

Credit Ombudsman Service Limited

ABN 59 104 961 882

ANNUAL REPORT 2014

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Corporate Information

The Credit Ombudsman Service Limited ('the Company' or 'COSL') is a company limited by guarantee, not having a share capital.

The Company operates the Credit Ombudsman Service, 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 Ombudsman Service so as to allow the following to become members of COSL (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 COSL 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 the Credit Ombudsman Service, for ensuring independent decision-making by the Credit Ombudsman and his staff, and for preserving the independence of the Credit Ombudsman Service.

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.

Credit Ombudsman

The Credit Ombudsman:

- has overall management responsibility for the Credit Ombudsman Service,
- 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 the Credit Ombudsman Service, 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 the Credit Ombudsman Service are independent of the sectors of the industry which provide its funding.

The Credit Ombudsman and staff of COSL are:

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

Credit Ombudsman Service Rules and Guidelines

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

Consumer and Member communications

The Company maintains its website at www.cosl.com.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 COSL 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 COSL or a representative of such a Member,
- allows consumers to lodge complaints online, and
- allows access to corporate information about COSL, 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.cosl.com.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.cosl.com.au
Email: info@cosl.com.au

Chairman's Report

Mark Scanlon Chairman of the Board

On behalf of the Board of the Credit Ombudsman Service Limited (COSL), it is with pleasure that I present the Annual Report for the 2013/2014 year.

Few things are more certain in financial services than change. We have had to transform, adapt and consistently reinvent ourselves over the last few years in pursuit of excellence in the external dispute resolution (EDR) landscape. We have done so by taking significant steps to improve our services, while anticipating market, regulatory and industry change. The approval of COSL as an EDR scheme for handling privacy and reporting complaints is an excellent example of adapting to meet member needs.

Following an enormous increase in complaint volumes, it was recognised in early 2013 that for COSL to continue to drive efficiencies and improve service levels, there needed to be a number of significant changes.

The organisation was re-structured, staff having different skill sets were employed and a shift in organisational culture was implemented. A more equitable funding model was also adopted such that COSL members who generate the majority of complaints would pay a greater percentage of our total fee income.

The aim was to manage and run COSL along similar lines to that of a commercial organisation and ensure that the business is sustainable into the future. This approach has yielded positive results and positioned ourselves well on our journey of continuous improvement.

It has been an exciting twelve months for COSL, and it has been a privilege to be part of the change process.

Acknowledgements

I extend my thanks to my colleagues, Ms Karen Cox and Ms Loretta Kreet (Consumer Directors) and Mr Thomas Beregi and Ms Vicky Edema (Industry Directors) for their valuable contribution to COSL's governance and strategic direction.

The retirement of Mr Jon Denovan as Industry Director last December is a loss to COSL.

Mr Denovan was a non-executive director of COSL since 2004. Having had his finger on the pulse of industry over the years, the Board was afforded valuable insights into industry trends and developments that were relevant to COSL's strategy and growth.

The Board, management, staff and I are indebted to Jon for his contribution to COSL's continued growth over the last nine years.

Mr Thomas Beregi was appointed as Industry Director on the retirement of Mr Denovan. He is the Chief Executive Officer of the ASX-listed financial services company, Credit Corp Group Limited, and has held that position since March 2008.

Mr Beregi is exceptionally well-qualified for the role of Industry Director given his knowledge and expertise in the area of financial services.

I would also like to recognise and thank our Chief Executive Officer and Ombudsman, Raj Venga, for his dedication to the role and the energy and commitment he has shown in the ongoing pursuit of continuous improvement and stakeholder satisfaction.

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

Mark Scanlon
Chairman
27 August 2014

Chief Executive's Report

Raj Venga Ombudsman and Chief Executive

The environment has been changing not only for the financial services sector, but also for the EDR sector. There is a legitimate expectation that, so far as their mandate allows, EDR schemes should themselves be as efficient and effective as the businesses they cover are expected to be. We fully appreciate that we are funded by industry participants who have joined COSL as members, and that we are also bound to deliver on the expectations of our other stakeholders.

Our last annual report on operations described the steps we were taking to reduce the time it takes us to resolve a complaint. I'm delighted to say that, as at 30 June 2014, no financial hardship complaint had been open for more than six months and no non-financial hardship complaint had been open for more than 18 months. We hope to reduce these timelines even further in the next 12 months.

Our standards and quality of work have not been allowed to suffer by our having significantly reduced the time we take to manage complaints. Nor will they do so in the face of any further demand for our services that we may see in the coming year.

Complaint volumes and closures

Our complaint numbers have continued to increase (20% in the last 12 months), albeit at a less dramatic rate than in previous years.

Despite this, I'm pleased to say that we have seen a 40% increase in complaint closures over the last 12 months, with 57% of complaints resolved within three months and 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 financial services provider (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 a complaint is first assigned to a case manager. (We do not subscribe to the view that there should be a 'pre-allocation' pool of files where complaints are held in abeyance until a case manager's pre-defined workload permits the assignment of the complaint to him or her.)

▪ Timelines for all complaints

Despite the 20% increase in the number of complaints we received in the last 12 months (on top of the 37% increase in the previous year), the median age of open complaints as at 30 June 2014 was 77 days (previously, 104 days). The average age of open complaints was 129 days (previously, 151 days), i.e. just over 4 months.

- Timelines for non-financial hardship complaints

As at 30 June 2014, 53% (previously, 40%) of open non-financial hardship complaints were received less than 3 months ago, and 69% (previously, 63%) were received less than 6 months ago.

40% (previously, also 40%) of the non-financial hardship complaints closed were either in favour of the complainant or by mutual agreement.

- Timelines for financial hardship complaints

Regrettably, 29% (previously, 32%) of all complaints we receive relate in some way to financial hardship; usually, the failure of a lender to agree to a payment variation on grounds of financial hardship. This level of financial hardship complaints is slightly less than previous years.

The main underlying causes of the financial hardship complaints we see are unemployment or reduced income (49%, previously 57%), illness of the borrower or their family member (27%, previously 22%), followed closely by cost of living, including other debt (9%, previously 4%), business failure (7%, previously also 7%) and relationship breakdown (6%, previously 7%).

As at 30 June 2014, 79% (previously, 68%) of open financial hardship complaints were received less than 3 months ago, and 100% (previously, 86%) were received less than 6 months ago.

58% (previously, 63%) of the financial hardship complaints closed were either in favour of the complainant or by mutual agreement.

COSL recognised by the OAIC to handle privacy-related complaints

In February 2014, the Office of the Australian Information Commissioner (OAIC) recognised COSL as an EDR scheme for handling privacy and credit reporting complaints.

If a supplier of goods or services makes an enquiry about an individual's creditworthiness through a credit reporting body, the supplier is required under the Privacy Act to join an OAIC-recognised EDR scheme. The supplier is referred to as a 'credit provider' under the Act, and this term includes a commercial credit provider, a store card issuer or a trade creditor who provides credit terms of at least seven days.

Commercial credit providers are exempt from the EDR requirement for 12 months, ending 12 March 2015. Despite this temporary exemption, the OAIC has been encouraging all commercial credit providers to become a member of an OAIC-recognised EDR scheme.

This EDR requirement means that a person can lodge a complaint with COSL if the person is dissatisfied with the decision of a credit reporting body or a credit provider about their complaint, or about the outcome of an access or correction request.

COSL is presently the only OAIC-recognised scheme that accepts as members persons or organisations that are required to join an OAIC-recognised scheme (because they make enquiries about an individual's creditworthiness through a

credit reporting body) *and* who are not otherwise required to be a member of an EDR scheme.

Limited AFSL holders as COSL members

Being an ASIC-approved EDR scheme, COSL already accepts as members Australian Financial Services Licence (AFSL) holders, Australian Credit Licence (ACL) holders and authorised credit representatives of ACL holders.

From 1 July 2016, accountants will need to hold a "limited" AFSL and join an ASIC-approved EDR scheme if they provide certain types of financial services, such as advice on self managed superannuation funds.

As an ASIC-approved EDR scheme, COSL is able to accept limited AFSL holders as members.

COSL 9th Edition Rules

After consulting extensively with key stakeholders, the Ninth Edition COSL Rules were released on 5 May 2014. The updated Rules reflect both legislative and regulatory developments in the past twelve months, as well as process improvements in the way we deal with complaints.

Some of the more important changes to the Rules were necessitated because of the OAIC's recognition of COSL as an EDR scheme for privacy-related complaints, COSL's decision to issue financial hardship orders not only for regulated credit contracts but also non-regulated loans, and the need to better define "consumer" and "financial services" given recent regulatory developments.

Credit repair

COSL is proposing to no longer deal with representatives of consumers who behave badly. COSL has previously warned consumers to be wary of 'credit repair', 'credit fix' or 'debt solution' companies that claim they can 'improve' their credit report.

Credit repair companies offer to 'fix' a consumer's credit report for a considerable fee. We have seen instances of consumers being charged an upfront fee of up to \$900, and then around \$1,000 per default listing, even when the debt for which the consumer was default listed is under \$500.

Credit repair companies routinely approach COSL (and other ombudsman schemes), whose services are free of charge to consumers, to have default listings removed. In other words, consumers are paying significant amounts of money to access a service that is already available to them without charge.

Credit repair companies typically do not inform consumers that if a default or other negative listing is correct, in most cases it cannot be removed from their credit records; or that the credit repair companies themselves might use free ombudsman services despite charging consumers a significant fee.

Whether the complaint is made by the consumer using a credit repair company or to us directly, our finding on the merits of the complaint and its outcome can only be the same. For example, if the complaint is that a default listing should not have been made and we find that the default was correctly listed, we will not require the removal of the default listing. Conversely, if we find that the default should not have been listed, we will order the default listing to be removed.

Credit repair companies will find it harder to 'game' the system, using the threat of COSL's service fees to pressure financial services providers into removing default listings or making unmerited corrections to credit reports. The removal of default listings that are correctly listed compromises the integrity of the credit reporting body's database. This is not in the public interest.

COSL has observed too many instances of credit repair companies behaving badly. For example, they often do not act in the consumer's best interest and typically:

- do not inform the consumer that the complaint can be dealt with by COSL (or other ombudsman scheme) at no cost to the complainant,
- obstruct or unreasonably delay COSL's facilitative dispute resolution process,
- make unreasonable decisions on the consumer's behalf – for example, a decision which may increase the consumer's liabilities,
- do not inform the consumer of all available options, offers of settlement, offers of hardship assistance or other proposals by the financial services provider or COSL,
- engage in a deceptive or misleading manner in their engagement with the consumer, financial services provider or COSL,
- ask COSL to enquire into or investigate matters that they know are irrelevant or lacking in any merit,
- do not inform the consumer of the potential risks and consequences of a course of action they are pursuing.

If COSL elects not to deal with a representative who behaves badly, COSL will invite the consumer to deal with COSL directly and at no charge. A consumer can also authorise an appropriate person (such as a community legal centre) to act on their behalf.

COSL's approach is not intended to prevent or in any way affect access by unpaid representatives acting on behalf of consumers, such as community legal centres, financial counsellors and Legal Aid offices.

Stakeholder communications

As part of our commitment to be transparent and accountable, we continue to meet with and present to a number of our important stakeholders, including:

- financial counsellors, community legal centres and consumer bodies
- regulators
- FSPs and their peak industry bodies.

Ongoing interaction with our key stakeholders has demonstrated the benefits of exchanging ideas, explaining what we do and why, learning from others and holding ourselves up for stakeholder review.

Acknowledgements

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

I express my sincere appreciation for their ongoing support and teamwork and the professionalism and commitment they bring to their roles every day. They have

handled the pressure of our increased casework and membership extraordinarily well and have continued to deliver services to a very high standard.

I would also like to express my appreciation to our directors. Their whole-hearted support and guidance throughout the year has been instrumental in COSL's continued growth and success.

A handwritten signature in blue ink, appearing to read 'R Venga', is positioned above the typed name.

R Venga
Chief Executive and Ombudsman
27 August 2014

Directors' Report

Your Directors submit their Directors' Report for the Financial Year ended 30 June 2014. This report is made in accordance with a resolution of the Directors passed on 27 August 2014.

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 (whole year) - Consumer Director

Jonathan Alexander Denovan (up to 12 December 2013) - Member Director

Victoria Anne Massey Edema (whole year) - Member Director

Thomas George Beregi (since 13 December 2013 and current).

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 external dispute resolution (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 \$69,805.

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. The Company has paid directors and officers insurance cover for all directors at a cost of \$3,070.40, exclusive of GST. 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

JA Denovan - Member Director

LL.B.

Partner, Gadens Lawyers

VA M Edema - Member Director

BA LL.B.

Company Director

K Cox - Consumer Director

BA LL.B.

Coordinator of the Consumer Credit Legal Centre (NSW)

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

RA Venga - Secretary

LL.B (Hons) LL.M FAICD FAIM FIFS

Chief Executive Officer, Credit Ombudsman Service Limited.

14. Meeting attendance

Name	Meetings held whilst a Director	Meetings Attended
Mark Edward Scanlon	5	5
Victoria Anne Massey Edema	5	4
Karen Cox	5	5
Loretta Kreet	5	5
Jonathan Alexander Denovan	3	3
Thomas George Beregi	2	2

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 27 August 2014, the registered membership of the Company was 18,226.

On behalf of the Board



M Scanlon
27 August 2014