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Annual Report



Banking Ombudsman Scheme

Trust us to be fair

Scheme participants

(as at 30 June 2014)

ANZ Bank New Zealand

ASB Bank (including Bank Direct & Sovereign Home Loans)

Bank of Baroda New Zealand

Bank of India New Zealand

BNZ

China Construction Bank
(New Zealand) Limited

Citi New Zealand

Heartland Bank

HSBC New Zealand

ICBC

Kiwibank

Nelson Building Society

NZCU Baywide

Rabobank New Zealand
(including RaboDirect)

SBS Bank (including HBS Bank)

The Co-operative Bank

TSB Bank

Westpac

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

Contents

Highlights	1
From the Chair	2
From the Banking Ombudsman	4
Our organisation	5
Reaching out	6
Our caseload	8
Resolving differences	14
Case studies	20
Financial statements	25
Directory	33

With almost 3/4 of New Zealanders opting for the virtual bank experience, the Banking Ombudsman Scheme has to keep up with continually evolving issues



13% INCREASE IN ENQUIRIES

34,000 UNIQUE WEBSITE VISITS

3,250 CASES RECEIVED

HIGHLIGHTS

- 12 percent reduction in average working days to resolve disputes, falling from 74 to 65 days and down 21 percent in two years
- 13 percent increase in enquiries to scheme
- 62 percent increase in unique visitors to website (34,000)
- 65 percent of complaints now made via online form, 80 percent made electronically
- 10 new Quick Guides
- introduced customer and board charters
- 85 percent of scheme users satisfied with our process
- lending matters dominated disputes – credit card disputes up from 12 – 19 percent
- more than 50 percent increase in KiwiSaver cases
- big improvement in early resolution through use of advice line for participants and quicker and more reasonable bank offers

FROM THE CHAIR

This has been my first full year with the scheme, and I am delighted to say it has been a thoroughly stimulating and rewarding 12 months. For that, I am indebted in no small measure to the contributions and expertise of fellow board members.



Miriam Dean | Chair

A handwritten signature in black ink that reads "Miriam R Dean".

In my relatively short time in the position I have had the opportunity to meet a diverse range of stakeholders, many with direct interests in the banking industry, others with a more peripheral connection. I found their input valuable and thank all of them for their time. All have helped me develop ideas about the strategic focus of the scheme and opportunities to extend our world-class service. A particular area of focus must be how we can, to coin that much-used phrase, “add value”. We have made great progress in recent years, and we will continue to find new ways to make the scheme that much more useful to both banks and their customers.

The review we set in motion in the final months of the year will be one of a host of initiatives to do just that. It has a twofold function: it acts as the regular three-yearly review and it fulfils the five-yearly requirement, under the Financial Service Providers (Registration and Dispute Resolution) Act 2008, for a more high-level assessment. The outcome of this second evaluation will be a report to the Minister of Consumer Affairs.

The board has engaged Australian consultancy firm Cameron Ralph Pty Ltd to conduct the review. The review will examine the effectiveness and efficiency of the dispute resolution process; whether the existing terms of reference support or hinder the scheme’s aim of being a world-class service provider; and whether the present organisational arrangements and decision-making procedures support this aim. The review will also take account of the other principles listed in the Act of accessibility, independence, fairness and accountability.

On membership, the year saw the arrival of ICBC NZ in January 2014 and departure of NZCU South the previous month. I note with pleasure the first and with regret the second. Unfortunately, NZCU South no longer met the scheme's participation criteria.

Two final points deserve mention: the considerable work that went into categorising disputes by complexity and the completion of a revised board charter, which can be found on the scheme's website.

During the year, one of the board's banking representatives departed. Peter Clare, from Westpac, completed his two-year appointment in May 2014. I want to record my thanks for all his efforts and insights during that time. I am also pleased to have the opportunity to work with his replacement, Barbara Chapman, from ASB, and I welcome her to the team. In the meantime, Kevin Murphy from TSB continues to provide sage advice while the board's two consumer representatives, Mary Holm and Suzanne Chetwin, continue to provide a valuable consumer perspective. For Mary, who extended her service for another two years in February 2014, it will be her final term. Her reappointment helps ensure continuity and experience in the board line-up.

And last, but far from least, I want to thank Banking Ombudsman Deborah Battell and her staff, who bring a real dedication to their job and support the board in innumerable ways. More importantly, without their unstinting efforts, banking customers would not enjoy such high levels of service.

Banking has come such a long way in one generation; from having to get to the bank before closing hours, to the introduction of ATMs, through to literally carrying our financial institution in our pocket.

– CANSTAR New Zealand General Manager Derek Bonnar



FROM THE BANKING OMBUDSMAN

Welcome to our 2013-14 annual report. What a testing year it has been! It has presented all sorts of challenges to our organisational abilities and resilience – but challenges we're that much better for having faced.



Deborah Battell | Banking Ombudsman

The earthquake in July, and the subsequent discovery that we could not return to our Wellington offices, resulted in eight months of on-and-off interruption. To the credit of all staff, we made do initially from home, then from temporary space, and managed a complete office fit-out while keeping up the flow of good work.

In spite of everything, we met nearly all our external targets. Our average time to resolve disputes dropped by 12 per cent compared with last year – a superb result in the circumstances - and most importantly, we continued to lift customer satisfaction and maintain the high quality of our work.

This strengthening of quality processes and customer satisfaction ratings was evidenced in a legal review of closed files carried out half-way through the year. We sought an assessment of the quality of our issues analysis, communications and correspondence, and fairness and timeliness of the dispute resolution process and outcome.

The review found our work to be of a very high standard. Staff identify the right issues, correspond with banks and customers professionally and also demonstrate a

high level of empathy and patience in interactions. The review concluded this contributes significantly to the effectiveness of our work.

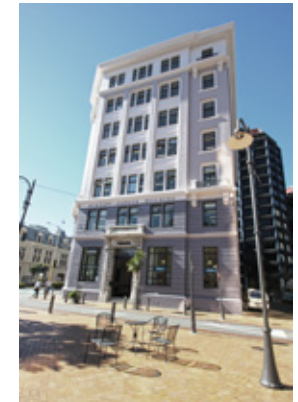
The volume of calls about institutions that are not part of the scheme kept rising. This suggests greater public awareness of the scheme's existence. Certainly our website is attracting much higher levels of traffic (and with it, more use of our online complaint form).

During the year, we noticed a shift in the types of cases coming to us. Property-related cases eased off – a sure sign, in our experience, of better economic times – while those with an internet and technology-related aspect grew. This growth is a trend I'm sure will loom larger in years to come as banking becomes an increasingly mobile business.

Another trend we noticed was the willingness of banks to propose a compromise at an earlier point. The proportion of disputes resolved by a joint settlement rose during the year. I remain confident this trend will continue. We've also noticed signs of progress in the final – and usually more intractable – stages of disputes, a further sign of a general willingness to resolve disputes as early as possible.

In a similar vein, I'm heartened to note a big increase in banks' use of our advice line. To my mind, it's recognition of our ability to help bank staff resolve problems with customers early on – before things escalate into a formal process involving our investigators.

Considerable work went on behind the scenes this year – a lot of it aimed at improving focus, performance, customer delivery and much else besides. I am very grateful for the support of our Chair, Miriam Dean, the board and our immensely dedicated staff. But what you're probably interested in is how we approached our work during the year and our results. I invite you to find out by reading on.



Our new home, The Huddard Parker Building

OUR ORGANISATION

Our people

Banking Ombudsman Deborah Battell heads a team dedicated to upholding the scheme's goal of providing a service that is regarded as fair, independent and trusted. The team of 16 full and part-time staff carries out a wide variety of functions, including enquiry advice, referral of complaints, investigations work, business analysis, administration and communications. Team members take pride in coming up with common-sense and reasonable solutions to problems, as well as working with banks and bank customers to improve understanding of each side's rights and responsibilities, and help improve the banking experience.



Senior leadership team (left to right)

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

Elizabeth Ward – Enquiries Manager

Deborah Battell – Banking Ombudsman, BA, MBA

Cheryl Thomson – Executive Administrator

Chantal-Marie Knight – Senior analyst, BSc (Hons), MSc

Our board

The board's five members are responsible for ensuring the Banking Ombudsman's independence and the scheme's effectiveness and smooth running. Two board members represent consumers, and two represent banks in the scheme. The chair is independent. The scheme is registered as a company, the Banking Ombudsman Scheme Limited, of which board members are also directors.

Miriam Dean

LLM (Harvard), LLB Hons (Auckland), CNZM, QC

Miriam brings considerable experience in mediation, arbitration and legal affairs to the position of independent chair. She is also chair of NZ on Air's board and the Ministry of Justice's Legal Aid Advisory Board. Other roles include deputy chair of Auckland Council Investments Limited, director of Crown Fibre Holdings Limited and trustee of the Royal New Zealand Ballet.



Suzanne Chetwin

Suzanne is a consumer representative on the board, a role she is well qualified to perform as chief executive of Consumer New Zealand. Suzanne is also a board alternate for the Electricity and Gas Complaints Commission, a member of the Electricity Authority Retail Advisory Group and a board director of the Consumer Foundation.



Mary Holm

MA, MBA

Mary brings a wide range of skills to her role as the other consumer representative. She is a personal finance columnist, an author and a member of the Financial Markets Authority board. She also presents seminars on finance.



Kevin Murphy

FCA, JP

Kevin is one of the board's banking representatives. He has long experience in the sector and is currently managing director and chief executive of TSB Bank. Other positions he fills include a member of the New Zealand Bankers' Association Council, a director of Fisher Funds and vice-president of the New Zealand Institute of Chartered Accountants.



Barbara Chapman

Barbara is the other banking representative. She, too, has extensive banking experience, and occupies the roles of chief executive and managing director of ASB Bank New Zealand, chair of the New Zealand Bankers' Association and the New Zealand chief executive of Commonwealth Bank of Australia.



REACHING OUT

We actively seek to increase awareness of the scheme. Using traditional media outlets and social media, as well as a range of educational and marketing material, we promote the scheme's role among the public, the industry, community groups and government. The rise in enquiries this year about institutions that are not part of the scheme underlined our progress in reaching out to the public.

Our website is also an increasingly important communication tool. This year, it attracted more than 34,000 unique visitor hits – a 62 per cent rise on last year's 21,000 hits. A growing proportion of our complaints workload originates from the website via the online form. This year, 65 per cent of all new complaints and disputes were made this way. To stimulate online interest, we also posted various finance and banking tips, insights and interesting investigation stories on our Facebook page. Attracting and responding to media enquiries was another way to highlight the scheme's work.

Educational work

Increasing financial literacy continues to be one of our goals. The reason is simple: the better informed people are about their rights and responsibilities, the better the relationship between bank and customer. This year we added to, or updated, a range of resource material to help achieve that goal. In all, we published 10 new quick guides on subjects as varied as ATMs, KiwiSaver and telegraphic transfers. We also brought two existing guides up to date. Other measures included publishing two new complaints process guides, revising two more and preparing 47 case notes. This last resource provides guidance about how we might approach particular types of cases. All the material was published on our website, which continued to undergo enhancements during the year.

Industry activities

We aim to keep abreast of developments in the banking and finance sectors and to share our insights. The Banking Ombudsman and other senior figures delivered speeches to, or took part in, various industry and business group events during the year. We also participated in the New Zealand Code of Banking Practice focus group on improving access and help to customers with disabilities. Other initiatives included running two bank officer forums (one for heads of complaints teams, the other for complaints handlers) and supporting the Commission for Financial Literacy and Retirement Income's 2013 Money Week.

Our interaction with the banking sector has another dimension, too. Each year, we conduct a survey of bank branches to gauge how they handle customer complaints and meet their Code of Banking Practice obligations. This year, however, we decided to discontinue the mystery shopper survey, which is run for this purpose. The reason was partly that, after running for 13 years, it had lost the element of surprise, but more importantly, we felt a survey needed to recognise the increasing use of online banking. We therefore began work on a survey that will feature an online measure of how well banks respond to customer complaints.

Public submissions

We maintain a strong interest in matters affecting the banking and finance sectors, especially legislative changes that will have an impact on how we operate. During the year, we prepared submissions on a review of alternative dispute resolution schemes, the Fair Insurance Code, the Credit Contracts and Financial Services Law Reform Bill and a review of the Financial Service Providers (Registration and Dispute Resolution) Act 2008.

Public perceptions

Feedback about the service we provide is important. It enables us to measure the quality and effectiveness of what we do, and it also acts as a spur to better performance. Surveys of 522 people who lodged complaints or whose disputes we investigated during the year produced a combined satisfaction rating of 79 per cent. This was up on last year's result (76 per cent) and just short of our performance target of 80 per cent.

Several aspects of satisfaction with the handling of complaints moved up very slightly, albeit from high levels. For disputes, the increases were more dramatic, largely as a result of sustained hard work by investigators.

Our service ratings

Complaints	2012-13	2013-14	Change
Overall satisfaction with service	84%*	85%	1%
We used easy-to-understand language	98%	99%	1%
We explained how complaint would be handled	93%	94%	1%
We explained what to do if not happy with outcome	88%	89%	1%

Disputes	2012-13	2013-14	Change
We kept customer informed of progress	77%*	88%	11%
We were open about communication with bank	72%	80%	8%
We responded promptly to emails and calls	86%	93%	7%
Overall satisfaction with the process	57%	62%	5%

* Includes neutral and positive responses.

Participants' perceptions

This year we surveyed banks to get their views on our performance and how we might improve our service. Nine of the 17 banks responded. All nine banks agreed that we were friendly, helpful, courteous and respectful. We also rated very highly in such areas as overall professionalism, fairness, well-reasoned decisions, dispute resolution skills and ease of use. Areas identified for improvement included timeliness of resolving disputes, updating banks on the progress of cases and on communication with customers, and our effectiveness in helping banks improve their own resolution processes. We plan to take steps in the next financial year to improve these aspects of our service, where required.



Seven out of ten users access the internet from a hand-held mobile device such as a smartphone or an iPad. Almost half of the internet users surveyed (48%) said that they had accessed the internet through a tablet, while an even higher proportion (68%) connected through their mobile phone in the past year.

– AUT University, World Internet Project report



As smartphone functionality improves with higher resolutions and larger screens, faster internet access via 4G networks, higher data downloads and more intuitive user interfaces, mobile media capabilities will increase and smartphones will be the preferred device over laptops/PCs and tablets.

– Frost & Sullivan

OUR CASELOAD

The number of cases we dealt with increased six per cent on the previous year. However, accommodation disruptions in the wake of the July earthquake, along with the loss of a senior investigator, meant the increase placed a heavier than normal workload on staff. Even so, we were able to exceed half of our timeliness measures for resolving disputes and almost met the other half.

Looking at our workload by category, incoming cases rose 7.2 per cent to 3,250 and finalised cases rose 5.6 per cent to 3,232. The number of cases outstanding at 30 June 2014 was up 18, or nearly 30 per cent, on a year ago, but this was not surprising in light of the pressures just described. (Another factor was a surge in new disputes in the last months of the year – 35 in May alone.) The replacement of staff, deferred because of accommodation pressures following the earthquake, will help put this right next year.

New complaints and disputes fell slightly on last year, whereas enquiries jumped nearly 13 per cent. A fall in disputes typically occurs as general economic conditions improve, and we expect this trend to continue throughout the next financial year.

Cases by type

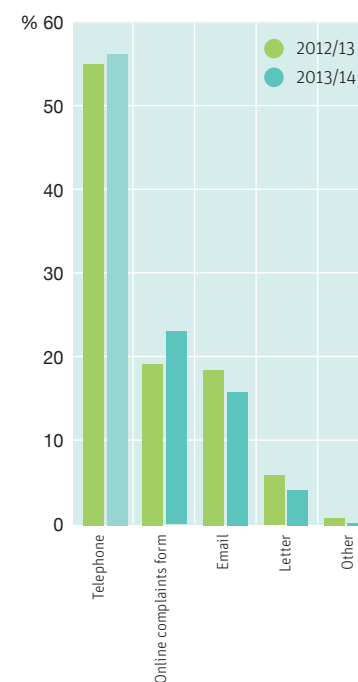
	2012-13	2013-14	% change
Enquiries			
Outstanding from last year	3	1	-66.7
Received	2021	2281	12.9
Completed	2023	2282	12.8
Carried over to next year	1	0	n/a
Complaints			
Outstanding from last year	6	3	-50.0
Received	738	710	-3.8
Completed	741	713	-3.8
Carried over to next year	3	0	n/a
Disputes			
Outstanding from last year	80	57	-28.8
Received	273	259	-5.1
Completed	296	237	-19.9
Carried over to next year	57	79	38.6
Total			
Outstanding from last year	89	61	-31.5
Received	3032	3250	7.2
Completed	3060	3232	5.6
Carried over to next year	61	79	29.5

Making contact

Over half (56 per cent) of our first contacts continued to be by phone. This is unlikely to change, given the convenience and immediate response obtained by ringing an 0800 number. The number of enquiries rose 12.9 per cent compared with last year to 2,281 calls. Of these, 572, or 25 per cent, concerned companies not in the scheme – a rise of almost a third on the previous year. Nonetheless, such calls added to our workload as staff attempted to provide as much help as they could while also directing callers to the correct regulatory body, dispute resolution scheme or agency. Enquiries concerning banks in the scheme tended to be about transactional accounts and property and credit card lending.

The trend of real note this year was the increase in the use of our online complaint form, a shift that parallels the increasing use of online banking for many day-to-day transactions. Previously, 19 per cent of all cases were lodged using the form. This year the figure rose to 23 per cent, mainly at the expense of emails. We attribute part of the increase to greater efforts to promote our revamped website, publication of more financial literacy material, all of which have links to the site, and a redesign of the form to make it more user-friendly. The most frequented website pages were the “Contact Us” and “How to Complain”.

How people contacted us



Key terms

To understand this section, it is useful to know the specific meanings we give to the following:

Case: our collective term for enquiries, complaints and disputes.

Enquiry: when a person contacts us with a question or problem, usually about a bank or how to make a complaint about a bank.

Complaint: a problem that a customer lodges with us about a bank, and that we refer to the bank to try to resolve.

Complaint facilitation: when we help a bank resolve a complaint it is looking into before both sides reach an impasse.

Dispute: a complaint the bank and the customer have not been able to resolve among themselves. It sets in train a formal investigation.

Jurisdiction declined: when we cannot investigate a dispute because it falls outside our powers and duties.

Facilitation: a dispute that is resolved early on without the need for a written decision.

Conciliation: when the two sides are keen to resolve their dispute and use one of our conciliators to reach a settlement.

Initial assessment: a written decision setting out the facts of the case, the questions in dispute and our assessment of these aspects of the case, along with a proposed recommendation. The customer and bank have a month to put arguments to us about why the proposed recommendation should be changed.

Recommendation: our final decision, which may or may not have been amended in response to the final arguments. (If the arguments persuade us to make significant amendments, we'll do a fresh assessment.)

Award: the compensation we say the bank must pay the customer in our final recommendation. It is rare to issue an award; this only happens when a bank disagrees with our final recommendation and the compensation we require. The award is binding on both sides.

Membership and use of the scheme

New Zealand's four largest banks, along with nearly all other banking service providers, continued to be involved in the scheme, membership of which is voluntary but subject to strict participation criteria.¹

At the end of the previous financial year, membership stood at 17. At 30 June 2014, the figure remained at 17, although there were two changes: in December 2013, NZCU South left the scheme after it was unable to comply fully with the participation criteria, and in January 2014 ICBC NZ joined the scheme.

Participants' use of the scheme remained largely unchanged year on year, with individual banks' market share (as estimated by assets) generally corresponding with the number of cases we received about them. That remained true when participants were grouped into small, medium or large institutions.

Overall, there was a very slight increase in complaints and disputes involving large banks and a corresponding drop involving small and medium ones.

¹ Criteria include that participants have a current registration under the provisions of the Reserve Bank Act 1989 or are a non-bank deposit taker within New Zealand; have a credit rating of at least BB; or are a subsidiary of one of the scheme's existing participants.

Complaints and disputes received: bank by bank

Scheme participant	2012-13				2013-14				% of total assets [^]
	Complaint	Dispute	Total	%	Complaint	Dispute	Total	%	
Large[^]									
ANZ Bank NZ	252	82	334	33.0	257	72	329	34.0	32.1
ASB Bank	96	50	146	14.4	111	56	167	17.2	17.7
BNZ	130	50	180	17.8	100	56	156	16.1	18.5
Westpac NZ	140	65	205	20.3	138	52	190	19.6	19.9
Sub-total	618	247	865	85.6	606	236	842	86.9	88.1
Medium[^]									
Citi NZ	-	-	0	0.0	2	-	2	0.2	0.5
Heartland Bank	3	2	5	0.5	1	3	4	0.4	0.6
HSBC NZ	1	4	5	0.5	4	3	7	0.7	1.2
Kiwibank	78	7	85	8.4	71	4	75	7.7	3.9
Rabobank NZ	3	2	5	0.5	1	3	4	0.4	3.0
SBS Bank	7	4	11	1.1	8	6	14	1.4	0.7
The Co-operative Bank	8	3	11	1.1	5	1	6	0.6	0.4
TSB Bank	9	2	11	1.1	10	3	13	1.3	1.4
Sub-total	109	24	133	13.2	102	23	125	12.9	11.7
Smalls[^]									
Bank of Baroda NZ	-	-	0	0.0	-	-	0	0.0	0.0
Bank of India NZ	-	-	0	0.0	-	-	0	0.0	0.0
ICBC NZ	n/a	n/a	n/a	n/a	-	-	0	0.0	0.0
Nelson Building Society	4	-	4	0.4	2	-	2	0.2	0.1
NZCU Baywide	3	1	4	0.4	-	-	0	0.0	0.1
NZCU South	4	1	5	0.5	-	-	0	0.0	n/a
Sub-total	11	2	13	1.3	2	0	2	0.2	0.2
Total	738	273	1011	100	710	259	969	100	100

[^] Banks are classified according to total assets at 31 December 2013, as verified by themselves in June 2014.

Areas of contention

The sources of contention between banks and customers changed little from last year. Lending-related matters again dominated, accounting for 35 per cent of complaints and 41 per cent of disputes – figures almost identical to last year's results. Next was the category of payment systems, followed closely by bank accounts.

Within the lending area, however, shifts emerged. Complaints and disputes involving property and unsecured lending (such as for cars, personal effects and business-related spending) declined. In turn, those involving credit card lending and guarantees increased. This is a typical development as economic conditions improve: the financial pressures that assert themselves in the form of property-related disputes ease, to be replaced by disagreements over smaller, credit card-related lending. This suggests the scheme's workload is reverting to its pre-global financial crisis composition.

Disagreements about credit card lending increased from 12 per cent to 19 per cent of lending-related complaints and disputes.

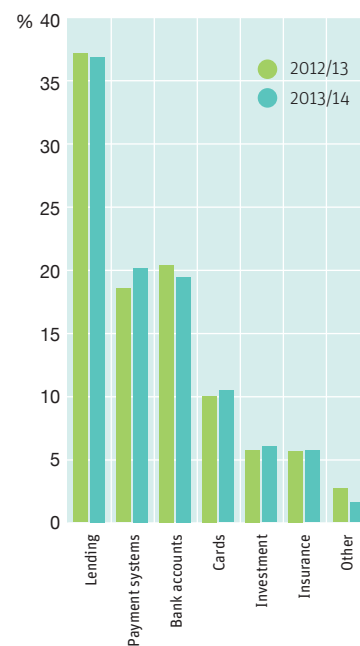
Customers took action because of what they perceived as unfair collection activities, high interest charges and excessive fees.

Lending guarantees were the cause of a modest influx of complaints and disputes – from none the previous year to 12 this year. Common themes included banks' apparent failure to keep guarantors informed of changes affecting the loans they had guaranteed and banks' refusal to release guarantors.

In the category of payment systems, 22 per cent of complaints and disputes related to telegraphic transfers (up from 13 per cent), in particular undisclosed fees (especially fees charged by beneficiary and intermediary banks) and excessive fees.

In the category of bank accounts, complaints and disputes relating to transactional accounts again dominated, accounting for 83 per cent of such cases. Bank customers were especially concerned about account access (whether freezing of accounts or access by more than one person) and account closures (both unexpected and unprocessed).

Categories of contention





It pays to take security precautions with your mobile device. Many are the same as for your personal computers, but the main problem is mobiles are easier to lose and potentially store more personal information.

– Banking Ombudsman Deborah Battell

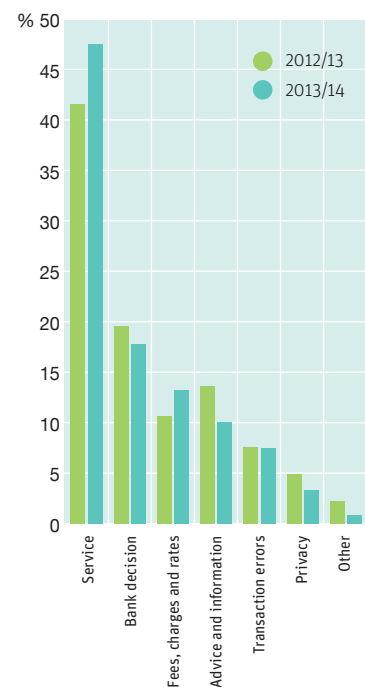
Analysis and trends

We examine data on complaints and disputes to identify ways to do things better and to anticipate emerging developments. Banks also use data on dispute outcomes to improve their processes. (See Wider impact, page 18). Overall, we found no dramatic departure from last year's results. However, the proportion of complaints and disputes about customer service rose from 42 per cent to 47 per cent. Within that category, two themes resurfaced from last year. They were a failure by bank staff to act as instructed or promised (such as when closing accounts or transferring funds), and bank staff who acted without authority or instruction (for example, allowing accounts to go into unarranged overdraft or allowing unauthorised payments).

A third theme, accounting for 19 per cent of cases in this category, centred on unhappiness with the way banks collected debts. Specifically, people felt that banks were pursuing them for a debt for which they were not liable (mainly jointly owned debts), or that banks were not open to discussing or accepting alternative repayment proposals. This third category more than doubled in number compared with last year, an increase linked closely to credit card lending. We intend to produce a quick guide on debt collection and recovery processes in response to this emerging area of concern.

In the category of bank decisions, the main cause of concern was cancelled, withdrawn or declined products or services. Pleasingly, the share of this category recorded a small decline. The third-biggest category, fees, charges and rates, rose by about the same amount. As expected, complaints about excessive or unfair fees dominated. Another welcome result was the drop in complaints and disputes about advice and information. Transaction errors were unchanged.

Why people were unhappy



Some cases could be formed into distinct groupings, most notably:

Anti-Money Laundering and Countering Financing of Terrorism Act (2009)

We dealt with 39² cases relating to this Act. The most common causes of dissatisfaction were that banks had closed accounts in response to the Act; that it was difficult to access funds that banks were temporarily holding under the Act; and that there were unnecessary delays in processing funds because banks were not fully advising customers of new identification rules.

Bank fees class action

We received 20 enquiries about this legal action against New Zealand banks. Enquiries were mainly from bank customers seeking contact details for Fair Play on Fees, the group leading the action.

Canterbury earthquakes

The number of earthquake-related cases fell from 32 last year to 16 this year. Most were about home and contents insurance and property lending. The causes of contention were unchanged: banks' refusal to release Earthquake Commission payouts; disagreements between banks and customers about how to use Earthquake Commission and insurance payouts; and assertions that banks had sold insurance policies that did not provide the promised cover.

KiwiSaver

The KiwiSaver savings initiative continued to generate cases – 87 in fact, a rise of more than 50 per cent on last year. Two-thirds related to the withdrawal of savings, especially because of financial hardship. Contentious matters included the amount of time taken to consider withdrawal applications and the amount of supporting information required of such applications. Other cases arose because applications were declined or only partly accepted. In several instances, individuals sought to withdraw savings because they were moving to Australia permanently and/or wished to put their KiwiSaver money towards buying a first home in Australia.

² This figure consisted of 32 enquiries, three complaints and four disputes.

RESOLVING DIFFERENCES

Enquiries and complaints

The first two stages of a case that runs its full course are comparatively straightforward. We were able to answer 96 per cent of the 1,709 enquiries we received about participants during the year within two working days (just short of our target of 99 per cent). We achieved a similar result for complaints – 88 per cent within two working days – though this was down on the previous year’s result of 96 per cent and short of our target of 95 per cent. Accommodation-related disruptions, as well as interruptions to computer services during relocation work, had a direct bearing on this performance.

We handled 713 complaints for the year. Much of the work is concerned with ensuring complaints go directly to the correct area of a bank, which can greatly help speed up resolution times.

Complexity of disputes

Most disputes (89 per cent) we investigated during the year first came to us as an enquiry or complaint, the balance being referred to us after consideration by banks’ internal complaints processes.

Disputes are necessarily slower and more difficult to resolve. They take up a great deal more time and effort than their numbers – 237 this year – would suggest. Dispute numbers have been declining in recent times, but our sense is that the complexity of disputes has been increasing. This year we developed a complexity rating for disputes, principally to set a benchmark to try to establish whether our instincts are correct but also to ensure a more efficient management of workflows.

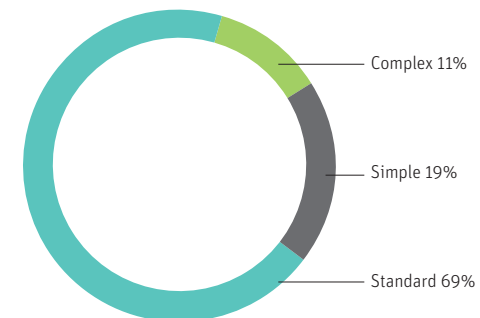
Our three-tier complexity rating system takes into account factual difficulty, legal complexity and case-specific customer and bank issues. The three categories are:

Simple/straightforward: these disputes lend themselves to an early facilitated resolution or straightforward jurisdictional decision, for example, when a customer seeks our view about whether a bank’s compensation offer is fair.

Standard: these have no special features that warrant their inclusion in the simple or complex categories and make up the bulk of disputes.

Complex: These are gauged to be difficult to resolve because they may be factually complex, there is a long history to a case, the bank customer has particular personal circumstances that complicate matters, communication between the bank and customer is difficult or delayed, or special legal considerations come into play.

Disputes by degree of complexity



Timeliness of handling disputes

Despite the year's challenging circumstances, we performed well overall. We completed simple disputes in an average of 23 working days, standard disputes in 62 and complex ones in 158.

We also exceeded two of our performance measures for disputes and came close in two others. We aim to resolve disputes of all types of complexity within an average of 70 working days – and achieved a result of 65, an improvement of 12 per cent compared with last year's average of 74 working days. Simple disputes were resolved within 40 working days in 87 per cent of cases (target 90 per cent). Standard disputes were resolved within 120 working days in 96 per cent of cases (target 90 per cent). And complex cases were resolved within 200 working days in 85 per cent of cases (target 90 per cent).

Disputes by outcome

The four biggest banks – ANZ, ASB, BNZ and Westpac – accounted for 91 per cent of disputes completed during the year. Their combined market share (by assets) was 88 per cent. The medium and small banks made up the balance in rough proportion to their individual size.

Completed disputes: bank by bank

Scheme participant	Outside jurisdiction		Joint settlement		Finding for customers		Finding for banks		Abandoned or withdrawn*		Total by bank	
	12/13	13/14	12/13	13/14	12/13	13/14	12/13	13/14	12/13	13/14	12/13	13/14
Large[^]												
ANZ Bank NZ	13	18	21	13	9	6	21	13	30	21	94	71
ASB Bank	8	7	9	16	3	1	15	8	26	12	61	44
BNZ	14	5	12	11	4	4	6	7	16	15	52	42
Westpac NZ	9	11	12	12	4	3	13	9	26	24	64	59
Medium[^]												
Citi NZ	-	-	-	-	-	-	-	-	-	-	-	-
Heartland Bank	-	1	-	-	-	-	1	-	1	-	2	1
HSBC NZ	-	2	-	-	1	-	1	-	1	2	3	4
Kiwibank	2	-	-	1	1	1	1	-	4	2	8	4
Rabobank NZ	-	-	-	1	-	-	2	-	-	-	2	1
SBS Bank	-	-	1	-	-	1	-	1	2	4	3	6
The Co-operative Bank	-	-	1	-	-	1	1	2	2	-	4	3
TSB Bank	-	-	-	-	-	-	1	-	-	2	1	2
Small[^]												
Bank of Baroda NZ	-	-	-	-	-	-	-	-	-	-	-	-
Bank of India NZ	-	-	-	-	-	-	-	-	-	-	-	-
ICBC NZ	-	-	-	-	-	-	-	-	-	-	-	-
Nelson Building Society	-	-	-	-	-	-	-	-	-	-	-	-
NZCU Baywide	-	-	1	-	-	-	-	-	-	-	1	-
NZCU South	-	-	-	-	-	-	-	-	1	-	1	-
Total	46	44	57	54	22	17	62	40	109	82	296	237

[^] Participants are classified according to total assets at 31 December 2013, as verified by themselves in June 2014.

* Dispute abandoned: when a customer fails to respond to correspondence, usually after getting an indication of how we will approach the dispute.

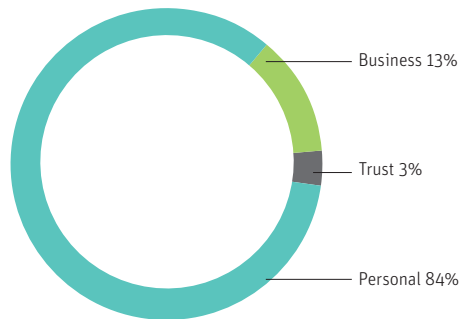
* Dispute withdrawn: when a customer tells us he or she no longer wants to pursue the dispute, whether before or after we give an indication of how we will approach the dispute.

Cases inside jurisdiction where the finding was either jointly or wholly for the customer rose from 32 per cent last year to 37 per cent this year. The increase was attributable to more joint settlements, which rose from 23 per cent to 28 per cent – an encouraging sign. Abandoned or withdrawn disputes dipped, as did disputes in which the finding was for banks.

Profile of a dispute

Personal banking customers – individuals, couples and groups – continued to make up the overwhelming majority of disputes settled during the year. The proportion of personal to business disputes swung a few percentage points towards the latter (up from 11 per cent last year to 13 per cent this year). There was also a noticeable shift away from lending-related disputes by businesses. Last year, this category accounted for 55 per cent of disputes. This year, it dropped to 47 per cent. Personal banking disputes spanned the spectrum of banking products, including property lending (26 per cent) and transactional accounts (13 per cent).

Disputes by bank customer type



How we resolved disputes

Facilitation – getting both sides to reach an agreement before a formal investigation begins or gets very far – is invariably our first choice. It’s faster and often results in a more satisfactory outcome for customer and bank. Fifty-five per cent of disputes inside jurisdiction ended in this way, slightly down on last year’s 58 per cent. The balance of cases, 45 per cent, went on to an initial assessment or recommendation. This was up on last year’s result of 42 per cent.

If neither side disputes an initial assessment, it becomes binding and we do not take the final, formal step of issuing a recommendation. This year, 38 per cent of written decisions ended at the initial assessment stage, up from 31 per cent a year ago – a good indication that we are arriving at fair and persuasive settlements, and also that more people are showing flexibility and a willingness to conclude disputes earlier. The fact 62 per cent of those who receive written initial assessments go to the final stage indicates one party, usually the customer, is determined to exhaust all possible avenues of appeal within the scheme. It is encouraging to note, however, that this percentage had reduced from 69% last year.

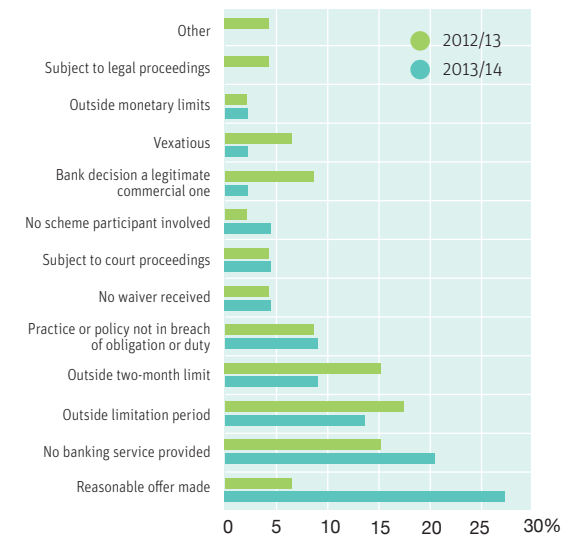
Disputes outside our jurisdiction

Forty-four cases fell outside our terms of reference. These were cases that had reached the level of a dispute and our investigators had begun to look into them, only to conclude they were beyond our power to rule on. This total represented 19 per

cent of all disputes dealt with during the year, a small increase on last year’s result of 16 per cent.

Among the reasons for declining to intervene, the biggest increase (from three instances last year to 12 this year) was recorded in cases where a bank had already made a reasonable offer. This highlights the position banks are increasingly taking of wishing to settle disputes quickly and fairly. Other increases or decreases were the result of annual variations.

Why we declined to intervene



We have noticed a shift in the types of cases coming to us. Property-related cases have eased off, while those with an internet and technology aspect grew.

– Banking Ombudsman Deborah Battell

Payments

Banks made a payment in 57 of the 193 disputes within our jurisdiction and settled by us. This proportion – 30 per cent – was unchanged on last year. Payments totalled \$360,350, a decrease of 40 per cent on last year's \$597,331. The drop is explained by the distorting effect of a handful of very large payments in 2012-13. In that year, payments in the \$10,000-plus category – the highest band – came to \$467,397. This year, there were only four payments in the same band, totalling \$277,914. This year's average payment fell 22 per cent to \$1,867.

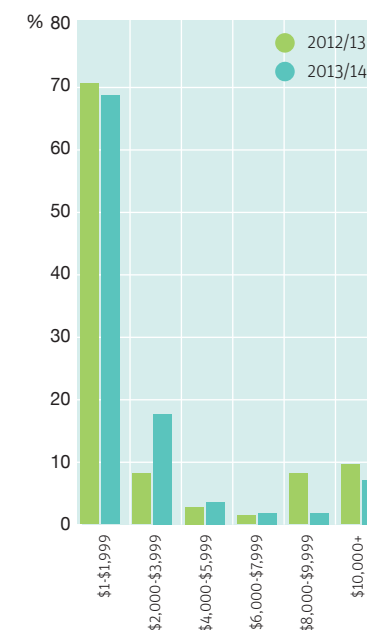
Payments can consist of reimbursement for direct loss (up to a limit of \$200,000) and compensation for inconvenience (up to \$9,000). This year, the split was 85 per cent direct-loss payments and 15 per cent inconvenience payments. Last year, the split was about the same.

Of the 44 disputes we ruled to be outside our jurisdiction, 10 went on to result in a payment by a bank. Amounts ranged from \$150 to \$5,000 and totalled \$18,627. In nearly all 10 cases, we declined to intervene because banks

had already made what we judged to be a reasonable offer to customers.

Twenty-four disputes were resolved with a non-financial settlement, such as an apology from the bank (provided in six of the disputes); a reduction of debt (applicable in five); a preferential interest rate (provided in five); the waiving of fees (carried out in five) or an explanation from us (five also).³

What bank customers received



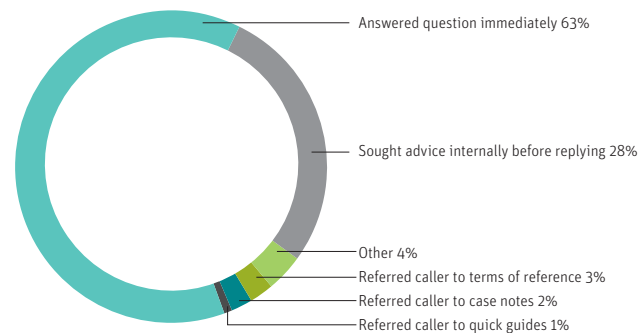
³ Several disputes resulted in more than one of these non-financial outcomes

Advice service

We operate an advice service to help banks resolve complaints through their own internal complaints processes. It is an informal service – three-quarters of enquiries from bank staff are by phone – and complainants' details are not shared with us. The service has grown in popularity. This year, we handled 71 advice enquiries, well up on last year's figure of 20. Nearly half related to property lending, transaction accounts or credit cards. The most commonly asked questions were about whether reimbursement or compensation was warranted, and whether the size of a proposed offer was reasonable.

Some banks use the service more than others. One in particular accounted for 65 per cent of all advice enquiries (up from 40 per cent the year before).

Types of response



Wider impact

Banks are making improvements to their processes in response to complaints and disputes we resolve. We know this from questionnaire results supplied by banks. Among the changes made during the year by individual banks were:

- ensuring debt notices are sent to both parties in the case of jointly held accounts
- use of clearer language for rules governing use of KiwiSaver savings for first-home purchases (See page 19)
- extra staff training on the use of appropriate language, along with other aspects of customer service
- procedures changed to ensure international transactions can be identified more accurately
- better records of phone conversations by credit controllers and putting in writing all arrears repayment plans
- reviewing procedures for clearing funds.

Systemic issues

One of our roles is to keep alert to potential problems affecting the banking sector. During the year, we enquired into four potential systemic issues but only one required further investigation: the withdrawal of KiwiSaver savings to help fund the purchase of a first home in Australia.

This case (see case study page 24) revealed a potential legislative loophole. We therefore made enquiries of Inland Revenue Department (as collector of KiwiSaver contributions) and the Ministry of Business, Innovation and Employment (as policy development agency in the area) about the potential to use KiwiSaver savings for a first home in Australia. Our intention was to help clarify the intent of the KiwiSaver Act 2006 and ensure a consistent application of its provisions.

The Act is not explicit about whether savings can be put towards the purchase of a first home overseas, though it does say that the money must be paid to a New Zealand-licensed lawyer or conveyancing practitioner.

The Ministry advised such a use would be technically possible – if the money were paid to a New Zealand-lawyer or conveyancer – but the policy intention was for such savings to be used to help fund the purchase of a home in New Zealand. Accordingly, it intends to seek a change to the legislation at the earliest opportunity.



Customers are generally adapting well to the rapid advances in banking but we still hear from people with concerns about the security of these advances, particularly contactless cards. I also remain concerned about those who are not sophisticated users of technology, especially those elderly customers. Banks must ensure they can do their banking simply, easily and with confidence.

– Banking Ombudsman Deborah Battell

CASE STUDIES

We publish case notes, or case studies, on our website illustrating how we are likely to rule on certain types of disputes. It is certainly true that every case is different, but the case studies still give a useful indication of how we might approach particular problems. In this year's annual report, we have selected a small number of case studies to illustrate situations that arose for the first time or recurring difficulties that deserve renewed attention. Note that only identifying particulars have been changed.

Lending

People who borrow to develop property should remember banks do not equally share the risks or fallout.

Mr P had sold his home and was unemployed. He was thinking about buying a section and building a house with the intention of selling it for a profit. He was not a qualified builder, but had some experience in carpentry. He had capital to invest, but needed extra finance so he approached his bank.

He came away from his discussions believing the bank was very committed to the project. He bought land and began building. He then borrowed \$250,000, secured against the property, to be used in instalments as work progressed. Later he borrowed another \$80,000. He said he discussed the mortgagee sale clauses of the loan agreement with a bank officer and understood from her that the bank would not take mortgagee sale action if he defaulted on repayments. He believed that these discussions "framed" the written loan agreement he later signed, in effect rendering the clauses about the mortgagee sale process void.

Mr P borrowed another \$250,000, and shortly after that \$11,000 to get the property ready for sale. He then sought further lending to finance his quarterly interest payments while

he sold the property. The bank declined his final application and he defaulted on his next interest payment. The bank sought repayment of the missed interest payment and, after failing to receive it, issued formal demands for the loan balance of \$590,000.

Mr P declined two conditional offers for the property, the higher of which was \$600,000, because he would still have owed money to the bank, as well as GST to the Inland Revenue Department. The bank sold the property by mortgagee sale for \$527,000, leaving him with a debt of \$185,000. This included GST the bank paid Inland Revenue after the sale.

Mr P complained to his bank that it had breached two verbal agreements not to initiate a mortgagee sale, but instead to work with him until the house was finished. He also complained that the bank did not have the right to accept \$527,000 because it was well below the property's worth. He further believed he should not be liable for the shortfall because the bank assumed responsibility for selling the property.

The bank disagreed that it had done anything wrong and referred Mr P to us. The bank disputed that it had given any open-ended commitment to the project, including advance agreement not to initiate any mortgagee sale.

We found no evidence that the bank:

- had committed to supporting the project through to completion, although we noted that it had, in fact, done so
- had agreed not to take mortgagee sale action and considered it would be unusual for a bank to agree to lend more money without the right to recover it if the borrower defaulted
- had failed to discharge its duty under section 176 of the Property Law Act 2007 to obtain the best price reasonably obtainable when the property was sold. The bank had properly marketed the property, but there was little interest in it.

Mr P had over-capitalised and had been caught by a deteriorating property market.

Mr P said the new owner was marketing the property, 14 months on, at a much higher price. We did not consider that this meant the bank failed to get the best price at the time. The higher price might have been because the new owner had improved it, property prices had improved, or it was not a forced sale.

We also considered that the bank was entitled to recover the \$185,000 shortfall and encouraged Mr P to accept the bank's offer of a repayment plan of \$170 a month. Mr P withdrew his complaint because he did not agree with us. He decided to explore other options, such as taking court action against the bank or applying for bankruptcy.

Telegraphic transfer fraud

Deception in the virtual world can soon translate into very big losses in the real world.

Mr F began corresponding with Ms B through an online dating site. After several months, Ms B told him she was moving to Ghana. Later, she emailed him to say that her bag and laptop had been stolen when she arrived in Ghana. She asked him to buy a laptop for her. He did so, and sent it to the address Ms B had supplied.

Ms B then began requesting money from Mr F for various reasons. She managed to convince Mr F to call the bank and instruct it to transfer money to an account in Britain in the name of a Mr W. On four separate occasions, Mr F transferred money to Mr W's account.

When Mr F realised he had been defrauded, he contacted his bank. He believed it should have alerted him to the possibility that the recipient was a fraudster and should have prevented the transfer of \$43,972 to the account. In Mr F's view, banks should query customers about transactions involving the transfer of large sums overseas.

The bank said it could not have known the transfers were suspicious, and was not responsible for losses from transactions he had authorised. Mr F asked us to investigate.

There was no doubt Mr F was a victim of fraud, but we had to determine whether the bank was liable. We were satisfied that the bank was unaware Mr F might have been the victim of a scam. The bank could not warn him about something of which it had no knowledge.

The bank was unaware Mr F had met Ms B on an internet dating site. He gave bank staff the impression that Ms B was a trusted friend. He gave a plausible explanation about the intended use of the money. When a bank employee queried the transfer to Ms B via Mr W's account, an unusual practice, he appeared unconcerned. Mr F also said he appreciated that Ghana was not the best place to be sending money.

From the information we reviewed, including phone calls between Mr F and bank staff, it was clear Mr F requested and authorised the payments to the account in Britain. We considered that, even if Mr F had been warned about the possibility of fraud, he would possibly still have made the payments, such was the strength of his belief that Ms B was genuine.

The fraudster, by starting with the transfer of a relatively small amount, had set out to establish a track record between Mr F and Mr W, enabling later and larger transactions to take place without raising bank staff suspicions.

EFTPOS card fraud

Using one PIN for more than one account – and worse still, using it for a variety of non-banking purposes as well – might be convenient, but it's highly risky.

Mrs A took a phone call from a person saying she had won a \$1,000 gift voucher. The caller asked for a four-digit password to redeem the voucher. Mrs A said she gave three, each time being told it was already taken. The caller then gave her a random one to use.

Unknown to Mrs A, her handbag containing two EFTPOS cards had been stolen. The call was a ruse to get the PINs. The offender made cash withdrawals and purchases totalling more than \$6,000 before Mrs A became aware of the theft and cancelled her cards.

The bank refused to reimburse her the full amount, saying she had not taken care of her cards as specified in her accounts' terms and conditions. It said she had left her bag in an easily accessible place at her workplace and had been careless with her PINs, which were the

same for both cards. It said she had disclosed her PIN to the caller, probably unwittingly, when she suggested the three four-digit passwords. As a goodwill gesture, however, it offered to reimburse half of the loss – an offer Mrs A rejected before approaching us.

Our investigation concluded that she must have given the caller her PIN because she told the bank she might have done so, she told the Police she had done so, and the offender entered the correct PIN the first time each account was accessed.

It was also quite likely Mrs A was using her PIN as a password for a variety of other accounts and purposes. We encouraged her to reconsider the bank's offer. She did, and accepted it.

Account closure

Banks can close an account even if a customer operates it satisfactorily.

Mr C ran a foreign exchange and international remittance agency. His bank advised him it intended to close the company's accounts in a month because of the potential risks it was exposed to as a result of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.

The Act requires much closer scrutiny of international transactions, and in particular, requires banks to collect more information about account-holders sending or receiving such transfers. It can impose heavy penalties on banks that do not comply with the Act.

Mr C said his company had always operated the accounts in a lawful manner, and closing them would be unfair. He asked the bank to keep the accounts open. It refused, but offered an extra two months for him to make other arrangements.

We told him we were unable to help because a clause in the terms and conditions of his contract with the bank allowed the bank to close an account even when he operated it satisfactorily. This was also consistent with the Code of Banking Practice, a set of minimum standards developed by the New Zealand Bankers' Association and which his bank was bound by. The bank was required to provide only a minimum of 14 days' notice. The terms and conditions for Mr C's account supported the bank's ability to act as it did.

We told Mr C our terms of reference did not give us the power to recommend that a bank provides services to an individual. Mr C accepted our explanation and withdrew his complaint.

Credit cards

Credit card spend-ups can mean delays in processing transactions, but card-holders remain responsible for keeping track of purchases.

A credit card belonging to Mr K's father was used 20 times over two months to make purchases from internet-based companies overseas. The card's limit was \$5,000.

Mr K's father said he approved only one of those transactions, which had been with a United States-based company. He had given that company his credit card details. The other transactions totalled about \$8,000. The bank tried to get back the money through the credit card chargeback process. Two companies returned a total of \$250 in this way.

Mr K said it should not have been possible for the credit card limit to have been exceeded by about \$4,700. He held the bank responsible. The bank denied liability. Mr K asked us to investigate.

We found that the bank was not liable for Mr K's father exceeding his \$5,000 limit because the responsibility is always on the card-holder to keep track of his or her spending. We explained to Mr K how his father was able to go over his limit by so much.

When a credit card transaction is made, the

bank "holds" the amount as unavailable either until the merchant "settles" the transaction (by presenting evidence to the credit card company that an authorised transaction has taken place) or the bank's "hold period" ends. In this case, the hold period was five days. Mr K's father had been able to exceed his credit card limit because one of the merchants had settled a transaction of \$4,100 eight days after the bank's hold period had ended. During those eight days, Mr K's father continued to make internet purchases. This meant that by the time the \$4,100 transaction was processed, debt on the credit card was well beyond the \$5,000 limit.

The bank, correctly, said it was the customer's responsibility to allow for earlier transactions.

Mr K's father said he had provided his credit card details to only one company. This seemed unlikely because the transaction he said was authorised was the nineteenth made. Other companies had clearly been in possession of his credit card details before then. It appeared Mr K's father had signed up for goods and services he thought were free, when they were not.

Concerned about the potential for Mr K's father to have been duped by overseas companies, we sought information about the credit card company's processes for monitoring merchants. We were satisfied credit card companies have systems in place to monitor merchants suspected of dubious business activity.

Life insurance

Information release forms do not necessarily give companies carte blanche to investigate claimants' medical histories.

Eight years after taking out a life insurance policy through her bank, Mrs C was diagnosed with a serious illness and lodged a claim for a terminal illness benefit.

While assessing her claim, the bank sought her approval to obtain medical information about her condition. She duly signed an authorisation form. The bank asked her doctors for full medical records going back two years. After assessing the records, the bank declined her claim, arguing she had a serious condition, but was not terminally ill.

Mrs C complained about the bank's collection of two years of medical records. She said she thought it would collect information only about the diagnosed condition, and did not believe it needed other medical information to assess her claim. In her view, the bank had collected far more personal information than was necessary, and she felt embarrassed and humiliated.

The bank explained that it was standard practice to seek information covering a specific period of time. This was necessary to discover any pre-diagnosis factors that might have a bearing on its assessment.

We considered Mrs C's complaint in light of a review by the Privacy Commission in 2009 into the way insurers collect medical notes. That report noted the tension between insurers' legitimate need for detailed medical information to make claim decisions, and an individual's right to privacy.

We looked at whether Mrs C had properly authorised the collection of full medical notes for a two-year period, and whether such a collection was necessary to arrive at the claim decision.

We were not satisfied Mrs C had authorized the collection of full medical notes. Having examined the bank's authority form, we concluded that those signing it could reasonably understand that the information collected would be relevant only to the condition for which they were lodging a claim. The bank accepted our finding and undertook to review its authorization form.

In addition, we were not satisfied in this case that the bank needed to collect full medical notes. We appreciated that there might be medical information relevant for an insurer in the period leading up to a diagnosis, but we considered that an insurer could obtain this through a request for medical notes about the condition that was subject to a claim. Such notes would include pre-diagnosis investigations and symptoms notes. This approach would have been a more appropriate way, in our view, for the insurer to access medical information in this case.

The bank did not accept our finding on this aspect of the case, but did not provide its reasons.

We accepted submissions that Mrs C had been shocked and upset at the discovery of the scope of the bank's information collection and recommended a compensation payment of \$850. After a further exchange of correspondence, both parties accepted the recommendation.

ATMs

Although extremely reliable, ATMs are not perfect.

Ms P attempted to deposit \$1,055 in one of her bank's ATMs. She put the money in the machine and it processed the deposit. However, the receipt it produced recorded a deposit of only \$330.

Seeing this, Ms P cancelled the transaction and the machine returned \$330 cash. She then went to her local branch and deposited the money through a teller, advising the staff member of her experience with the ATM.

The bank looked into Ms P's claim and told her that the ATM's computer records showed it had received only \$330, and that the ATM's funds had balanced. The bank told Ms P it could not help further, but she could complain to our office if she wished.

We began our investigation by asking the bank for copies of the ATM's transaction records and video footage of Ms P using it. While the bank was gathering this information, the ATM underwent routine maintenance.

The bank told the maintenance company employee about Ms P's claim that the machine had not processed her deposit correctly, and the employee found the missing money during the maintenance work.

We contacted Ms P and told her the money had been found. It was deposited into her account the same day.

Emails and Wi-Fi

Storing sensitive information on email accounts can be a risky business, as one couple found out.

An overseas couple, Mr and Mrs F, deposited more than \$100,000 with a New Zealand bank. Later, an email to the bank via Mrs F's email address asked about withdrawing funds. The bank replied, attaching a telegraphic transfer form to complete. Two completed forms came back, requesting the transfer of most of the money into two accounts, one in New Zealand, one overseas.

The couple learned of the withdrawals and complained that they had not authorised them. The bank refused to compensate them, saying it acted on email instructions from an email address supplied at the time of opening the original account. It added that staff had checked the signature on the requests.

We discovered that hackers had probably accessed Mrs F's Gmail account while she was using the Wi-Fi at a United States airport. In her emails, the hackers had found bank account details and a signed employment agreement. They inserted the signature on the transfer forms and emailed the bank using a programme that hides true IP addresses.

We found that the bank should have taken steps to verify the instructions were from the customer. The failure to take such precautions was out of step with industry practice. Some banks won't accept email instructions because of the risk of hacking. Others do, but only after taking such extra steps as calling customers on a phone number held on file and asking security questions. If the bank had taken such measures before accepting the transactions, it would have discovered the instructions were fraudulent.

Compounding factors were that the signatures on the instruction forms did not match the signatures held on file, and that the emails contained obvious grammatical errors. These factors alone ought to have alerted the bank to the possibility of fraud.

We did not accept that the couple contributed to the fraud by accessing their emails via public Wi-Fi. This has risks, but extra verification measures by the bank would have prevented the fraud.

We recommended the bank reimburse all the money fraudulently taken, plus interest, and reinstate their term deposit.

KiwiSaver

A first-home purchase in Australia has exposed a KiwiSaver grey zone.

A couple who had been with different KiwiSaver scheme providers for three years moved permanently to Australia. Several months later, changes to the trans-Tasman portability provisions of the KiwiSaver Act 2006 came into effect and the couple signed a conditional contract to buy their first home. They engaged an Australian conveyancer, and in the lead-up to settlement, the couple submitted applications to their respective KiwiSaver providers to withdraw savings to put towards the purchase. Mr T's provider agreed to the withdrawal, Ms Q's did not. Ms Q's interpreted the legislation to mean KiwiSaver money could help fund a first home only if it was in New Zealand.

Her KiwiSaver provider argued that funds withdrawn for such a purpose had to be paid to a practitioner within the meaning of section 6 of the Lawyers and Conveyancers Act 2006 (rule 8(7) of the KiwiSaver Rules). This defines a practitioner as "a lawyer or conveyancing practitioner", a conveyancing practitioner as "a person who holds a practising certificate issued by the New Zealand Society of Conveyancers", and a lawyer as "a person who holds a current practising certificate as a barrister or as a barrister and solicitor".

Ms Q complained to us. We concluded that Ms Q's provider, in this case a bank, had not acted unreasonably or arbitrarily in the way it interpreted the legislation. In reaching this conclusion, we took into account the purposes of the Act and the scheme's structure. We also noted that the Act's rules required the funds to be paid to a solicitor or conveyancing practitioner with a New Zealand practising certificate.

The Act does not say whether KiwiSaver contributors can withdraw funds to buy a first home overseas, but we noted that it could be argued the effect of rule 8(7) is to make it impossible to do so unless the funds are paid to a practitioner with a New Zealand practising certificate.

We advised Ms Q that we did not consider that her KiwiSaver provider had acted unreasonably in declining her application to withdraw her funds.

Banking Ombudsman Scheme Limited

STATUTORY INFORMATION

For the year ended 30 June 2014.

The Board of Directors present their Annual Report including the financial statements of the Company for the year ended 30 June 2014 and the auditor's report thereon.

The shareholder of the Company has exercised her 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:


Ms Miriam Dean CNZM QC

15 September 2014



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 26 to 32, which comprise the statement of financial position of Banking Ombudsman Scheme Limited as at 30 June 2014, 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

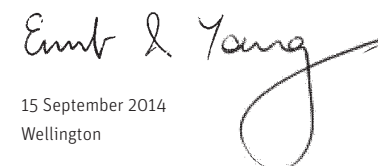
In our opinion, the financial statements on pages 26 to 32:

- 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 2014 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.


15 September 2014
Wellington

NOTE

14 13

Statement of financial position

Banking Ombudsman Scheme Limited

As at 30 June 2014

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

Current assets			
Bank – cheque account		10,605	2,460
Bank – savings accounts		57,801	113,468
Petty cash		100	100
Accounts receivable	9	971	1,143
Prepaid expenses	10	10,905	15,570
Tax refundable		-	3,565
GST receivable		26,214	17,355
		106,596	153,661
Property, plant and equipment	5	360,292	80,015
Intangibles	6	51,649	63,919
Total assets		\$518,537	\$297,595
Current liabilities			
Sundry payables and accruals	8	351,763	259,320
Provision for tax		38,277	-
GST payable		8,090	-
Bank – credit card		4,975	3,215
Total liabilities		\$403,105	\$262,535
Net assets		\$115,432	\$35,060
Equity			
Contributed equity		1	1
Accumulated profits		115,431	35,059
Shareholder's surplus		\$115,432	\$35,060

For and on behalf of the Banking Ombudsman Scheme Limited which approved the issue of these financial statements on 15 September 2014.



Chair Ms Miriam Dean CNZM QC

Date 15 September 2014



Director Kevin Murphy

Date 15 September 2014

NOTE

14 13

Income			
Levies		2,300,000	2,200,000
Interest		11,364	10,237
Other income	16	10,413	3,638
Total operating income		\$2,321,777	\$ 2,213,875
Expenses			
Audit fees		16,000	15,391
Board controlled costs	17	56,565	104,180
Contractors and external advice		29,896	31,671
Depreciation	5	29,525	30,418
Amortisation of intangibles	6	32,666	15,138
Directors' remuneration	12	124,500	102,900
Earthquake related expenses	18	60,135	-
Entertainment		5,488	3,857
Loss on disposals		40,137	11,645
Office costs		70,470	98,916
Publications & promotions		38,453	47,366
Rent	19	64,579	181,000
Scheme compliance		-	6,023
Staff salaries & superannuation		1,474,877	1,418,503
Staff costs – other		55,513	42,659
Staff cost – recruitment		12,556	8,687
Technology & website costs		55,343	44,128
Travel and conferences		31,772	40,267
Total expenses		\$2,198,475	\$2,202,749
Profit before taxation		123,302	11,126
Taxation expense	11	(42,930)	(1,521)
Net profit after taxation		\$80,372	\$ 9,605
Total comprehensive income for the year is wholly attributable to owners of the company		\$80,372	\$9,605

Banking Ombudsman Scheme Limited

Statement of comprehensive income

For the year ended 30 June 2014

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 2014

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 2012	1	25,454	25,455
Profit for the year	-	9,605	9,605
As at 30 June 2013	1	\$35,059	\$35,060
As at 1 July 2013	1	35,059	35,060
Profit for the year	-	80,372	80,372
As at 30 June 2014	1	\$115,431	\$115,432

1. Corporate information

The financial statements of the Company for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the directors on 15 September 2014.

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 and non-bank deposit-takers 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	9.5%-25.0%
Office equipment	13.0%-80.4%
Hardware	30.0%-60.0%
Other property, plant and equipment	12.0%-33.0%

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 48% to 50%.

(2) Website

Following initial recognition website development costs are carried at cost less accumulated amortisation. Amortisation rates for the website are 50% diminishing value.

Banking Ombudsman Scheme Limited

Notes to the financial statements

For the year ended 30 June 2014

(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 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	2014 Accumulated depreciation	Book value
Fittings	264,255	9,138	255,117
Furniture	77,651	15,139	62,512
Office equipment	73,612	54,665	18,948
Hardware	55,971	35,733	20,238
Other property, plant and equipment	6,676	3,199	3,477
	\$478,165	\$117,873	\$360,292

	2014 Depreciation
Fittings	9,138
Furniture	4,904
Office Equipment	6,891
Hardware	8,072
Other property, plant and equipment	520
	\$29,525

	Cost	2013 Accumulated depreciation	Book value
Fittings	6,545	2,635	3,910
Furniture	27,594	12,271	15,323
Office equipment	86,102	68,819	17,283
Hardware	84,985	74,119	10,866
Other property, plant and equipment	52,008	19,375	32,633
	\$257,234	\$177,219	\$80,015

	2013 Depreciation
Fittings	471
Furniture	2,921
Office Equipment	10,848
Hardware	11,652
Other property, plant and equipment	4,526
	\$30,418

6. Intangibles

	Cost	2014 Accumulated amortisation	Book value
Computer software	73,497	68,147	5,350
Website	78,674	32,375	46,299
	\$152,171	\$100,522	\$51,649

	2014 Amortisation
Computer software	5,141
Website	27,525
	\$32,666

	Cost	2013 Accumulated amortisation	Book value
Computer software	78,486	67,911	10,575
Website	58,193	4,849	53,344
	\$136,679	\$72,760	\$63,919

	2013 Amortisation
Computer software	10,289
Website	4,849
	\$15,138

7. Lease commitments

Lease commitments under non-cancellable operating leases:

	2014	2013
Not later than one year	100,333	180,100
Later than one year, not later than five years	589,639	258,278
Later than five years	108,514	-
	\$798,486	\$438,378

8. Sundry payables and accruals

	2014	2013
Sundry payables	98,699	48,703
Accruals	130,535	106,919
Provision for holiday pay	122,529	103,698
	\$351,763	\$259,320

9. Accounts receivable

	2014	2013
Sundry debtors	\$971	\$1,143

10. Prepayments

	2014	2013
Conference expenses	-	11,462
Healthcare	1,804	1,414
Professional subscriptions	3,003	1,756
Training	5,328	-
Other	770	938
	\$10,905	\$15,570

11. Income tax expense

	2014	2013
Profit before tax	123,302	11,126
Tax at statutory income tax rate of 28%	34,525	3,115
Add/deduct tax effect of non-deductible expenditure	6,931	(1,594)
Over/Under provision in respect of prior years	1,474	-
Current year taxation as per income statement	42,930	\$1,521

12. Directors' remuneration

The directors had remuneration due or paid during the year of \$124,500 (2013: \$102,900).

13. Contingent assets and liabilities

There are no contingent assets or liabilities at year end.

14. Transactions with related parties

Other than transactions with the Company's banker, ANZ (a Scheme participant) which are conducted on normal commercial terms, 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

	2014	2013
Accounts Receivables	971	1,143
Bank	68,406	115,928
	\$69,376	\$117,071

Financial liabilities measured at amortised cost

	2014	2013
Sundry payables	\$98,699	\$48,703

16. Other income

	2014	2013
New participant's joining fees	10,000	-
Sundry Income	413	3,638
Total	\$10,413	\$3,638

17. Board controlled costs

	2014	2013
Recruitment of new Chair	-	41,866
Legal and engineering expenses re lease	1,750	6,750
Internal audit undertaken	-	10,920
AGM (and prior year 20th anniversary expenses)	2,051	10,242
Training	-	13,129
Review of Board Charter	2,800	-
Independent Scheme Review	36,680	-
Other	13,284	21,273
Total	\$56,565	\$104,180

18. Earthquake Expenses

Following the earthquake in Seddon on 28th July 2013, the company was forced to move to alternative premises. Any expenses that could be directly linked to that event have been classified into a separate expense account. The majority of these costs were related to technology expense incurred in setting up computers in temporary and then permanent accommodation, as well as costs of storage for assets that could not be used until permanent accommodation was available.

19. Rental Expense

This includes rent for limited temporary accommodation from July 2013 until March 2014 and release of a lease incentive in relation to the previous BP House lease.

DIRECTORY

Directors

Miriam Dean
Barbara Chapman
Suzanne Chetwin
Mary Holm
Kevin Murphy

Banking Ombudsman

Deborah Battell

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Wellington

Auditor

Ernst & Young



BOS

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