

# Credit and Investments Ombudsman Limited

ABN 59 104 961 882

## ANNUAL REPORT 2016

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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 finance-related and privacy 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](http://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](http://www.cio.org.au)  
Email: [members@cio.org.au](mailto:members@cio.org.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](http://www.cio.org.au)  
Email: [info@cio.org.au](mailto: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 Company's Annual Report for the 2015/2016 year.

CIO continues to play a leading role in resolving complaints in the consumer credit and financial services sector. It receives about 22,000 enquiries and 5,000 complaints a year. Its 23,000 members include non-bank lenders, finance brokers, finance companies, consumer lease providers, small amount lenders, debt buyers, credit unions, building societies, credit reporting bodies and time share operators.

#### EDR review

One of the most significant events of the year was the Government's announcement of a review by a panel of eminent persons on the effectiveness of the existing dispute resolution framework in the financial services sector. That panel will issue its interim report in November 2016, with a final report due to be released in March next year.

The terms of reference of the Review require the review panel to consider whether changes to current dispute resolution arrangements are necessary and examine the relative merits of the different models, including a 'one stop shop' single EDR scheme.

Our view is that, if CIO and the Financial Ombudsman Service (FOS) were merged or if a statutory tribunal was established to replace CIO and FOS, our members and their customers would be worse off because:

1. CIO understands and has specialist knowledge, expertise and history in the non-bank and securitisation sectors, and those who operate in it, given its members include non-bank lenders, debt purchasers, finance brokers, credit reporting bodies, aggregators, building societies, credit unions, small amount lenders and time-share operators.
2. A consolidation of CIO and FOS or the creation of a statutory tribunal would mean financial services providers (**FSPs**) who are dissatisfied with service levels or costs will have no alternative to go elsewhere. This is a poor outcome, particularly because FSPs are legally required to join an EDR scheme and fully meet the scheme's operating costs.
3. About 70% of CIO's funding comes from membership fees, which means its funding is more stable overall and there is no incentive to needlessly generate complaints or escalate them to generate income.
4. Having two EDR schemes allow each scheme to benchmark its performance against the other. This produces better outcomes for FSPs and consumers alike because the schemes are forced to adopt best practice and improve their service offering. This cannot be achieved under a single EDR scheme model.
5. Without this comparative tension, turnaround times, service levels, innovation and continuous improvement would suffer, and there would be less incentive to keep costs in check and run the scheme efficiently.
6. CIO's membership base differs significantly from FOS'. CIO's members are generally not supportive of being in a single EDR scheme which is geared

towards large institutional players, such as banks and insurers, who attract the vast majority of complaints and whose corporate structure and governance are nothing like theirs.

7. CIO has worked well as an EDR scheme for its smaller innovative members who compete with the banks. 97% of CIO's members are sole traders and small businesses who do not want to be treated in the same way as banks.
8. A mega statutory tribunal is not the answer either because a large bureaucracy would have less specialisation, be substantially less flexible or capable of responding quickly to changes in the market. This will affect turnaround times, service levels and innovation.

#### Review of small business jurisdiction

In April 2016, the Government suggested that there would be advantages in extending the jurisdiction of EDR schemes to cover disputes involving small business, and has asked ASIC to work with EDR schemes on an immediate review of their small business jurisdiction.

CIO will seek stakeholder views on proposals to increase its small business jurisdiction.

#### CIO's strategic review

CIO concluded its three-year strategic review to develop a high-level strategic direction for the organisation for the following three years.

In developing a vision for CIO, the Board and management considered:

- external factors or trends which may impact CIO, such as changes in the regulatory, economic, social or technological environment, and
- lessons and insights which could be gleaned from other schemes, both in Australia and internationally, and from within CIO's existing financial services domain, and elsewhere.

The CIO Board and management concluded that, while CIO provided a leading EDR service, it had not fully engaged with its stakeholders, including other comparable schemes.

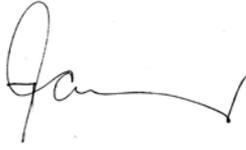
A high level strategic vision has been set which will see CIO:

- improving its stakeholder engagement to the point where it is recognised as a leader by 2018,
- continuing to benchmark its performance against other EDR schemes with the objective of lifting outcomes for all stakeholders, and
- maintaining its high operational levels of service and quality and its financial viability.

#### 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 CIO's governance and strategic direction.

I would also like to recognise and thank our Chief Executive Officer and Ombudsman, 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  
20 October 2016

## **Chief Executive's Report**

### **Raj Venga Ombudsman and Chief Executive**

In 2015/16 we handled 27,000 phone calls, our website was visited 140,500 times and we closed 4,145 complaints - more than 94% of these were closed during the earliest stages of our dispute resolution process.

Our last annual report on operations noted that, as at 30 June 2015, two complaints had been open for more than 12 months and no financial hardship complaint for more than four months. We had hoped to reduce those timelines further over the following 12 months.

But as of 30 June 2016, 65 complaints were older than 12 months, 24 of which were at our final Determination stage. Complaints that were open for more than six months tend to be more complicated in nature and typically require more extensive investigation.

However, pleasingly, as with the previous year, no financial hardship complaint was older than four months.

To ensure that the quality of our work remains of a high standard, CIO's Risk and Compliance team reviews 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. Where appropriate, a case may be re-opened and reviewed by that team.

### **Financial hardship**

The number of financial hardship complaints we received over the years has decreased from a high of about 34% to a low of 21%.

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

### **Complaint volumes and closures**

Our complaint numbers have plateaued (1.8% decrease in the last 12 months) for the first time in many years. Nonetheless, due to circumstances beyond our control, we saw a 17% decrease in complaint closures.

### **Timelines**

63% (previously 64%) of complaints were resolved within three months, 83% (previously 84%) were resolved within six months and 90% (previously also 90%) were resolved within 9 months.

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. A FSP should generally be afforded the opportunity to first address a complaint before it is referred to us.

Further, our timelines commence from the time we receive a complaint, not from the time the complaint is first assigned to a case manager.

### **Systemic issues and serious misconduct investigations**

As an EDR scheme approved by ASIC and recognised by the Office of the Australian Information Commissioner (**OAIC**), we are required to investigate any systemic issues or serious misconduct that we identify when 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:

- refunds or compensation of more than \$70,000 being paid to consumers,
- the re-training of FSP staff and changing of their internal procedures,
- recommending, by way of remediation, the removal of 50,000 credit default listings, and
- generally, the amelioration or elimination of poor industry practices and the raising of standards across particular sectors of industry.

Significantly, CIO amended its Rules to enable it to expel an FSP which fails to implement CIO's recommendations for the resolution of a systemic issue. This provides a strong disincentive for any non-compliance with CIO's recommendations for consumer remediation. Amendments were also made to CIO's Rules to clarify the factors CIO may have regard to in conducting each stage of a systemic issue investigation.

We communicate the general trends and themes observable from our investigations to our stakeholders to promote transparency and accountability around our work.

We acknowledge the cooperation shown by FSPs who assist us with our investigations. We are given to understand that our work has helped them improve their businesses and reduce the likelihood of future complaints.

### **Consumer Liaison Committee**

CIO established a Consumer Liaison Committee (**CLC**) to provide a platform through which CIO and consumer representative organisations can formally consult and collaborate on matters in the EDR environment. The CLC meets with CIO, either in person or by telephone conference, four times a year.

The CLC enables consumer representative organisations and CIO to:

- raise and discuss issues relevant to CIO's operations and the financial services industry generally,
- provide feedback on CIO's current work and proposed initiatives, and
- identify areas and opportunities where CIO and consumer representative organisations can focus resources to achieve better consumer outcomes.

## **Reconciliation Action Plan**

As an integral part of our stakeholder engagement strategy, we are well advanced in developing a Reconciliation Action Plan to make CIO more accessible to Indigenous consumers.

Currently about 3% of our complainants identify themselves as Aboriginal or Torres Strait Islander. While this figure is proportionate to the wider Australian population, we are concerned about consumers falling through the gaps of our outreach program.

## **Outreach programme**

Our 2015/16 Consumer Engagement Strategy built on the co-ordinated outreach program we initiated the previous year, with the aim of raising awareness of our services and improving accessibility to these.

The nationwide program covered all States and Territories, including regions outside the metropolitan hubs. We targeted demographics that were likely to have greater barriers to access, focusing on Aboriginal consumers, people from culturally and linguistically diverse (CALD) communities, low income earners and seniors.

We work closely with community service providers, such as financial counsellors and community legal centres, to reach consumers through existing support networks.

To further improve accessibility to our services, we publish information in plain English and offer translations in 22 community languages.

## **Industry engagement**

We met more than 70 of our largest complaint-generating members, some on multiple occasions, throughout the year. We also provide these FSPs with benchmark reports at least twice a year to allow them to compare their performance against their (de-identified) peers.

We presented at a number of industry events including the Australian Finance Conference Annual Residential Workshop, Australian Collectors & Debt Buyers Association Debt Forum, Australian Institute of Credit Management Credit Symposium and Annual Credit Law Conference.

On 18 May 2016, we held our annual CIO Dispute Resolution Conference in Melbourne. About 200 FSP members attended the event. We offered delegates a mix of presentations, workshops and panel discussions on EDR issues such as systemic issues, responsible lending, complaints management and financial hardship.

On invitation, we also presented at professional development days of our FSP members to discuss our approach to managing complaints.

## **CIO staff**

CIO's most valuable asset, its staff, reflect a dynamic mix of different cultures, ethnicities, religions, nationalities, lifestyles, genders and perspectives, which

allows them to meaningfully relate to and engage with the rich diversity of consumers who use our services daily. We think diversity is not only a demographic and social imperative, but it also produces better results and is good for business.

I am very privileged to lead my staff who are responsible for much of CIO's success.

### **Acknowledgements**

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 Officer and Ombudsman  
20 October 2016

## Directors' Report

Your Directors submit their Directors' Report for the Financial Year ended 30 June 2016. This report is made in accordance with a resolution of the Directors passed on 20 October 2016.

### 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  
Thomas George Beregi (whole year and current) - Member Director  
Matt Lawler (whole year and current) - Member Director  
Amanda Barker (whole year 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 \$47,015.

### 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, other than those that may be referred to in the Chairman's Report above.

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, other than those that may be referred to in the Chairman's Report above.

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)

CEO Wealth Management at Yellow Brick Road

A Barker - Consumer Director

DipBus, DipFinCounselling, DipCounselling

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

RA Venga - Secretary

LL.B (Hons) LL.M FAICD FAIM

Chief Executive Officer, Credit and Investments Ombudsman Limited.

14. Meeting attendance

<b>Name</b>	<b>Meetings held whilst a Director</b>	<b>Meetings Attended</b>
Mark Edward Scanlon	5	5
Loretta Kreet	5	5
Thomas George Beregi	5	5
Matt Lawler	5	5
Amanda Barker	5	4

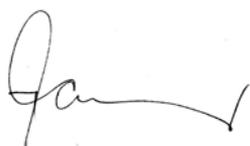
15. Proceedings on behalf of the Company

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 20 October 2016, the registered membership of the Company was 23,532.

On behalf of the Board



M Scanlon  
20 October 2016