

Credit and Investments Ombudsman Limited

ABN 59 104 961 882

ANNUAL REPORT 2015

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Corporate Information

The Credit and Investments Ombudsman Limited (**the Company**), formerly known as Credit Ombudsman Service Limited ('COSL'), is a company limited by guarantee, not having a share capital.

The Company operates the Credit and Investments Ombudsman, an external dispute resolution (**EDR**) scheme approved by the Australian Securities and Investments Commission (**ASIC**) and recognised by the Office of the Australian Information Commissioner (**OAIC**).

The Company deals with complaints in relation to 'Financial Services'. This is broadly defined under the Rules of the Credit and Investments Ombudsman (**CIO**) so as to allow the following to become members of CIO (Members).

- holders of Australian Financial Services Licences (AFSL) and Australian Credit Licences, and the authorised credit representatives of the latter,
- accountants who hold a "limited" AFSL to allow them to provide certain types of financial services, such as advice on self managed superannuation funds, and
- credit reporting bodies and 'credit providers' as defined by the Privacy Act, including trade creditors, commercial credit providers and store card issuers who are not otherwise required to be members of an EDR scheme under legislation.

The Company's primary aim is to provide consumers and Members with an alternative to legal proceedings for resolving privacy and finance-related disputes.

In doing so, ASIC's Regulatory Guide 139 requires CIO to:

- provide its services at no cost to consumers, and
- be impartial, independent and accessible.

Board of Directors

The Board of Directors of the Company is responsible for overseeing the operations of CIO, for ensuring independent decision-making by the Ombudsman and his staff, and for preserving the independence of CIO.

Under its Constitution, the Board of Directors of the Company comprises:

- an independent Chairman appointed by the Board,
- not less than one and not more than three Member Directors appointed by the Board to represent the Members of the Company, and
- not less than one and not more than three Consumer Directors appointed by the Board to represent the interests of consumers.

Ombudsman

The Ombudsman:

- has overall management responsibility for CIO,
- is empowered to make Determinations and issue binding Awards in relation to consumer complaints made against Members,
- is responsible for establishing systems and procedures to maintain efficient and effective operations in accordance with the Rules of CIO, and

- has all the other powers, functions and duties conferred by the Company's Constitution and the Rules, and as conferred and delegated by the Board from time to time.

Independence in decision-making

The decision-making process and administration of CIO are independent of the sectors of the industry which provide its funding.

The Ombudsman and staff of CIO are:

- entirely responsible for the handling and determination of complaints, and
- accountable only to the Board of Directors.

CIO Rules and Guidelines

Complaints about Members are dealt with by CIO in accordance with the Rules and Guidelines promulgated by the Board.

Consumer and Member communications

The Company maintains its website at www.cio.org.au.

The website:

- publicises its Annual Report on Operations, Position Statements, public submissions, Determinations, case studies, newsletters and media releases,
- has a dedicated Membership section for information about CIO membership, applicable fees, complaint processes and Member resources,
- allows a person to check if a financial service provider against whom they have a complaint is a Member of CIO or a representative of such a Member,
- allows consumers to lodge complaints online, and
- allows access to corporate information about CIO, such as its Constitution, Rules, Guidelines and Annual Report.

Contact Information

Membership

PO Box A252
Sydney South NSW 1235
Phone: (02) 9273 8455
Fax: (02) 9273 8445
Website: www.cio.org.au
Email: members@cosl.com.au

Case Management

PO Box A252
Sydney South NSW 1235
Phone: (02) 9273 8400
Interstate callers: 1800 138 422
Fax: (02) 9273 8440
Website: www.cio.org.au
Email: info@cio.org.au

Chairman's Report

Mark Scanlon Chairman of the Board

On behalf of the Board of the Credit and Investments Ombudsman (**CIO**), it is with pleasure that I present the Board's Report on Operations for the 2014/2015 year.

We play a leading role in resolving complaints in the consumer credit and financial services sector. This position has evolved over the past decade, building on the skills, commitment and dedication of our staff and the support of our key stakeholders, as well as our hard-earned productivity gains and fair consumer outcomes.

As you will see from the report, we continue to deliver outcomes of significant benefit for both consumers and our member financial services providers (**FSPs**). Our core activity is to assist consumers and FSPs to reach a fair and speedy resolution to their complaints. This requires us to treat each complaint on its own merits and, depending on the nature and complexity of the individual complaint, facilitate a resolution either informally through shuttle negotiations or through more formal procedures and decisions.

This annual report draws on the themes that are relevant in our dialogue with stakeholders, such as our complaints handling capabilities, our timelines, the investigation of systemic issues and consumer engagement. We are committed to working constructively with our stakeholders. The continuing challenge we face is to use our available resources to meet their demands, particularly those most in need and those that have greater barriers to access.

We will conclude a strategic review next year which will take a fresh look at our reason for being and reinvigorate our core values for the next three years.

Acknowledgements

I extend my thanks to my colleagues, Ms Loretta Kreet and Ms Amanda Barker (Consumer Directors) and Mr Thomas Beregi and Mr Matt Lawler (Industry Directors) for their valuable contribution to the Company's governance and strategic direction.

The retirement of Ms Vicky Edema and Ms Karen Cox is a loss to the Company.

Ms Edema was a non-executive industry director of the Company since 2005 and championed the interests of our smaller members, particularly finance brokers and mortgage managers. In doing so, she also provided the Board with valuable insights into the smaller end of the industry.


Ms Cox brought to the boardroom a wealth of experience gained in the consumer sector. She will be remembered particularly for imparting her knowledge of consumer expectations in relation to financial services and dispute resolution schemes.

The Board, management, staff and I are immensely grateful to Ms Edema and Ms Cox for their contribution to the Company's on-going development.

Mr Matt Lawler was appointed as Industry Director on the retirement of Ms Edema. He is the Chief Executive Officer of the ASX-listed financial services company, Yellow Brick Road, and has held that position since April 2011. Mr Lawler has over 25 years experience in the financial services industry with expertise in investments, insurance, mortgages and financial planning.

Ms Barker was appointed Consumer Director on the retirement of Ms Cox. Her current role is Manager, Education and Consultancy Services, Victorian Equal Opportunity and Human Rights Commission. Prior to this, Ms Barker was the Senior Manager of the Community Outreach Program at ASIC, where she was employed to engage more meaningfully with vulnerable and disadvantaged communities. Her experience ranges from individual casework to policy reform and educating consumers in relation to consumer credit.

I would also like to recognise and thank our Chief Executive Officer and Ombudsman, Mr Raj Venga, for his unwavering commitment to the role.

A handwritten signature in black ink, appearing to read 'Mark Scanlon', with a stylized flourish at the end.

Mark Scanlon
Chairman
6 October 2015

Chief Executive's Report

Raj Venga Ombudsman and Chief Executive

Our last annual report on operations noted that, as at 30 June 2014, no complaint had been open for more than 18 months and no financial hardship complaint for more than six months. We hoped to reduce those timelines further over the following 12 months, without compromising the quality of our work.

I am delighted to say that, as of 30 June 2015, only two complaints were older than 12 months and no financial hardship complaint was older than four months. Those complaints that were open for more than six months tended to be more complicated in nature and typically required more extensive investigation.

To ensure that the quality of our work remains of a high standard despite significantly reducing our timelines, CIO's Risk and Compliance team is charged with reviewing closed files based on random selection, survey responses and concerns raised by our stakeholders. The reviews are conducted independently of CIO's case management function and reports directly to the Ombudsman to eliminate any suggestion of bias. Where appropriate, a case may be re-opened and reviewed by that team.

Financial hardship

We are pleased to note that the number of financial hardship complaints we have received over the years has decreased from a high of about 34% to a low of 24%.

However, if interest rates, presently at record lows, were to revert to previous levels and the rate of unemployment were to increase appreciably, we expect that many borrowers may face severe mortgage stress given housing debt levels are at record highs, particularly in Sydney and Melbourne. What would follow is a significant reversal of the downward trend we have seen in financial hardship complaints.

Complaint volumes and closures

Our complaint numbers have continued to increase (7% in the last 12 months), albeit at a far less dramatic rate than in previous years.

Despite this, I'm pleased to say that we have seen a 8% increase in complaint closures over the last 12 months, with 64% (previously 57%) of complaints resolved within three months and 84% (previously 76%) within six months.

Timelines

We strive to be completely transparent and accountable in our reporting to stakeholders. When we report on our timelines, we include the period during which a complaint is being addressed 'internally' by the FSP. An FSP should generally be afforded the opportunity to first address a complaint before it is referred to us.

Systemic issues and serious misconduct investigations

As an EDR scheme approved by ASIC and recognised by the OAIC, we are required to investigate any systemic issues or serious misconduct that we identify in dealing

with complaints. These issues, which have the potential to cause widespread or serious harm, are managed separately to our standard complaints process.

Over the last 12 months, this important area of our work produced some valuable outcomes, both for consumers and for industry, such as:

- remedies for groups of consumers affected by poor business practices, including the payment of significant refunds to consumers,
- working in collaboration with a number of FSPs to rectify ongoing poor industry practices and, in the process, raising industry standards across particular sectors, and
- educating FSPs about general trends and themes we identified as a result of our investigations to help them proactively identify and address relevant issues.

We acknowledge the cooperation shown by FSPs who assisted us with our investigations. We are pleased to have received feedback that our work has helped them improve their businesses and reduce the likelihood of future complaints.

Consumer engagement

In 2014/15, CIO initiated a broader consumer-awareness building strategy, participating in community events that focused on demographics that were under-represented in our complaint statistics, such as:

- Indigenous consumers,
- people from culturally and linguistically diverse (CALD) communities,
- people with mental health illnesses or disabilities,
- low income earners, and
- seniors.

The objectives of our consumer engagement strategy are to:

- establish a presence at key events aimed at consumers who have been identified as under-represented in our complaint statistics,
- keep consumer support groups informed about our services by sending them newsletters and other information for use by their clients,
- build relationships with relevant organisations so they are in a position to refer their clients' complaints to us,
- host workshops and events for a diverse range of community workers to publicise our services and explain the work we do, and
- make information accessible in plain language, offer helpful tips online and also provide translations in community languages.

CIO's approach to inappropriate conduct by paid representatives

Credit repair and debt negotiation agencies routinely approach CIO (and other Ombudsmen schemes), whose services are free of charge to consumers, to have default listings removed or seek other outcomes. Consumers are charged significant amounts to access a service that is already available to them without charge.

The removal of default listings that are correctly listed undermines the integrity of the credit reporting body's database, which is accessed by lenders to help

determine whether the intended borrower is credit-worthy. This removal of correctly listed defaults is not in the public interest.

Our service is free to consumers, and designed so that there is no need to use a solicitor or other representative to make a complaint. Consumers can still, however, nominate a third party to represent them if they wish. Indeed, we welcome the use by consumers of unpaid representatives such as financial counsellors, consumer legal centres, legal aid offices or family members.

However, we will not permit a representative to conduct itself in a manner that is contrary to consumers' best interests, and this year we took action to exclude three paid representatives from our scheme.

Our exclusion of these paid representatives was based on our concerns that they had pursued multiple complaints for improper purposes within the meaning of our Guidelines. For example, we found that the paid representatives had engaged in conduct of the following types:

- obstructing or unreasonably delaying our process,
- making unreasonable decisions on behalf of consumers, and
- otherwise acting contrary to consumers' best interests.

The practical effect of our decision to exclude these paid representatives from our process is that we will no longer discuss existing complaints with them, or allow them to lodge new complaints on behalf of consumers. Consumers affected by our decision to exclude these paid representatives are invited to continue their complaints either by dealing with us directly or by nominating another representative.

Our statistics indicate that more complaints are made out or resolved by agreement, and fewer complaints are discontinued, when a consumer is represented by an unpaid third party or is not represented at all, than when a consumer is represented by a paid third party (such as a credit repair or debt negotiation agency).

This suggests that:

- being represented by a credit repair or debt negotiation agency does not necessarily provide consumers with a better outcome, and
- credit repair or debt negotiation agencies are more likely to bring complaints to CIO which do not have merit.

We continue to monitor the conduct of paid representatives that lodge complaints on behalf of consumers, and will take steps to warn, and potentially exclude, any paid representative that we consider has pursued complaints for an improper purpose.

However, this will not of itself prevent consumers from being approached by credit repair and debt negotiation agencies who trawl the possession and bankruptcy court lists seeking out vulnerable consumers. Nor will it assist FSPs because they must, despite any exclusion of paid representatives by CIO, still deal with a complaint brought to them by a paid representative so as to comply with ASIC's RG 165.

As long as the credit repair and debt negotiation industry remains largely unregulated, consumers will continue to be exploited by unscrupulous operators. As we understand it, regulation of this industry in some jurisdictions has been reasonably successful. Australia must follow suit.

We strongly recommend that these paid representatives be required to join an EDR scheme approved by ASIC to provide consumers with free and readily available access to a proven redress mechanism.

Acknowledgements

I am very privileged to lead a team responsible for much of CIO's success. My staff work extremely hard to meet the expectations of our stakeholders and I am confident of their ability to meet the challenges in the year ahead.

I would also like to express my appreciation to my Board of Directors. Their whole-hearted support and guidance throughout the year has been instrumental in CIO's continued success.



R Venga
Chief Executive and Ombudsman
6 October 2015

Directors' Report

Your Directors submit their Directors' Report for the Financial Year ended 30 June 2015. This report is made in accordance with a resolution of the Directors passed on 6 October 2015.

1. Directors

The names of the Directors and the periods during which they were in office during the financial year, as of the date of this Report, are:

Mark Edward Scanlon (whole year and current) – Chairman

Loretta Kreet (whole year and current) – Consumer Director

Karen Cox (up to 31 August 2014) - Consumer Director

Victoria Anne Massey Edema (up to 21 August 2014) - Member Director

Thomas George Beregi (whole year and current) - Member Director

Matt Lawler (since 1 September 2014 and current) - Member Director

Amanda Barker (since 22 October 2014 and current) - Consumer Director

2. Nature of the Company's operations and principal activities

The principal activity of the Company during the financial year was to operate as an EDR scheme in the financial services industry. The Company's membership includes finance brokers, non-bank lenders, building societies, mutual banks, credit unions, time-share operators, financial planners, finance companies, debt purchasers, small amount lenders, aggregators and mortgage managers.

The Company was approved to operate as an EDR scheme by the Australian Securities and Investments Commission on 17 December 2003 and was recognised as an EDR scheme for privacy-related complaints by the Office of the Australian Information Commissioner on 29 January 2014.

3. Review of operations

The operations of the Company during the year resulted in an operating surplus of \$1,986.

4. Significant changes in the Company's state of affairs and principal activities

There have been no significant changes in the Company's state of affairs or principal activities, other than those that may be referred to in the Chairman's Report above.

5. Significant matters or circumstances since balance date

No matter or circumstance has arisen since the end of the financial year that has significantly or may significantly affect the Company's operations in future financial years, or the results of those operations in future financial years, or the Company's state of affairs in future financial years.

6. Likely developments in the Company's operations in future financial years

We are not aware of any likely developments in the Company's operations in future financial years.

7. Environmental regulation and performance

The Company is not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

8. Dividends

The Company's Constitution prohibits the paying of any dividend or distribution to Members and no dividend or distribution was paid to any Member during the financial year.

9. Company officers

During the year, no officer of the Company was a partner in an audit firm or a director of an audit company that is an auditor of the Company.

10. Options

The Company is a company limited by guarantee without a share capital and therefore, no options were or were able to be granted over unissued shares or unissued interests.

11. Indemnities and insurance

During the year no indemnities were given for any person who is or has been an officer or auditor of the Company. Commercial confidentiality prevents the Company from disclosing the cost of directors and officers insurance cover. The Company did not pay any insurance premiums in respect of insurance for auditors.

12. Remuneration and benefits

No Director or other officer of the Company has during the year or since the end of the year received or become entitled to receive any benefit other than those benefits included in the aggregate amount of emoluments received or due and receivable by the Directors and other Officers as shown in the Company's accounts.

13. Directors' and Secretary's qualifications, experience and special responsibilities

ME Scanlon - Chairman

B.Bus (Accounting) MBA (RMIT) FAICD FCPA.

Company Director

L Kreet - Consumer Director

B.Ec LL.B.

Senior Solicitor, Legal Aid Queensland

T Beregi - Member Director

B.Ec (Accg) LL.B(Hons) CPA

Chief Executive Officer, Credit Corp Group Limited

M Lawler - Member Director

DipFinPlan, GradDipFinMarkets (FINSIA)

Chief Executive Officer, Yellow Brick Road Holdings Limited

A Barker - Consumer Director

DipBus, DipFinCounselling, DipCounselling

Manager, Education and Consultancy Services, Victorian Equal Opportunity and Human Rights Commission

V M Edema - Member Director

BA LL.B.

Company Director

K Cox - Consumer Director

BA LL.B.

Coordinator of the Financial Rights Legal Centre, Inc

RA Venga - Secretary

LL.B (Hons) LL.M FAICD FAIM

Chief Executive Officer, Credit and Investments Ombudsman Limited.

14. Meeting attendance

Name	Meetings held whilst a Director	Meetings Attended
Mark Edward Scanlon	5	5
Victoria Anne Massey Edema	1	1
Karen Cox	1	1
Loretta Kreet	5	4
Thomas George Beregi	5	5
Matt Lawler	4	4
Amanda Barker	4	4

15. Proceedings on behalf of the Company

During the year, no proceedings were either commenced by or against the Company and accordingly no application for leave under section 237 of the Corporations Act 2001 was made.

16. Registered membership

As at 6 October 2015, the registered membership of the Company was 20,794.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'M Scanlon', with a stylized flourish at the end.

M Scanlon
6 October 2015