

Credit Ombudsman Service Limited

ABN 59 104 961 882

ANNUAL REPORT 2012

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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').

The Company deals with all complaints in relation to 'Financial Services'. This is broadly defined in the Rules of the Credit Ombudsman Service so as to allow holders of both Australian Financial Services Licences as well as Australian Credit Licences and their authorised credit representatives to take up membership with COSL.

The Company's primary aim is to provide consumers and its Members with an alternative to legal proceedings for resolving 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 its Members and 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

On behalf of the Board of the Credit Ombudsman Service Limited, it is with pleasure that I present the Annual Report for the 2011/2012 year.

Membership

The Company's membership reached almost 17,000, primarily due to the National Consumer Credit Protection Act 2009, which requires persons who engage in credit activities to join an ASIC-approved EDR scheme such as COSL as a condition of their licence or authorisation.

The 2011/12 financial year witnessed an increase in membership of about 11%.

The Company's membership includes finance brokers, non-bank lenders, building societies, mutual banks, credit unions, financial planners, finance companies, debt purchasers, small amount lenders, aggregators and mortgage managers.

Independent Review

The Company engaged The Navigator Company to conduct an external independent review of its operations ('Review') against industry benchmarks prescribed by ASIC. EDR schemes such as COSL must meet industry benchmarks about accessibility, independence, fairness, accountability, efficiency and effectiveness as a condition of their approval by ASIC. Such reviews are conducted at least once every five years (three years previously).

Although the Review confirmed that the Company continues to generally meet all ASIC's benchmarks (but with further work needed in relation to the fairness benchmark), it made 48 recommendations for further improvement. As at 1 October 2012, 14 of these were already implemented. The Board did not adopt four recommendations that would have potentially exposed the Company to unacceptable legal liability or costs.

The Review had as a recurring theme the need for the Company to be better funded. It strongly recommended that the Company revisit its fees so as to secure funding to:

- ensure that it could provide a timely and quality complaints handling service,
- increase case management resources (number and seniority of staff),
- reduce the caseloads of case managers,
- undertake the further work that is required at this stage of its development,
- deal with the increased number of Members and complaints, and
- further build consumer awareness.

Furthermore, ASIC requires an EDR scheme to have the financial and operational capacity to deal with complaints that may be referred to it. It is therefore one of the Company's constitutional objects that the Company has the financial resources, staff, technology, research facilities and other resources to ensure the timely, efficient and effective resolution of complaints in the financial services industry.

To this end, the Board reviewed the Company's membership and complaint fees and concluded that these had to be increased, sometimes significantly, to secure the required funding of its operations.

Free complaint voucher

We continue to offer Members the annual free complaint voucher which allows them to offset the cost of complaint fees they may become liable for.

Based on complaints closed during the 2011/12 financial year, I am pleased to say that:

- 39% (previously 34%) of COSL Members against whom complaints were made were not charged any complaint fees whatsoever (typically because the free complaint voucher was used to offset the complaint fees or because the fees were waived), and
- of the remaining 61% (previously 66%) of COSL Members who were invoiced for complaint fees, the average complaint fee charged was only \$290 (previously \$287).

Improving efficiencies

The Company has improved its operating model and invested in staff, skills and systems over the last two years, but given it has also experienced significant growth during that period both in terms of membership and complaint numbers, it was prudent to also better understand areas where efficiency could be improved. Specifically, the Company sought to understand what causes delays in its case management processes and what could be done about it, without cutting corners, in terms of the quality of its service offering to both consumers and Members.

Consequently, it engaged CACE Partners, Management Consultants, to undertake an internal review of the Company's operations with the aim of lifting productivity and reducing delays. Their report provides an excellent road map for increasing productivity and will be implemented in the next twelve months.

Investing in the business

We continue to invest in the business by:

- upskilling our Case Managers with appropriate training,
- upgrading our website for better functionality for our Members, consumers and other stakeholders,
- upgrading our IT and telephony infrastructure,
- developing a real-time on-line complaint lodgement and membership application and renewal process (which will be completed in 2012/2013),
- commissioning an independent internal organisational review to improve efficiencies, and
- completing office renovations to increase our capacity to house new staff without having to relocate premises.

Acknowledgements

I extend my thanks to my colleagues, Ms Karen Cox and Ms Catherine Uhr (Consumer Directors) and Mr Jon Denovan and Ms Vicky Edema (Industry Directors) for their valuable contribution to COSL's governance and strategic direction.

I also thank the Ombudsman, Mr Raj Venga, and his team for striving to continuously improve on COSL's processes and timelines in the face of an ever-increasing complaint case load.

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

Mark Scanlon
Chairman
16 October 2012

Chief Executive's Report

The effect of the National Consumer Credit Protection Act 2009 (which predominantly came into operation on 1 July 2010) continues to influence both the composition and size of COSL's membership as well as the volume and types of complaints we receive. Having appropriately geared up for the anticipated increase in Members and complaints since January 2010, we were able to manage our caseload and timelines reasonably well, while continuously improving our complaint handling processes to lift productivity.

3,841 new businesses joined COSL in 2011/2012, bringing our total membership to 16,928 as at 30 June 2012.

Internal Dispute Resolution (IDR)

We continue to strongly encourage our Members to resolve complaints 'internally' within their IDR process as far as possible. Our data indicates that about 49% of complaints (similar to the previous year) we receive have not been first addressed internally by the Member.

Except in exceptional circumstances, these were referred to the Member, with only about 38% (previously about 50%) referred back to us because the complaint or part of the complaint could not be resolved by the Member through its IDR process. This illustrates the value of effective and timely IDR procedures and demonstrates that Members are now taking IDR more seriously.

It is entirely appropriate and important that a Member is given an opportunity to first resolve a complaint because the escalation of a complaint to us has:

- cost implications for the Member, and
- reputational implications since we are now required to report annually on the number of complaints received about a particular named Member.

IDR is also critical to complaints handling because in most cases the Member is in a unique position to gather internal documentation, investigate the complaint and respond directly to the Complainant. In fact, our experience suggests that delays are often encountered when a complaint is referred to us without having first been addressed by the Member.

Complaints handling

Given the 38% increase in the number of complaints we received this year (and on top of the 72% increase from the previous year), the median number of days it took us to close a complaint (other than a complaint about financial hardship), was 80 days (previously, 64 days). The average number of days taken to resolve such a complaint was 159 days (previously 128 days), i.e. just over 5 months.

54% of complaints (previously, 62%) were closed within 3 months of receipt, and 72% (previously, 80%) were closed within 6 months of receipt.

29% of the complaints closed (previously, 33.8%) were either in favour of the complainant or by mutual agreement. 58% of these were the result of the Member agreeing to the complainant's proposed resolution in full without necessarily accepting that the loss was attributable to them.

Financial Hardship

Regrettably, 36% of all complaints we receive (previously, 34%) relate in some way to financial hardship, specifically the failure of a lender to agree to a payment variation on the grounds of financial hardship. This level of financial hardship complaints is similar to previous years and we do not anticipate a reduction in the foreseeable future. The underlying causes of the financial hardship complaints we see are unemployment or reduced income (30%), cost of living, including other debt (21%), followed closely by illness of the borrower or their family member (19%), business failure (14%), interest rate increases (8%), relationship breakdown (7%) and natural disasters (1%).

Due to the increase in the number of financial hardship complaints, combined with their emotive and often critical nature for consumers, the median number of days it took us to close a financial hardship complaint was 74 days (previously 45 days). 22% (previously 35%) of all financial hardship complaints were closed in less than 30 days, and 43% (previously 61%) of complaints were closed in less than 60 days.

In about 65% (previously, 72%) of the cases we received, the borrower had been served with a default notice or the lender had commenced legal proceedings, repossessed the security (with or without obtaining judgment) or issued a notice to vacate.

Yet we achieved a satisfactory outcome in 46% (previously, also 46%) of the financial hardship cases we closed.

This suggests that some lenders are not, before issuing default notices or commencing enforcement action, properly considering:

- the possibility that the borrower may be in financial hardship; and
- whether a change in the borrower's payment obligations may be appropriate in the circumstances.

However, there is clear evidence that more lenders are doing so than in previous years.

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;
- ASIC and Treasury, and
- our Members and their peak industry bodies.

Regulatory bodies

We maintain close and regular contact with ASIC, both in its capacity as the regulator of the financial services and credit sectors, as well as the body that monitors our compliance with conditions attaching to our approval to operate as an EDR scheme.

We are required to, among other things:

- (a) report to ASIC any systemic issues and matters involving serious misconduct by a Member, and
- (b) collect and report information to ASIC about complaints we receive on a quarterly basis.

Annual Report on Operations

ASIC now requires EDR schemes to report annually on the number of complaints that are made against named Members.

The report will contain Explanatory Notes to qualify the raw data and give it some important context. The report will appear in COSL's Annual Report on Operations which will be available on our website shortly (www.cosl.com.au).

How we resolve complaints

We resolve complaints in a number of ways:

- It can be as simple as directing a complainant to the Member's IDR process.
- If the complaint has been through a Member's IDR process, sometimes all it takes is for it to be again referred to the Member for their reconsideration, but this time based on our preliminary assessment of the merits of complaint.
- Our Rules specifically provide that if a Member makes a reasonable offer to settle a complaint and the Complainant does not accept it, we may close the complaint.
- For small claims of less than \$3,000, we have introduced an expedited process to keep complaint fees low.
- We may recommend that the case be referred to a conciliation conference.
- If a case is complex and the parties are entrenched in their respective positions, we conduct a full case investigation, which will sometimes result in a Determination being made by the Ombudsman.

The next 12 months

Over the next 12 months, we will be:

- publishing our 2011-2012 Annual Report on Operations,
- continuing to implement the recommendations of the Independent External Review by The Navigator Group,
- launching the Company's new website with improved user functionality and resources, including Member Web Portal with online renewal and database integration for Member record updating and document retrieval,
- introducing online Member Application and Complaint form completion, including web form and database integration,
- improving and developing stronger stakeholder engagement, consultation and communication strategies,
- implementing significant reporting and data management improvements,
- continuing to deliver Member complaint training workshops, and
- further building capacity in our Case Management and complaint handling.

With thanks

I express my sincere appreciation for the ongoing support and teamwork of my staff and the professionalism and commitment they bring to their roles every day. They have handled the pressure of 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 the Company's non-executive directors. Their whole-hearted support and guidance throughout the year has been instrumental in the Company's continued growth and success.

A handwritten signature in blue ink, appearing to read 'R Venga'.

R Venga
Chief Executive and Ombudsman
16 October 2012

Directors' Report

Your Directors submit their Directors' Report for the Financial Year ended 30 June 2012. This report is made in accordance with a resolution of the Directors passed on 16 October 2012.

1. Directors

The names of the Directors, 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

Katherine Gizelle Lane (up to 23 December 2011) – Consumer Director

Karen Cox (since 16 January 2012 and current) - Consumer Director

Jonathan Alexander Denovan (whole year and current) - Member Director

Catherine Louise Uhr (whole year and current) - Consumer Director

Victoria Anne Massey Edema (whole year and current) - Member 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 external dispute resolution scheme in the financial services industry. The Company's membership includes finance brokers, non-bank lenders, building societies, mutual banks, credit unions, financial planners, finance companies, debt purchasers, small amount lenders, aggregators and mortgage managers.

The Company has operated as an ASIC-approved EDR scheme since 17 December 2003.

3. Review of operations

The operations of the Company during the year resulted in an operating surplus of \$1,118.

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 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 \$ \$7,470, 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

B.Bus (Accounting) MBA (RMIT) FAICD FCPA – Chairman. Company Director

JA Denovan

LL.B - Member Director. Partner, Gadens Lawyers

VA M Edema

BA LL.B - Member Director. Company Director

K Cox

BA LL.B – Consumer Director. Coordinator of the Consumer Credit Legal Centre (NSW)

KG Lane

BA LL.M - Consumer Director. Principal Solicitor, Consumer Credit Legal Centre (NSW)

CL Uhr

LL.B - Consumer Director. Solicitor, Legal Aid Queensland

RA Venga

LL.B(Hons) LL.M FAICD – Company Secretary.

14. Meeting attendance

Name	Meetings held whilst a Director	Meetings Attended
Mark Edward Scanlon	4	4
Victoria Anne Massey Edema	4	3
Karen Cox	2	2
Katherine Gizelle Lane	2	2
Catherine Louise Uhr	4	4
Jonathan Alexander Denovan	4	3

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 16 October 2012, the registered membership of the Company was 16,359.

On behalf of the Board



M Scanlon
16 October 2012