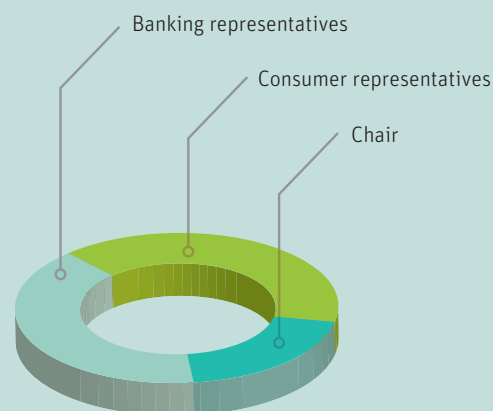
Alternates

Paul Brock (for bank directors)

Noel McNamara (for bank directors)

David Naulls (for Suzanne Chetwin)

Sue Ineson (for Mary Holm)



Banking Ombudsman board members 1992-2012

Sir John Anderson	1992 – 2005
Graeme Pentecost	1992 – 1996
David Russell	1992 – 2007
Rt Hon Sir Gordon Bisson (deceased)	1992 – 1997
Dame Stella Casey (deceased)	1992 – 1997
Sir Ralph Norris	1996 – 1999
Margy-Jean Malcolm	1997 – 2003
Sir Ian Barker QC	1997 – 2010
Harry Price	1999 – 1999
Mike Pratt	1999 – 2000
Dr Murray Horn	2000 – 2001
Tom Gallagher	2002 – 2002
Sam Knowles	2002 – 2010
Helen Walch	2003 – 2010
Peter Thodey	2006 – 2006
Graham Hodges	2007 – 2009
Suzanne Chetwin	2007 – current
Andrew Thorburn	2009 – 2012
Prof Ron Paterson	2010 – current
Mary Holm	2010 – current
George Frazis	2010 – 2012
Peter Clare	2012 – current
Kevin Murphy	2012 – current



CHAIR

Prof Ron Paterson

LLB (Hons), BCL (Oxon), ONZM

Chair since July 2010

- Professor of Law, University of Auckland
- Board Member, Royal Australasian College of Physicians

Formerly

- Health and Disability Commissioner
- Deputy Director-General, Safety and Regulation, Ministry of Health
- Fulbright Visiting Professor, Case Western Reserve University
- Harkness Fellow, Georgetown University
- Visiting Law Professor, Universities of Ottawa and British Columbia



CONSUMER REPRESENTATIVE

Suzanne Chetwin**Member since November 2007**

- Chief Executive, Consumer New Zealand
- Alternate Board Member, Electricity and Gas Complaints Commission
- Member, Electricity Authority Retail Advisory Group
- Member, Department of Building and Housing's Sector Advisory Group
- Member, Industry Advisory Panel for Landcare's CarboNZero programme
- Trustee, WriteMark Plain English Awards
- Commercial Law student, Victoria University of Wellington

Formerly

- Editor, Sunday News, Sunday Star Times and Herald on Sunday
- Editorial Business Manager, New Zealand Magazines Limited



BANKING REPRESENTATIVE

Peter Clare

BCom, MBA, CPA, FINSIA, CSA

Member since April 2012

- Chief Executive and Managing Director, Westpac New Zealand
- Deputy Chair, New Zealand Bankers' Association Council
- Director, RAMS (wholly owned subsidiary of Westpac Banking Corporation)
- Director, Sir Peter Blake Trust Council
- Member, Visa Senior Client Council

Formerly

- Group Executive and COO, Australian Financial Services, Westpac Banking Corporation
- Group Executive, Product and Operations, Westpac Banking Corporation
- Group Executive, Technology, Operations and Strategy, St George Bank Limited



CONSUMER REPRESENTATIVE

Mary Holm

MA, MBA

Member since February 2010

- Senior Lecturer in Financial Literacy, University of Auckland (part-time)
- Award-winning personal finance columnist and author
- Member, Financial Markets Authority board
- Seminar presenter

Formerly

- Member, Savings Working Group
- Member, Capital Market Development Taskforce
- Business Editor, Auckland Sun and Auckland Star



BANKING REPRESENTATIVE

Kevin Murphy

JOP, CA

Member since April 2012

- Managing Director/Chief Executive, TSB Bank
- Board Member, Payments NZ
- Member, New Zealand Bankers' Association Council
- Council Member New Zealand Institute of Chartered Accountants

Formerly

- Deputy Chief Executive, TSB
- Chief Financial Officer, TSB

Our people

The Banking Ombudsman Scheme has a team of 15 staff (13.5 full-time equivalents) who work in our central Wellington office alongside Banking Ombudsman Deborah Battell. Our people are investigators, enquiries officers, research analysts and administrators, and have a range of backgrounds including law, finance, commerce and specialist dispute resolution.

Senior leadership team (left to right)

Nicola Sladden – Deputy Banking Ombudsman, LLB, MPH (Boston)

Emma Corrigan – Enquiries Manager

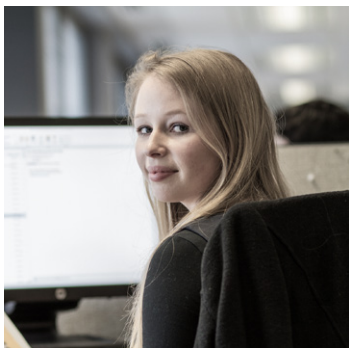
Deborah Battell – Banking Ombudsman, BA, MBA

Cheryl Thomson – Executive Administrator

Chantal-Marie Knight – Analyst, BSc (Hons), MSc



Community and industry outreach



“They are good at telling customers about what to do and advising them.”

scheme participant

Community and industry outreach is about helping customers avoid problems with their banking service providers yet making sure they know what to do if they have a problem.

We raise awareness and understanding of who we are and the work we do in a number of ways. We also seek to deepen industry knowledge within our office, so that we can do our job better. This year, among other things, we:

- published and promoted 14 Quick Guides on a number of contemporary banking issues including mobile banking, contactless cards and direct debits (available to download at www.bankomb.org.nz/Helpful-resources/Quick-guides)
- sent out six issues of our e-newsletter *Current Account* and two *Quick Updates*
- published 80 new case studies on the searchable case study database on our website
- continued to provide advice and insights on current issues through our facebook page www.facebook.com/bankombnz
- issued a number of media releases, contributed articles, and responded to a wide range of media enquiries about our work

- participated in the Ministry of Consumer Affairs' community complaints forums and a number of other community and industry events
- contributed to the New Zealand Bankers' Association review of the Code of Banking Practice
- invited Visa, Payments NZ and scheme participants to present to us on industry developments (including contactless technology and digital wallets)
- delivered papers at the International Network of Financial Services Ombudsman Schemes' conference and workshop in Canada and the Australia and New Zealand Ombudsman Association conference in Melbourne
- facilitated a workshop on responsible lending at the Government's Financial Summit
- commentated at the Commission for Financial Literacy and Retirement Income's Financial Literacy summit.



Perceptions of the scheme

The scheme has commissioned two reviews this year. These are important for lifting the quality of the service we're providing.

Customer satisfaction

This year, for the first time, we conducted independent research into complainants' attitudes to our service. We engaged market research company Nielsen to interview customers whose complaints we had investigated.

The responses revealed that:

- our staff were friendly, helpful and efficient
- staff gave the sense that they understood the complainant's problem
- complainants had regular communication from us
- the outcome was clearly explained.

However, to improve their experience, complainants said we needed to:

- set out the limits of what we can do so that we better manage expectations
- make complainants feel important and treated as individuals by using fewer "stock" letters

- keep complainants in the loop more – they had a sense that we might have been talking to their banking service provider more often than to them
- let complainants talk to someone face-to-face so that they can explain themselves more clearly
- introduce complainants to the Ombudsman early on so she's not just seen as the judge at the end.

Naturally we would like all our complainants to feel fully satisfied with our service regardless of the outcome of their complaint. This is our aim. However, the Nielsen research showed that, as with many complaints schemes, there will always be a group of complainants who will be satisfied only if they are vindicated and compensated for the wrongs they perceive have been committed. In these cases, a clear and compassionate explanation of our findings may not satisfy their needs.

Still, we always want to do better. We have already introduced a number of improvements to the information we provide and our processes. We will continue to seek complainants' feedback and to develop our expertise in helping complainants especially those with challenging behaviours.

Participant satisfaction

Last year we formally surveyed banking service providers for the first time, giving us a benchmark for future years. We repeated the survey this year, with Adrian Sparrow of EIQ once again asking participants about their attitudes towards the scheme.

Overall, participants painted a picture of the Banking Ombudsman Scheme as an organisation that performs well, has made noticeable progress, and is on track to keep improving. Participants continue to see the scheme's greatest value as being a very practical alternative to settling disputes in court. They also continue to recognise the strategic advantage in being a member of the scheme by virtue of our credibility, community standing and the quality of our participants.

Participants with small volumes of complaints through our scheme are very happy with the service we provide. Participants with large volumes of complaints have high expectations. These participants were pleased with our faster turnaround times, flagged in last year's survey as an area for improvement. They commended us for

our pragmatism, common sense approach, and willingness to engage in robust discussions.

Participants also noted an improvement in the quality and regularity of the information we share. This was particularly appreciated by the smaller players.

Over the next year we will continue to improve:

- timeliness
- the information we produce to assist participants and customers to avoid and resolve complaints.

“A conscience with a bit of teeth.”

“Common sense seems to prevail.”

“Dealings so far are first class.”

scheme participants



Access to the scheme



Mystery shopper survey

	2012	2011
Internal complaints process leaflet on display	80%	76%
BOS leaflet on display	87%	79%
BOS mentioned	78%	85%
Branches with Code of Banking Practice on display	52%	61%
Average branch staff knowledge of internal complaints process (score out of 10)	6.6	6.8
Average willingness of staff to help (score out of 10)	7.5	8.2

As a dispute resolution scheme, we need to ensure people can access our service in a range of ways, irrespective of any barriers they may face.

How people access our scheme has changed over time, largely due to changing technologies. While traditionally complainants called or wrote to us, today we receive nearly three quarters of complaints and disputes by email, through our online complaints form and even via our facebook page.

Accessibility also comes down to awareness. For a banking customer to access our services, they first need to know about us. Participants play a key role in making sure customers understand their right to access the scheme, and how to do so.

Mystery shopper survey

Our annual mystery shopper survey looks at how well banking service providers help their customers deal with complaints. Importantly, it lets us know whether participants tell customers about the Banking Ombudsman Scheme.

In this our 12th year of surveying, we visited 336 branches, covering 14 participants, five of which were surveyed for the first time. It was the first survey to include non-bank deposit-taker participants.

Helping customers deal with issues is an important element of customer service, which may prevent complaints from snowballing. We were concerned to see a drop in the willingness of branch staff to help customers with complaints and in their willingness to mention us. Year on year, overall standards have slipped with average “helpfulness” ratings falling from 8.2 to 7.5 in the last year.

Only four mainstream banks showed a general improvement across our range of measures this year.

So what is best practice? From our survey, the best performers and their branch staff:

- had leaflets on their own internal complaints process and the Banking Ombudsman Scheme in every branch
- made the Code of Banking Practice available
- were knowledgeable about the internal complaints process and the scheme
- mentioned the scheme in every branch
- excelled in their willingness to help customers with complaints.

Participants have responded well to the survey findings. As some were already reviewing their internal complaints handling processes, our survey has provided extra impetus to these projects. We expect to see improvements next year.

Definitions

An **award** can be made by the Banking Ombudsman if a complainant accepts a recommendation, but the participant does not. If accepted by the complainant in full and final settlement of the case, the award becomes binding on both parties.

A **case** is any enquiry, complaint or dispute.

A **complaint** is a matter that appears to fall within our terms of reference but has not been considered by the participant's internal complaints process.

A **complaint facilitation** occurs when we assist in the resolution of a complaint that is still being considered by a participant.

A **conciliation** is where the parties to a dispute, together with the assistance of an independent conciliator, attempt to find a resolution to their dispute. This can take place either in person or by telephone.

A **dispute** is a complaint that has been considered by the participant's internal complaints process without reaching a resolution the complainant is comfortable with.

An **enquiry** is where customers are seeking advice about a banking issue at an early stage or where the complaint is banking-related but clearly outside our terms of reference.

A **facilitation** is a dispute that is resolved at an early stage without the need for a formal investigation and written assessment.

An **initial assessment** is a formal written decision that sets out the facts of the case, what both sides have said about it, and the Banking Ombudsman's proposed recommendation.

A **jurisdictional decline** is made when a case falls outside our terms of reference.

A **recommendation** is issued if either side to the dispute does not agree with our initial assessment. It contains the Banking Ombudsman's final decision on a case.

Cases handled by the Banking Ombudsman Scheme

Our workload comprises not only the disputes we investigate but also the hundreds of enquiries we respond to and the complaints we refer back to participants in the first instance.

The total number of cases we received and completed this year dropped compared with 2010/11, yet remained at historically high levels.

We completed fewer cases (23% fewer than in 2010/11) primarily because demand for our services reduced as the impact of the global financial crisis (GFC) worked its way through the economy.

Removing the ING effect, and non-participant enquiries, overall demand reduced by about 11%. It is possible the demand would have reduced further but for the growing awareness of the public's right to access dispute resolution in the financial services sector.

In addition to the cases below, we recorded 1,196 telephone enquiries. Enquiries by telephone are reducing as enquiries via email, our website and social media are increasing. The number of calls recorded has also reduced as we now capture the calls electronically and record only the first time a customer contacts us about a particular matter, removing the potential for double counting.

From next year we will include telephone enquiries within the total enquiries category.

Annual statistics by total disputes, complaints and enquiries*

Activity	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12
Received	1228	997	766	774	913	949	1888	1924	1587	1412
Completed	1250	1080	799	780	906	913	1590	1974	1857	1432
Carried Over	211	128	95	89	96	132	430	380	110	90

* Excludes telephone enquiries.

20 years

How caseloads have changed

Caseloads grew steadily in the 1990s as the scheme established itself, before escalating in response to the 1997 Asian crisis. A rapid drop in interest rates in the second half of 1998 led to a substantial increase in complaints about early repayment costs. Credit card fraud cases also increased. In the early 2000s the scheme matured and caseloads stabilised, before dropping. This drop is likely to be related to the prevailing buoyant economic conditions and to participants resolving more cases themselves. While mortgagee sales still occurred, because house prices were rising, customers were less often left with shortfalls. Between 2008 and 2011 we experienced three years of unusually high caseloads due to the GFC and failed investments in particular. In 2011/12 we still had historically high, but reducing caseloads reflecting the continuing economic uncertainty.

Cases received and completed 1992-2012



Despite a drop in overall cases, disputes (the cases we investigate and that require most resource) increased by 20%. The increase appears to reflect a slower than anticipated economic recovery, customers (particularly younger customers) continuing to want “must have” consumer goods and the continuing flow-on effects of the GFC. In particular, it seems that many complainants who had avoided mortgagee sale or debt collection were facing bank action. Challenging cases like these more often come to the Banking Ombudsman.

From a productivity perspective, we completed 30 more disputes than we received in 2011/12, bringing the number of disputes still open at the end of the year to 80* (compared with 110 last year). This was achieved despite disputes becoming more challenging and lower staffing levels (in anticipation of lower caseloads).

Use of the scheme

Two new participants joined our scheme in 2011/12: The Bank of India (NZ) and The Co-operative Bank (formerly PSIS). Heartland Building Society also completed its merger with PGG Wrightson Finance.

While participants use the scheme differently, by and large the total number of cases closely approximates a participant's market share (based on their share of total assets for all participants).

The four largest participants, with 89% of total assets, account for around the same proportion of cases (86%). Similarly, the five smallest participants, with only 0.2% of assets, account for 0.5% of cases. These proportions are similar to last year, although medium-sized participants accounted for a slightly higher percentage of cases: 14% compared with 11% in 2010/11.

* The annual statistics table on page 15 shows 90 cases carried over. This includes 10 complaints and enquiries plus 80 disputes.

Cases received by participant

Scheme participant	2010/11					2011/12					2011 Share of total assets^
	Enquiry*	Complaint	Dispute	Total (n)	Total (%)	Enquiry*	Complaint	Dispute	Total (n)	Total (%)	
Large participants^											
ANZ National Bank	99	315	78	492	34.1%	44	235	88	367	28.8%	32.0%
ASB Bank	52	159	43	254	17.6%	32	123	54	209	16.4%	18.3%
BNZ	66	128	41	235	16.3%	60	121	54	235	18.4%	18.2%
Westpac	64	189	45	298	20.7%	56	178	50	284	22.3%	20.1%
Total large participants	281	791	207	1279	88.8%	192	657	246	1095	85.8%	88.6%
Medium participants^											
Citi NZ	-	-	-	-	-	-	-	-	-	-	0.6%
Heartland	2	1	-	3	0.2%	-	2	-	2	0.2%	0.6%
HSBC NZ	6	12	3	21	1.5%	4	5	2	11	0.9%	1.3%
Kiwibank	17	72	7	96	6.7%	15	98	8	121	9.5%	3.7%
Rabobank NZ	5	2	1	8	0.6%	3	4	2	9	0.7%	2.7%
SBS Bank~	3	6	4	13	0.9%	1	2	3	6	0.5%	0.7%
The Co-operative Bank	n/a	n/a	n/a	n/a	n/a	1	3	4	8	0.6%	0.4%
TSB Bank	3	7	3	13	0.9%	7	7	3	17	1.3%	1.3%
Total medium participants	36	100	18	154	10.7%	31	121	22	174	13.6%	11.2%
Small participants^											
Bank of Baroda NZ	-	1	-	1	0.1%	-	1	-	1	0.1%	0.0%
Bank of India NZ	n/a	n/a	n/a	n/a	n/a	-	-	-	-	-	0.0%
Credit Union Baywide	1	3	-	4	0.3%	-	2	-	2	0.2%	0.0%
Credit Union South	-	3	-	3	0.2%	-	2	1	3	0.2%	0.0%
Nelson Building Society	-	-	-	-	-	1	-	-	1	0.1%	0.1%
Total small participants	1	7	0	8	0.6%	1	5	1	7	0.5%	0.2%
Total	318	898	225	1441	100.0%	224	783	269	1276	100.0%	100.0%

* Excludes telephone enquiries and non-participant enquiries.

^ Participants have been classified according to total assets as declared by participants in June 2012 based on 31 December 2011 results.

~ Includes HBS Bank

What the issues were

As many New Zealanders continue to struggle with debt, the types of issues we saw in 2011/12 largely mirror those of last year.

Half of all new complaints and disputes this year related to lending products: mortgage finance, credit/debit cards, consumer finance and business finance.

Mortgage finance accounted for almost a quarter of complaints, up from 20% in 2010/11. Issues included the handling of customers in arrears (including debt restructuring, repayment and collection issues), early repayment costs and

interest rates. Mortgagee sales also remained high and prompted us to publish a new Quick Guide explaining the mortgagee sales process and covering common questions.

The increase in international/foreign exchange complaints reflects an increasing number of New Zealanders transferring money to and from New Zealand electronically. Concerns included:

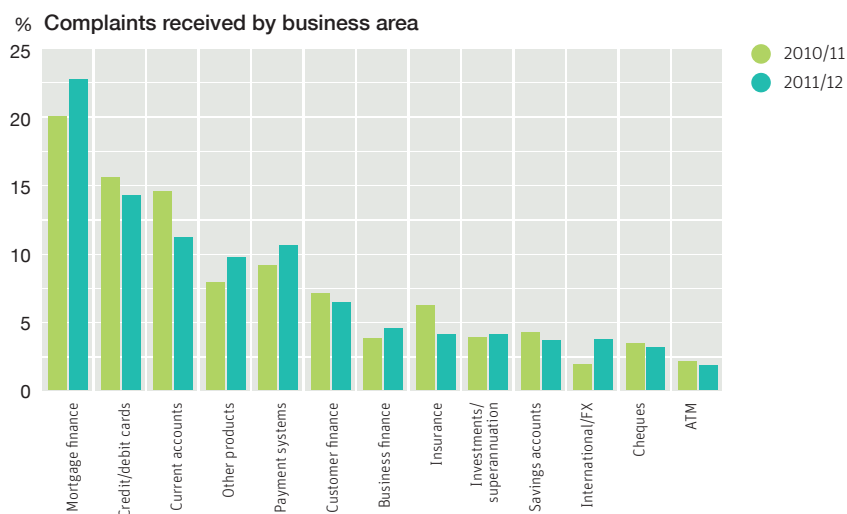
- poorly disclosed fees, especially with electronic telegraphic transfers, where customers are not aware that the receiving bank (and intermediary banks) also take fees, reducing the amount ultimately transferred

- the exchange rate used, as actual rates can differ from published rates
- time delays for processing telegraphic transfers and clearing international cheques, leading to complaints about the amount received, as exchange rates can fluctuate during the delay period. These fluctuations may also benefit customers but typically do not result in complaints!

The proportion of complaints relating to insurance decreased, bringing this area back in line with historical levels. This suggests that the increase in insurance complaints during 2010/11 was short-lived and most likely GFC-related.

Despite the impact of the Canterbury earthquakes on the insurance market, we received only one complaint about insurance sold by a bank.

Because of the relatively large number of complaints categorised as “other products” or “payment systems”, we reviewed the way we classify complaints. From next year we will report on new categories including pre-paid cards, travel cards, electronic banking, and mobile banking.



20 years

The changing nature of complaints

Over the past 20 years, the nature of complaints has changed dramatically. Mortgage finance, however, continues to be a dominant driver.

The most dramatic shifts are:

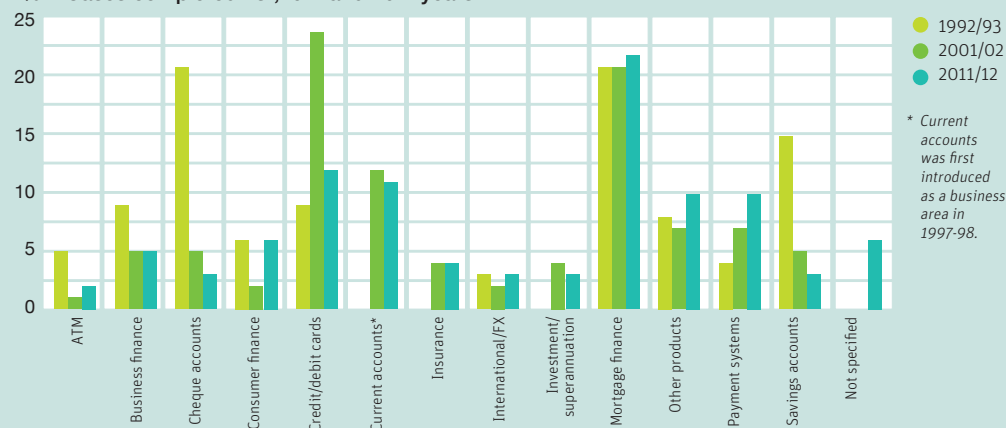
- the drop in cheque-related cases (from 21% to 5% to 3%), reflecting the demise of cheques for making payments, particularly in the 1990s
- the decrease in cases involving savings accounts (from 15% to 5% to 3%), which may reflect a reported fall in the household savings rate (as a proportion of disposable income) since the early 1990s and a more recent focus on debt repayment
- the increase in cases involving payment systems (from 4% to 7% to 10%), reflecting an increasing

reliance on electronic payment systems and a shift away from cash and payments made in person to electronic payments

- the rise and fall of credit card cases (from 9% to 24% to 12%), reflecting the increase in electronic payments, the growth of EFTPOS and debit/prepaid cards and improvements in participants' ability to resolve these cases internally.

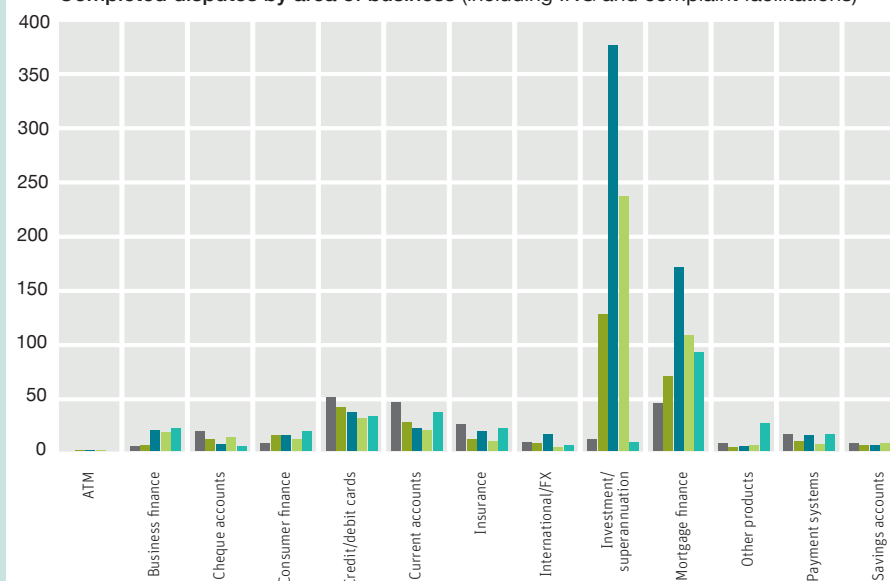
The absence of insurance and investment/superannuation cases in the first year of the scheme may reflect initial public perception that this type of case would not fall within our terms of reference. Cases relating to these areas grew gradually over the second to fourth years of the scheme and increased again in 2011/12.

% Cases completed 1st, 10th and 20th years



2007/08
2008/09
2009/10
2010/11
2011/12

Completed disputes by area of business (including ING and complaint facilitations)



Looking at the last five years, two areas of business have featured: investment/superannuation and mortgage finance. The graph above illustrates the dramatic impact of the GFC, especially that of the failed ING funds. While investment-related complaints have now fallen away, disputes involving mortgage finance remain at higher than normal levels.

The persistently high levels of mortgage finance-related disputes is not surprising. As the size of the claim is higher and the consequences for both complainants and participants larger, these matters are more likely to be referred to the Banking Ombudsman for resolution.

The nature of mortgage finance disputes has, however, changed over the past five years. While three to four years ago we were primarily helping resolve disputes about early repayment costs for breaking fixed term mortgage lending, from 2010 the majority of disputes related to loan defaults and mortgage sales. This reflects the fact that interest

rates were relatively high and climbing immediately before the GFC, causing customers to fix their lending for periods up to five years. Interest rates then fell dramatically leaving customers locked into much higher rates. Many customers felt let down by their banking service providers and complained that they had not been informed about the potential for break costs, or about how substantial these costs could be.

Later in the economic cycle, job losses, unanticipated health crises, relationship breakups, cuts to working hours and poor trading conditions led to an increase in loan defaults and mortgagee sales. Customers were often left with shortfalls due to the fact that forced sales generally depress prices and because they still had to pay early repayment costs if their loans had been fixed. This led to complaints that banking service providers had not tried to get the best price possible at mortgagee sale, about the need to pay early repayment costs when the sale had been forced, and about repayment agreements and referrals to debt collection.

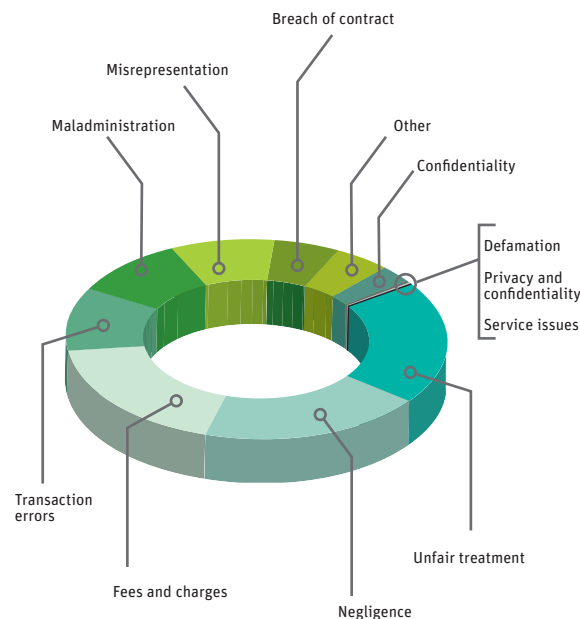
Interestingly, early repayment cost complaints began resurfacing towards the end of 2011/12, some of which were fuelled by reports that banking service providers were prepared to waive the costs for some customers in response to the highly competitive lending environment.

Complainants' perceptions of what went wrong

As well as looking at the issues underlying complaints, we classify our cases by complainants' perceptions of what their banking service provider has done wrong.

More than one third (39%) of complaints in 2011/12 were driven by perceptions of unfair treatment and negligence.

Complaints received by problem area 2011/12



Key concerns included:

- breaches of fiduciary duty or acting without due care
- acting without authority or instructions
- harassment or insensitivity, especially related to collections activity
- unnecessary delays
- poor or inappropriate advice.

20 years

What went wrong back in 1992?

Complainants' concerns today are quite different from when the scheme first started.

In 1992/93 almost a quarter of contacts to us involved allegations of maladministration, including account errors, cancelled or rejected credit facilities, denied access to funds, failure to communicate reasons for decisions, dishonoured transactions, and lost or destroyed records.

The drop in the proportion of complaints about maladministration is most likely due to an improvement in banking systems and processes and because participants are more readily resolving these complaints themselves.

Typically, complainants who raised these concerns were in serious financial difficulty. In many cases, what they complained of may not have caused direct losses, but had added to their stress.

Concerns about fees and charges also drove a large proportion (18%) of complaints. Despite reductions in fees and charges over recent years, complainants remain concerned about fees they consider are:

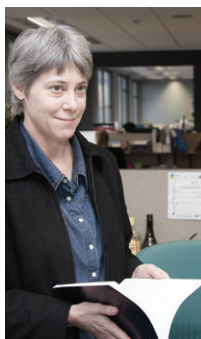
- excessive or unfair
- not disclosed or fully explained
- inappropriate.

Resolving disputes

Disputes are the cases we investigate. In 2011/12, 92% of the disputes we completed involved our four largest participants (ANZ National Bank, ASB Bank, BNZ and Westpac), down from 96% in the previous year. This group accounts for 89% of total participant assets.

Six participants had no disputes during the year

– Citi NZ, Heartland, Bank of Baroda NZ, Bank of India NZ, Credit Union Baywide and Nelson Building Society.



Disputes completed by participant

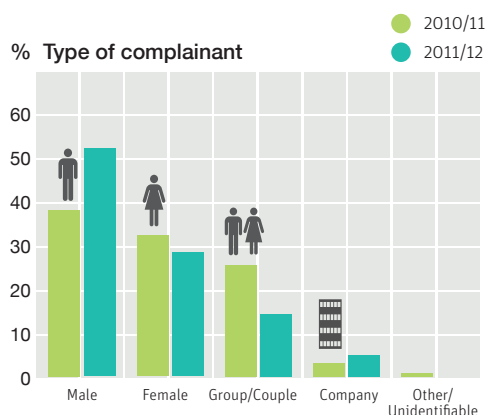
Scheme participant	Jurisdiction declined		Abandoned		Withdrawn		Settled		Not upheld		Partially upheld		Upheld		Award		Total by bank	
	10/11	11/12	10/11	11/12	10/11	11/12	10/11	11/12	10/11	11/12	10/11	11/12	10/11	11/12	10/11	11/12	10/11	11/12
Large participants^																		
ANZ - non ING	7	9	1	10	10	5	13	15	2	6	5	2	-	-	-	-	38	47
ANZ - ING Only	-	-	30	-	26	1	133	3	15	-	4	-	2	-	-	-	210	4
ASB Bank	7	10	11	4	5	17	13	7	9	18	2	1	-	-	-	-	47	57
BNZ	10	25	12	4	8	8	10	15	10	5	1	1	-	-	-	-	51	58
National Bank	16	5	5	6	6	5	18	14	7	13	4	5	-	-	-	-	56	48
Westpac	10	8	8	8	10	16	16	16	9	12	2	2	2	-	-	-	57	62
Medium participants^																		
Citi NZ	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heartland	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HSBC NZ	1	1	-	-	-	-	1	1	1	-	-	-	1	-	-	-	4	2
Kiwibank	4	2	3	-	-	2	-	-	-	4	-	-	-	-	-	-	7	8
Rabobank NZ	-	1	1	-	-	-	-	-	1	1	-	-	-	-	-	-	2	2
SBS Bank	1	-	-	-	-	1	1	1	-	2	-	-	-	-	1	-	3	4
The Co-operative Bank	n/a	-	n/a	-	n/a	-	n/a	1	n/a	-	n/a	-	n/a	-	n/a	-	n/a	1
TSB Bank	1	1	-	1	-	2	1	1	-	-	-	-	-	-	-	-	2	5
Small participants^																		
Bank of Baroda NZ	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank of India NZ	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
Credit Union Baywide	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit Union South	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	1
Nelson Building Society	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	57	62	71	33	65	57	206	75	54	61	18	11	5	0	1	0	477	299

^ Participants have been classified according to total assets as declared by participants in June 2012.

non ING 2010/11: 267
non ING 2011/12: 295

Who the disputes came from

The proportion of disputes involving couples/groups continued to decrease in 2011/12, reflecting a fall-off in investment-related and early repayment issues. We also saw an increase in the proportion of male complainants.

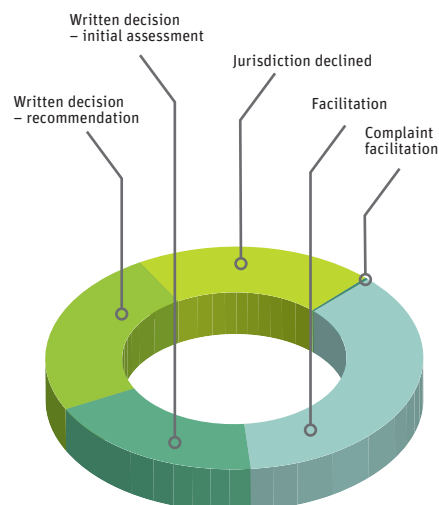


Corporate customers may also complain to the Banking Ombudsman Scheme, but our compensation limit of \$200,000 may discourage some business complaints. As was the case last year, the proportion of disputes from companies (primarily smaller businesses) has increased. These companies are from a range of industries, including property and transport. The increase appears to be related to challenging trading conditions and to partnership disputes.

How we resolved disputes

We focus on resolving cases as early as possible. Increasingly, where appropriate, we are taking a more informal, open approach to dispute resolution, using methods such as facilitation and conciliation. Of the disputes that fell within our jurisdiction in 2011/12, we resolved almost half (46%) through facilitation. For the remainder we provided written assessments, with 56% of these requiring a final written recommendation. This is approximately twice the recent proportion of cases requiring a written recommendation, further supporting

Methods used to resolve disputes 2011/12



our observation that a higher proportion of complainants were fixed in their views by the time their complaints reached us.

Disputes outside our terms of reference

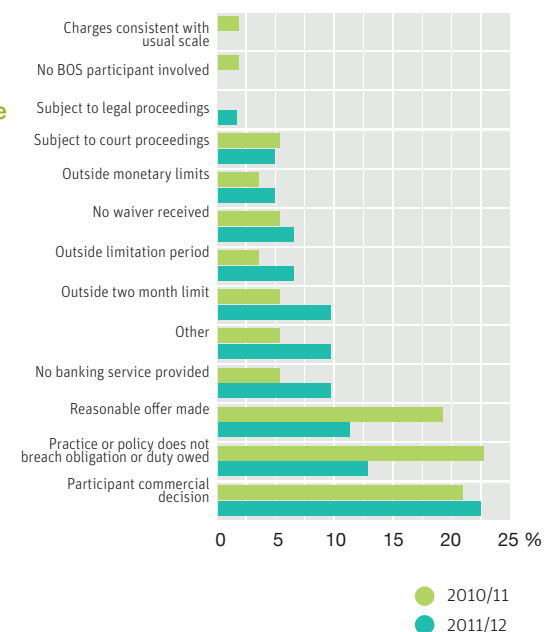
We monitor all jurisdictional decisions to ensure we do not exclude disputes without good reason.

Removing the effect of ING cases, the proportion of cases that fell outside of our terms of reference remained at 21%. The key reasons for not accepting disputes for investigation were that:

- the complaint related to a participant's commercial judgement in decisions about lending, security or insurance
- the complaint related to a participant practice or policy that did not breach any obligation or duty owed to the complainant
- the participant had made a reasonable offer to settle the complaint.

In recent years, the number of cases where a participant has not breached a duty owed to customers, or where it has made a reasonable offer, has reduced substantially. This is most likely because participants are improving customer service and complaints handling. Banking service providers also appear to be more willing to settle complaints internally by offering compensation at levels acceptable to complainants.

Reasons for declining jurisdiction



Timeliness

With no waiting list this year, we resolved new disputes more quickly. The number of disputes resolved within 60 working days increased from 15% in 2010/11 to 51% in 2011/12.

On average we resolved disputes registered with us after 1 January 2011 (when the waiting list was removed) within 65 working days.

Facilitating resolutions rather than writing adjudication reports has had a significant impact on improving timeframes. We completed facilitations in an average of 46 working days, compared with 98 working days for initial written assessments and 115 working days for written recommendations. Those customers whose disputes were resolved by facilitation were also generally more positive about our service.

We completed 89% of enquiries and 88% of complaints within two working days, helped by the introduction of electronic referral of complaints to participants (rather than using regular mail).

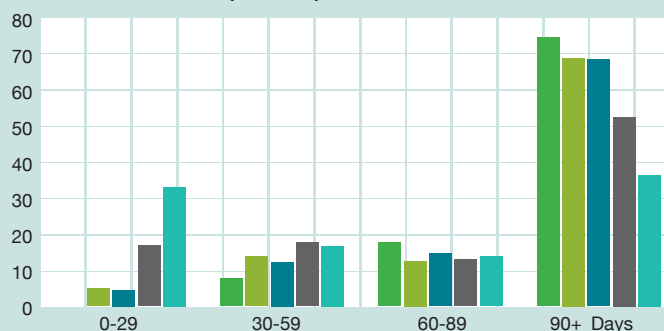


Older but faster

With increased knowledge and experience, we are now completing disputes faster. In 1995/96 we did not complete any disputes under 30 working days – today we are resolving a third of all disputes in that timeframe. These improvements in timeliness reflect:

- development of electronic knowledge bases and Quick Guides enabling quick access to previous decisions and guidelines for resolving disputes
- greater use of early methods of dispute resolution, especially facilitation
- improved electronic workload monitoring and management systems
- shorter written reports (particularly initial assessments and recommendations)
- moving to a paperless office, resulting in faster turn-around times for correspondence and faster access to case records
- improved participant response times.

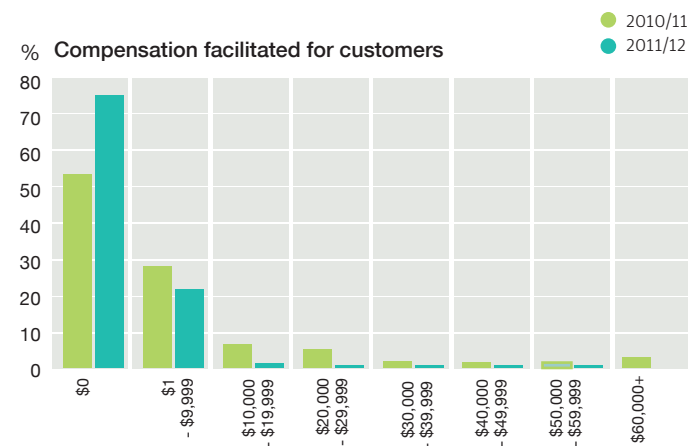
% Time taken to complete disputes



Compensation for customers

We facilitated \$505,139 in compensation for customers in 2011/12.

Average compensation for non-ING customers was down on last year, from \$3,421 in 2010/11 to \$1,411 in 2011/12. A quarter of all the disputes resolved resulted in some financial compensation for customers. Of these, 12 disputes resulted in compensation of \$10,000 or more, including five disputes about credit/debit cards, two about mortgage finance and two ING disputes. This reflected our caseload and the fact that these types of disputes typically involve larger sums of money.



Systemic issues

To fully resolve disputes to the satisfaction of both parties, we also look to identify other means than financial awards. Since January 2012 when we began formally recording other outcomes, 9% of our cases were resolved by either apologies, debt reduction, debt repayment agreements, waiving of fees and reinstatement or provision of products or services.

Excluding ING disputes, the proportion of complainants whose cases were inside jurisdiction and who obtained some form of favourable outcome reduced, from 41% in 2010/11 to 35% this year. This reflects the number of cases affected by lending-related hardship. In other cases, customers benefited from an independent and impartial opinion on their case, even though they may not have received their desired outcome.



As an effective Ombudsman scheme, every time we receive a complaint or dispute we ask ourselves:

- Could other customers have been affected?
- Could other banking service providers have the same problem?
- Could the same thing happen again?
- What can we learn from this complaint?
- How could this problem be avoided in future?

Participants have traditionally responded to requests for information about potential systemic issues, but last year we developed a protocol to formalise the process.

It does not always take a formal protocol, however, to address complaints that may have a wider impact. In many cases, participants themselves have already identified the need for change before the case comes to us. In other cases, they agree to change without the need for greater formality.

Among other things, participants told us they had:

- amended terms and conditions
- added features to their systems to protect customers from fraud
- streamlined account opening and identification processes
- improved processes, including around disclosure of information to guarantors
- removed fees for some transactions
- improved information provided at the time a transaction takes place, especially on websites, to highlight important terms and conditions or features of a service.

In addition, participants have told us they have learnt from their own experience of resolving complaints. They have improved their own complaints management services through training, using the case notes and Quick Guides we produce, and by applying some of the processes and improvements we have introduced in our own office.

We include some of the systemic cases we have seen this year. None was sufficiently serious to justify referring to an enforcement or licensing agency.

Systems errors

Many customers complain because they worry that other people may have been affected by a banking service provider's actions. They want to ensure that problems are identified and put right.

... Mr L's monthly account statement showed he had been charged the annual card fee. Mr L contacted the bank to explain that he had not activated the card and did not want it.

case study

Mr L received a debit card from his bank in the post. He had not asked for the card. In the accompanying letter, the bank explained how to activate the card and stated that by activating the card, the customer was accepting it. The bank also noted that the annual card fee would not be charged for the first year. Mr L did not want the card, so cut it up and threw it away.

A year later, Mr L's monthly account statement showed he had been charged the annual card fee. Mr L contacted the bank to explain that he had not activated the card and did not want it. He asked the bank to reverse the annual card fee, which it did the next day.

Mr L remained concerned that other customers may have been affected. He asked the bank how widespread the

problem was and what it had done. The bank acknowledged his concerns, and apologised in writing. It explained that it was taking action to rectify the problem, but would not provide specific details.

Mr L asked us to look into the issue. We explained that, generally speaking, our role is to help customers resolve individual issues with their banks but that we would ask for information under our systemic issues protocol, and advise him of the outcome.

The bank explained the nature of the error that had caused the problem, told us the number of customers affected, and confirmed that all affected customers had had the annual card fee refunded. We did not provide the specific numbers to the complainant but we were able to put his mind at rest. As we were satisfied with the bank's response, and as we had received no further complaints, we closed our investigation.

Information on websites

The following two cases illustrate issues that can arise when information on websites is not updated. All businesses need to ensure that any representations they make to customers – across all media – are accurate and not misleading. With the banking industry's strong and growing online presence, it also needs to have the systems in place to make sure the information it publishes online is not only up-to-date and accurate, but also consistent with other sources of information.

case study

Mr V applied for a bank card after reading on the bank's website that certain customers would not be charged an annual card fee.

When he received the card, Mr V discovered that while there would be no annual card fee for the first year, the fee would apply in subsequent years. Mr V felt that the information on the bank's website was misleading and complained to us.

We reviewed the information on the screen that Mr V had seen. It stated that there would be no annual card fee for certain customers. However, in the next screen, which set out the fees for various products, the information was different. It stated that there would be no annual card fee for the first year. Mr V had not seen this screen.

We advised the bank of the complaint under our systemic issues protocol, on the basis that the information may be misleading to customers. We noted that there was nothing on the initial screen to alert customers that they would be charged an annual fee after the first year. There was also nothing on that page to alert them that relevant information was elsewhere on the website.

The bank thanked us for drawing the matter to its attention. It advised that the error was inadvertent, and had been on its website only a short while. It immediately changed the wording on the website so that the first screen stated that the annual card fee was waived for the first year only. It also arranged that Mr V would not be charged an annual card fee as long as he held the card.

case study

Mr G joined a bank because it offered an account that was free of fees and charges.

About two years later, the bank changed the way its account operated so that only electronic transactions were free of charges. Transactions through teller staff attracted a fee.

The bank informed affected customers of the changes by letter but did not update its website. As a consequence, Mr G complained to us. His main concern was not about the representations made on the website but the fact that the bank had changed the way the account operated.

We drew the inconsistencies on the website to the bank's attention. The bank apologised and corrected them overnight. We did not, however, have the power to require the bank to offer Mr G free teller service. All businesses have the right to change the way they charge for their services to reflect changing market conditions and the costs of providing a service.

Preventing fraud

The following case is not a systemic issue but demonstrates that making a complaint can lead to better protection for all customers.

Mrs L didn't know the money hadn't cleared as she didn't realise Mr J had paid by cheque. The cheque was subsequently dishonoured.

case study

Mrs L advertised her car for sale. Mr J took the car for a test drive and agreed to buy it for \$6,000. He said his mother would transfer the money to Mrs L's account that night. However, instead of arranging the transfer, he deposited a stolen cheque into Mrs L's account the next day.

The bank teller was suspicious as Mr J was paying someone else's cheque into Mrs L's account, and was unable to provide proof of his identity or Mrs L's full name. She accepted the cheque but followed Mr J and noted his car registration. The teller then put a note on Mrs L's account that she suspected the cheque was stolen and to proceed with caution.

When Mr J told Mrs L his mother had transferred the money, she phoned her bank to check the deposit had been made. The call centre operator confirmed that \$6,000

had been paid into her account. Mrs L then gave Mr J the car. Mrs L didn't know the money hadn't cleared as she didn't realise Mr J had paid by cheque. The cheque was subsequently dishonoured.

Mrs L complained to us that she would not have let Mr J take the car if the bank had given her adequate advice about the deposit and told her of its suspicions.

The bank maintained that it didn't have to warn Mrs L that the money had not yet cleared because she only asked whether the money had been deposited, not whether it was available. The bank also said it didn't have to convey its concerns about the cheque even though it confirmed that the call centre operator would have read the bank teller's warning on the system when Mrs L called.

We upheld Mrs L's complaint. When customers ask if a deposit has been made to their account, they want to know if those funds are available to use. The duty in this

case was even higher as the call centre operator would have known about the potentially fraudulent nature of the cheque. While the bank may not have wanted to share its suspicions, it needed to warn Mrs L that the funds were not available and that it was possible the cheque would not clear.

Thanks to the actions of the bank teller, the police were able to track Mr J down. He was later convicted and ordered to pay Mrs L \$6,000 in reparation.

When considering compensation, we took into account the fact that Mr J had not yet made any reparation payments. We recommended that the bank pay Mrs L \$6,000 but that she assign her rights to the reparation so the bank would receive any payments Mr J made. Both Mrs L and the bank agreed. The bank has also subsequently made changes to its procedures so that customers are informed if bank staff are aware of concerns about the legitimacy of a payment.

Typical complaints

KiwiSaver

With more KiwiSavers becoming eligible to access their savings for a first home or retirement, and with the continuing difficult economic conditions, we expected an increase in KiwiSaver-related cases. Although we did see a small rise, the number of complaints and disputes we received was relatively low.

This year we received 36 contacts about KiwiSaver, of which 32 related to participants.

The key issues were:

- difficulties withdrawing from KiwiSaver (44%)
- poor service or advice when first joining (19%)
- difficulties accessing funds for first home (9%)
- performance of a specific KiwiSaver scheme (6%).

Canterbury earthquakes

We continued to see the impacts of the Canterbury earthquakes during the year, with many Cantabrians facing financial hardship. While banking service providers have worked with their customers to address these issues, a range of unresolved problems have come our way. Since September 2010, we have received 64 earthquake-related cases (including telephone enquiries).

Mortgage finance was a key issue, accounting for almost half the cases. While this reflects what we saw across the country, the stories we heard painted a picture very specific to Canterbury. Issues included a customer being charged interest on a mortgage for a property destroyed by the earthquake and banking service providers refusing to lend in certain areas because of proximity to the orange zone, or because properties were uninsurable.

Consumer finance and insurance were also areas of concern, accounting for 14% and 13% of cases respectively. These included allegations of a banking service provider not paying interest on EQC payments, refusals to insure and accounts being frozen due to outstanding debt.

This year's issues continue to tell a story of challenging economic conditions and New Zealanders facing hard times.

Problems around property sales and the mortgagee sales process were common. We also continued to see hardship through lending defaults, allegations of irresponsible lending and general account conduct, as well as the consequences of not repaying debt.

In some cases, customers alleged their banking service provider changed the rules. In most cases, however, the participant had made a commercial decision that reflected a change in a customer's financial circumstances or the wider marketplace. More often than not, mismatched expectations or a misunderstanding were at the core of these disputes.

We also saw issues that reflect the evolving banking industry. The increase in electronic, cashless transactions and new emerging technologies bring great opportunities but also new challenges for the industry and customers.

Mr and Mrs T complained to the bank saying its requirement for a valuation was unfair and contrary to their arrangement with the mobile mortgage manager.

Refusal to lend

The following case illustrates how the bank-customer relationship can break down when each party has a different understanding of a situation, or when the environment changes. Banking service providers can choose not to lend, and have the right to change their mind if a customer's financial circumstances change. A banking service provider needs to satisfy itself that a borrower has the ability to repay a loan and that there is sufficient security. Otherwise the bank risks losing its investment and facing allegations of irresponsible lending.

case study

Mr and Mrs T wanted to add a small dwelling to their property to increase its value and their income. They approached a bank that said it could lend them \$110,000 for the additional dwelling, as well as for a new car and debt consolidation.

Three months after drawing down the funds for the car and debt consolidation, Mr and Mrs T asked the bank for funds for the dwelling. The bank said it needed an acceptable valuation for their property before it could advance the lending. Mr and Mrs T claimed that their mobile mortgage manager had specifically told them they wouldn't need a valuation for this type of lending.

Mr and Mrs T eventually got the valuation. By then the bank had become concerned by a marked reduction in Mr and Mrs T's earnings and by the way they were operating their account. As a result, it declined the lending.

Mr and Mrs T complained to the bank saying its requirement for a valuation was unfair and contrary to their arrangement with the mobile mortgage manager. The bank did not

accept that its mobile mortgage manager had said a valuation wasn't necessary but acknowledged that it should have put the requirement in writing. It offered Mr and Mrs T a \$500 reduction in their debt to resolve their complaint. This covered the cost of the valuation.

Because banks normally request valuations on the estimated value of a property with the addition of a minor dwelling, we considered it likely that the mobile mortgage manager had explained the bank's requirement. A bank is also entitled to make a commercial decision not to lend if a customer's financial circumstances change. On this basis, we decided that the bank's offer was fair and reasonable and recommended that Mr and Mrs T accept. While Mr and Mrs T agreed that our view of what had happened was largely accurate, they maintained that the failure of the bank to lend had caused them great financial hardship.

In these circumstances, we took no further action.

Commercial lending

Complaints involving businesses have increased, reflecting the tough trading environment. This case, like the previous one, illustrates a banking service provider's right to make a commercial decision.

case study

Mr B and Mr G were property developers. They decided to switch to a loan facility their bank advisor recommended for their business. They understood the facility would be available to them on an ongoing basis, but their bank later refused to let them use the facility for a new development project. Instead, it insisted on full repayment when the properties used as security for the facility were sold.

Mr B and Mr G complained to us that they had been misled and claimed compensation for substantial losses because of the bank's refusal to continue the facility.

We concluded that the bank had not given any commitment to provide an ongoing loan facility. The only lending the bank had

approved was secured by a mortgage over two properties. When Mr B and Mr G sold those properties and the mortgage needed to be discharged at settlement, the bank was entitled to seek repayment of the loan. The bank advisor may have given them the impression that it was likely that the facility could be repaid and then redrawn, but he also said the bank could change the facility at any time. The bank was entitled to review the facility and not to continue to offer it to Mr B and Mr G.

We were also not convinced Mr B and Mr G had suffered any direct loss as a result of the bank's decision. While they argued that their future development plans had been hindered, they were free to seek funding elsewhere. Loss of opportunity to proceed with their planned development was not a direct loss as there was no guarantee that the development would be profitable.

When Mr B and Mr G sold those properties and the mortgage needed to be discharged at settlement, the bank was entitled to seek repayment of the loan.

Debt listings

Having a debt listed with a credit reference agency can affect a customer's ability to borrow. Customers are therefore often keen to have these listings removed. Although it may be appropriate for us to facilitate this in some cases, it is not straightforward as future lenders are entitled to accurate information on which to base their lending decisions. In many cases removing such information is not appropriate because customers have failed to keep their promises to repay.

Mrs G complained to the bank that she had not received the warning that it was going to list the debts with a credit reference agency.

case study

Mrs G and her husband were guarantors for lending to their business. When the business failed, the bank sought repayment of the debt from Mr and Mrs G personally. The bank sent them a letter warning that if the debt was not paid it would be listed with a credit reference agency. After Mr and Mrs G separated, the debt was listed with the agency. The bank also listed Mrs G's personal credit card debt, but made an error with the amount, making it \$500 instead of \$5,500.

Mrs G complained to the bank that she had not received the warning that it was going to list the debts with a credit reference agency, and that the amount of the listing was incorrect, despite the fact that the error was in her favour. Mrs G and the bank reached an agreement that the bank would remove the debt listing against her name if she repaid both the guarantee and credit card debt within 18 months. The total amount owing was \$7,500.

Mrs G did not make any repayments and complained to us. We referred the complaint back to the bank, which reached a new agreement with Mrs G for repayment of the outstanding debt over 18 months, with equal instalments due on the first of each month.

Just before the first payment was due, Mrs G emailed the bank to say she would repay the full debt the following month. The bank said that the first payment would still need to be made before repaying the full amount. The bank then agreed to a further arrangement for a double payment at the beginning of the second month, with full repayment by the end of that month.

Over the next few months, Mrs G entered into a series of agreements with the bank to repay the debt in full. Each time she sought an extension, which the bank accommodated.

Before her final deadline, Mrs G repaid the full amount. However, she then emailed the bank and said that she had unintentionally overpaid, and needed the bank to refund some of the money to pay other bills. She said she would still repay the full amount by the final deadline. The bank agreed to refund \$4,000.

Mrs G did not pay the remaining \$4,000 by the final deadline, and the bank refused to enter into any further negotiations. Mrs G then referred her complaint back to us, claiming she had not been warned before the debts were listed, and that the bank was treating her unfairly.

We found that although the bank had warned Mrs G about listing the debt owed under the guarantee, there was no evidence it had warned her that her credit card debt would be listed. This appeared to be a breach of the Code of Banking Practice, which requires prior notice before a debt is listed. However, Mrs G had been given a number of opportunities to repay the debt and have the listing removed. Because she had failed to keep to these agreements we did not consider it was appropriate to ask the bank to withdraw the listing.

Storing information on mobile phones

Banking is changing fast. More and more people are using mobile phones to do their banking, and this will only increase with the rapid uptake of smartphones. While banking service providers need to stay ahead of the game to ensure these new technologies are secure, banking customers must also take their own precautions. The following case illustrates the risks of storing information on mobile phones (or anywhere else) and the importance of passwords. You can read more in our quick guides on mobile banking and contactless cards at www.bankomb.org.nz/Helpful-resources/Quick-guides

case study

A large sum of money was transferred by telephone banking from Mr G's bank account into the account of someone he did not know.

Mr G did not understand how this could have happened and complained first to his bank and then us. During the course of our investigation, we discovered that Mr G had lost his mobile phone several months earlier.

Before he lost his phone, Mr G had synced his mobile phone contact list to his laptop. When he bought a replacement phone, he was able to then sync the contact list saved on his laptop with his new phone.

Mr G went through the contact list on his new phone (which was identical to the

contact list on the phone he had lost) and discovered he had saved banking details, including his telephone banking PIN, on his phone several years earlier.

Although Mr G had attempted to disguise his PIN and other banking details by saving the information as mobile phone numbers or email addresses, the offender had seen through this. Mr G had unintentionally given the offender the means to commit fraud against him.

Since Mr G had recorded his banking details on his cell phone in breach of the terms and conditions of his contract with his bank, the bank did not have a duty to reimburse him for the stolen funds.

...Mr G had attempted to disguise his PIN and other banking details by saving the information as mobile phone numbers or email addresses.

Scams

Banking customers unfortunately continue to fall victim to an increasing number of online scams. The borderless nature of electronic crimes also means New Zealanders are targeted by sophisticated scammers based overseas. Often victims are struggling financially and are pulled in, despite having doubts, or thinking an offer sounds too good to be true. Our advice is trust your instincts. This case involves a man who fell victim to a money mule scam, despite thinking better of it. It shows how quickly one bad decision can spiral into serious debt.

case study

Mr A, who had been unemployed for two years, received an email offering him employment as a mystery shopper. To apply, he just had to respond to the email with his contact details and name of his bank. His application was successful and his first job was to transfer money via Western Union.

Mr A gave his bank account details to his “employer”, who transferred \$3,000 to his account and provided remittance details. Mr A was to transfer \$2,700 to a recipient in Nigeria and keep the rest as payment for his services. Despite his suspicions, he transferred the money, expecting his bank to ensure the money deposited to his account was legitimate.

Shortly afterwards, his bank contacted him because it recognised that the original transfer into his account was fraudulent. The bank reversed that transaction, and he was left \$2,700 out of pocket.

He sought compensation from his bank because he felt it was partly to blame for what had happened. He also did not believe it was fair that he had to bear the full loss. The bank declined.

As Mr A was unwell, his wife complained to us. Mr and Mrs A believed that by allowing a third party to transfer money into his account the bank had failed to protect them. They also questioned whether it was an “inside job”.

From what Mrs A told us, it was clear they did not fully understand how the scam worked. The fraudsters had accessed the online banking facility of another bank’s customer and made an unauthorised transfer to Mr A’s account. Neither the fraudsters nor any other third party had accessed Mr A’s bank account. The bank’s security systems had not been compromised and there was no evidence to support its being an inside job.

We considered that the bank was entitled to reverse the transactions under its terms and conditions. We did not believe Mr A had received the payment in good faith

as his actions seemed reckless. While he may have believed the transaction was legitimate, this was not reasonable given the circumstances of the job offer and his suspicions about the transfer.

Mrs A generally accepted our views, but was concerned about Mr A’s outstanding \$2,700 debt, which she learnt about when it was transferred to a debt collection agency. The debt had increased considerably due to interest, fees, and third party collection costs, and Mrs A wanted to find a solution as her husband was still unemployed and had no savings.

Mrs A suggested that she would make a lump sum repayment for her husband of around \$2,700, being the amount of the debt on his last repayment date. The bank agreed to recall the debt from the collection agency and settle it with a lump sum payment of around \$3,200. This was about \$1,000 less than what the collection agency had been demanding.



Financial statements

For the year ended 30 June 2012

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Banking Ombudsman Scheme Limited

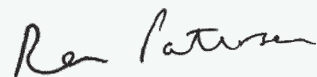
Statutory information

For the year ended 30 June 2012

The Board of Directors present their Annual Report including the financial statements of the Company for the year ended 30 June 2012 and the auditor's report thereon.

The shareholder of the Company has exercised his right under section 211 (3) of the Companies Act 1993 and agreed that this Annual Report need not comply with paragraph (a) and (e) to (j) of section 211 (1) of the Act.

For and on behalf of the Board:



Prof Ron Paterson Chair

8 October 2012

Independent Auditor's Report

To the Shareholder of Banking Ombudsman Scheme Limited

Report on the Financial Statements

We have audited the financial statements of Banking Ombudsman Scheme Limited on pages 36 to 43, which comprise the statement of financial position of Banking Ombudsman Scheme Limited as at 30 June 2012, and the statement of comprehensive income and statement of movements in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholder, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the

company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor and tax adviser we have no relationship with, or interest in Banking Ombudsman Scheme Limited.

Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company.

Opinion

In our opinion, the financial statements on pages 36 to 43:

- ▶ comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the financial position of Banking Ombudsman Scheme Limited as at 30 June 2012 and its financial performance for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- ▶ We have obtained all the information and explanations that we have required.
- ▶ In our opinion proper accounting records have been kept by Banking Ombudsman Scheme Limited as far as appears from our examination of those records.



8 October 2012
Wellington

Banking Ombudsman Scheme Limited

Statement of financial position

As at 30 June 2012

The accompanying notes form part of and should be read in conjunction with these financial statements.

	NOTE	2012	2011
Current assets			
Bank – cheque account		1,041	34,483
Bank – on call account		361,643	160,758
Petty cash		100	-
Accounts receivable	9	1,649	12,351
Prepayments	10	19,698	7,089
Tax refundable		26,353	-
GST receivable		5,121	38,959
		415,605	253,640
Property, plant and equipment	5	100,482	134,570
Intangibles	6	29,019	26,949
Total assets		\$545,106	\$415,159
Current liabilities			
Sundry payables and accruals	8	517,050	339,110
Levies in advance		-	6,000
Provision for tax		-	49,147
Bank – credit card		2,601	-
Total liabilities		\$519,651	\$394,257
Net assets		\$25,455	\$20,902
Equity			
Contributed equity		1	1
Accumulated profits		25,454	20,901
Shareholder's surplus		\$25,455	\$20,902

For and on behalf of the Banking Ombudsman Scheme Limited which approved the issue of these financial statements on 8 October 2012.



Chair Prof Ron Paterson
Date 8 October 2012



Director Kevin Murphy
Date 8 October 2012

	NOTE	2012	2011
Income			
Levies		2,150,000	2,450,000
Interest		16,107	20,082
Other income	16	20,000	60,000
Total operating income		\$2,186,107	\$2,530,082
Expenses			
Audit fees		20,317	15,175
Board expenses	17	28,663	61,371
Contractors and external advice		29,058	126,248
Depreciation	5	46,572	45,570
Amortisation of intangibles	6	18,363	19,030
Directors' remuneration	12	98,000	98,000
Entertainment		3,328	6,289
Loss on disposals		27	-
Office costs		100,934	94,160
Publications and promotions		44,522	112,206
Rent		180,099	180,099
Scheme compliance		5,445	6,852
Scheme expansion		-	17,757
Staff salaries and superannuation		1,466,688	1,394,463
Staff costs – other		48,190	90,203
Staff cost – recruitment		8,172	39,819
Technology and website costs		36,346	47,568
Travel and conferences		43,481	26,403
Total expenses		\$2,178,205	\$2,381,213
Profit before taxation		7,902	148,869
Taxation expense	11	(3,349)	(55,848)
Net profit after taxation		\$4,553	\$93,021
Total comprehensive income for the year is wholly attributable to owners of the company		\$4,553	\$93,021

Banking Ombudsman Scheme Limited

Statement of comprehensive income

For the year ended 30 June 2012

The accompanying notes form part of
and should be read in conjunction with
these financial statements

Banking Ombudsman Scheme Limited

Statement of movements in equity

For the year ended 30 June 2012

The accompanying notes form part of and should be read in conjunction with these financial statements

	Shareholders capital	Accumulated profit/(losses)	Total
As at 1 July 2010	1	(72,120)	(72,119)
Profit for the year	-	93,021	93,021
As at 30 June 2011	1	\$20,901	\$20,902
As at 1 July 2011	1	20,901	20,902
Profit for the year	-	4,553	4,553
As at 30 June 2012	1	\$25,454	\$25,455

1. Corporate information

The financial statements of the Company for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on 8 October 2012.

The Company was incorporated on 19 June 2007 and is incorporated and domiciled in New Zealand.

The Company provides a free, independent and impartial dispute mechanism for those receiving “banking services” from the participating banks in New Zealand.

2. Summary of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements are presented in New Zealand dollars (\$).

Differential reporting

The Company qualifies for Differential Reporting exemptions as it has no public accountability, and its shareholder is a director of the Company. All available reporting exemptions allowed under the framework for Differential Reporting have been adopted.

(b) Statement of compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They

comply with the New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit oriented entities that qualify for and apply differential reporting concessions.

(c) Basis of measurement

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on a historical cost basis are followed by the Company.

3. Accounting policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied;

(a) Cash and cash equivalents in the statement of financial position comprise cash at the bank and in hand.

(b) Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost. Gains or losses are recognised in profit or loss when the receivables are derecognised or impaired. They are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(c) Property, plant and equipment are stated at cost less accumulated depreciation. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when

each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation has been calculated on plant, property and equipment on a diminishing value basis using the rates permitted for income tax purposes. Depreciation rates are as follows:

Furniture, fixtures and fittings	7.5%-28.0%
Office equipment	18.0%-60.0%
Hardware	33.0%-48.0%
Other property, plant and equipment	9.5%-48.0%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

(d) Intangibles –

(1) Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Amortisation rates for software are 40% to 48%.

(2) Website

Following initial recognition website developments costs are carried at cost less accumulated amortisation. Amortisation rates for the website are 40%.

Notes to the financial statements

For the year ended 30 June 2012

(e) Sundry payables and accruals are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(f) Leases

The Company leases its office premises. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

(g) The financial statements have been prepared on a GST exclusive basis except for receivables and payables which are shown gross when billed.

(h) Provisions and employee benefits

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(1) Wages, salaries, annual leave and sick leave.

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are

recognised in respect of the employees' service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(2) Defined contribution pension plans.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement when they are due.

(i) Revenue recognition

(1) Levy revenue

Revenue from members of the Scheme is recognised on an accrual basis. Levies are paid on a quarterly basis.

(2) Interest revenue

Revenue is recognised as interest accrues during the life of the investment.

(j) Income tax and other taxes

Income tax is accounted for using the taxes payable method. The income tax expense recorded in the statement of comprehensive income for the year represents the income tax payable for the year.

The current income tax asset or liability recognised in the balance sheet represents the current income tax balance due from or obligation to the Inland Revenue Department at balance date.

(k) Other taxes

Revenues, expenses and assets are recognised net of the amount GST except:

When the GST incurred on the purchases of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the acquisition of the asset or part of the expense item as applicable; and

Receivables and Payables, which are stated with the amount of GST inclusive.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the balance sheet.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

4. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The company adopted the following new and amended New Zealand Equivalents to International Financial Reporting Standards and IFRIC interpretations as of 1 January 2011.

- Improvements to NZ IFRSs effective 1 January 2011

The adoption of the above amendments did not have any impact on the financial position or performance of the Company.

5. Property, plant and equipment

	Cost	2012 Accumulated depreciation	Book value
Fittings	6,545	2,164	4,381
Furniture	23,595	9,349	14,246
Office equipment	82,779	57,970	24,809
Hardware	82,355	62,468	19,887
Other property, plant and equipment	52,008	14,849	37,159
	\$247,282	\$146,800	\$100,482

	Cost	2011 Accumulated depreciation	Book value
Fittings	6,545	1,622	4,923
Furniture	22,225	6,363	15,862
Office equipment	80,598	40,463	40,135
Hardware	73,421	42,075	31,346
Other property, plant and equipment	52,008	9,704	42,304
	\$234,797	\$100,227	\$134,570

	2012 Depreciation
Fittings	542
Furniture	2,986
Office equipment	17,507
Hardware	20,393
Other property, plant and equipment	5,144
	\$46,572

	2011 Depreciation
Fittings	497
Furniture	3,605
Office equipment	14,127
Hardware	21,469
Other property, plant and equipment	5,872
	\$45,570

6. Intangibles

	Cost	2012 Accumulated amortisation	Book value
Computer software	74,997	57,623	17,374
Website	53,682	42,037	11,645
	\$128,679	\$99,660	\$29,019

	2012 Amortisation
Computer software	7,523
Website	10,840
	\$18,363

	Cost	2011 Accumulated amortisation	Book value
Computer software	56,444	47,223	9,221
Website	52,242	34,514	17,728
	\$108,686	\$81,737	\$26,949

	2011 Amortisation
Computer software	7,212
Website	11,818
	\$19,030

7. Lease commitments

Lease commitments under non-cancellable operating leases:

	2012	2011
Not later than one year	180,100	180,100
Later than one year, not later than five years	435,239	615,339
	\$615,339	\$795,439

8. Sundry payables and accruals

	2012	2011
Sundry payables	66,226	78,050
Levies overpaid	250,000	-
Accruals	108,578	182,861
Provision for holiday pay	92,246	78,199
	\$517,050	\$339,110

9. Accounts receivable

	2012	2011
Levy funding receivable	-	\$12,351
Sundry debtors	\$1,649	-

10. Prepayments

	2012	2011
Conference expenses	17,073	3,450
Healthcare	1,096	2,077
Professional subscriptions	1,412	1,390
Other	117	172
	\$19,698	\$7,089

11. Income tax expense

	2012	2011
Profit before tax	7,902	148,869
Tax at statutory income tax rate of 28% (2011: 30%)	2,213	44,661
Add tax effect of non-deductible expenditure	5,773	11,187
Over provision in respect of prior years	(4,637)	-
Current year taxation as per income statement	\$3,349	\$55,848

12. Directors' remuneration

The directors had remuneration due or paid during the year of \$98,000 (2011: \$98,000).

13. Contingent assets and liabilities

There are no contingent assets or liabilities at year end.

14. Transactions with related parties

There have been no related party transactions during the year.

15. Financial instruments

The carrying amounts of categories of financial assets and liabilities are as follows:-

Loans and receivables

	2012	2011
Accounts receivables	1,649	12,351
Bank	362,684	195,241
	\$364,333	\$207,592

Financial liabilities measured at amortised cost

	2012	2011
Sundry payables	\$66,226	\$78,050

16. Other income

	2012	2011
New participants' joining fees	\$20,000	\$60,000

17. Board expenses

	2012	2011
Board expenses	28,663	26,371
Process review	-	35,000
	\$28,663	\$61,371

Directory

Directors

Prof Ron Paterson
Suzanne Chetwin
Peter Clare
Mary Holm
Kevin Murphy

Banking Ombudsman

Deborah Battell

Registered office

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Contact details

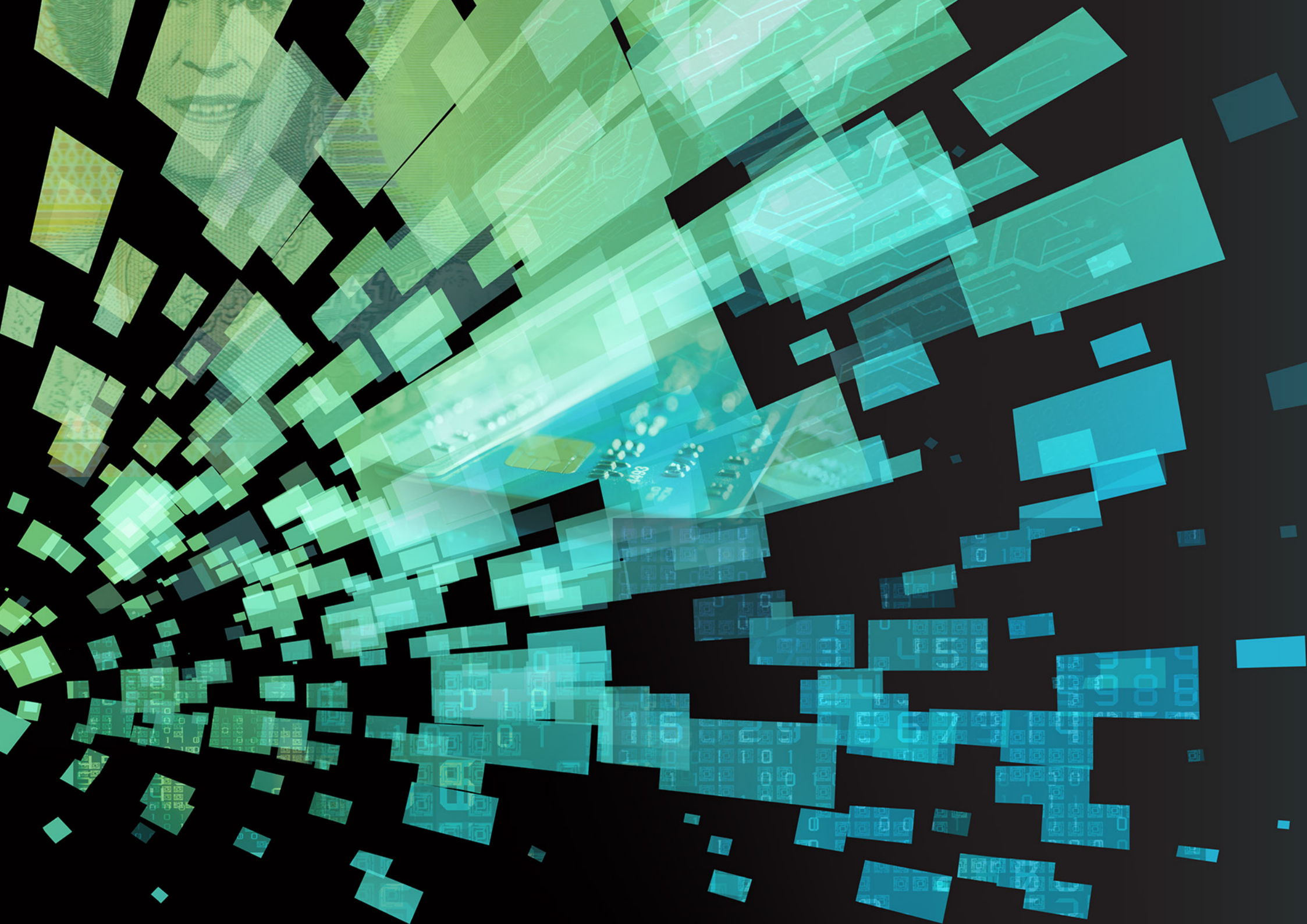
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Banker

The National Bank of
New Zealand Limited
Wellington

Auditor

Ernst & Young





BOS

Banking Ombudsman Scheme

Freephone 0800 805 950

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