

12
13

Annual Report



Banking Ombudsman Scheme Trust us to be fair

Scheme participants

(as at 30 June 2013)

ANZ Bank New Zealand
ASB Bank
Bank of Baroda New Zealand
Bank of India New Zealand
BNZ
Citi New Zealand
Heartland Bank
HSBC New Zealand
Kiwibank
Nelson Building Society
NZCU Baywide
NZCU South
Rabobank New Zealand
SBS Bank (includes HBS Bank)
The Co-operative Bank
TSB Bank
Westpac New Zealand

(plus related companies, subsidiaries and staff financial advisers)

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Definitions

A **case** is any enquiry, complaint or dispute.

An **enquiry** is where customers are seeking advice about a banking issue and/or how to make a complaint about a banking service provider.

A **complaint** is a matter regarding a banking issue that is referred to the participant as it has not been considered by their internal complaints process.

A **complaint facilitation** occurs when we assist in the resolution of a complaint that is still being considered by a participant.

A **dispute** is a complaint that has been escalated to the Banking Ombudsman having been considered by the participant's internal complaints process without reaching a resolution.

A **jurisdictional decline** is a formal decision by the Banking Ombudsman not to investigate a dispute because it falls outside our terms of reference.

A **facilitation** is a dispute that is resolved at an early stage without the need for a formal investigation and written assessment.

A **conciliation** is where the parties to a dispute, together with the assistance of an independent conciliator, attempt to find a resolution to their dispute. This can take place either in person or by telephone.

An **initial assessment** is a formal written decision that sets out the complaint, the facts of the case, the issues, the Banking Ombudsman's assessment of these and proposed recommendation.

A **recommendation** is issued if either side to the dispute does not agree with our initial assessment. It contains the Banking Ombudsman's final decision on a case.

An **award** can be made by the Banking Ombudsman if a complainant accepts a recommendation, but the participant does not. If accepted by the complainant in full and final settlement of the case, the award becomes binding on both parties.

HIGHLIGHTS

- The Banking Ombudsman Scheme celebrated its 20th anniversary
- Total cases received relating to scheme participants were up by 16% on last year: 2,592 disputes, complaints and enquiries compared with 2,236 in 2011/12
- Enquiries alone increased 30% – caused by public interest in legislative change (introduction of anti-money laundering legislation), ANZ/National brand and technology merger, bank fees litigation and enquiries relating to medium-sized participants
- Disputes, the cases we investigate, up 1.9%
- Lending-related products accounted for 42% of disputes and 35% of complaints
- Allegations of poor service underpinned many complaints (43%) and disputes (36%)
- 32% of disputes inside jurisdiction resulted in a favourable outcome for customers, either partially or in full
- 18% increase in compensation payments, to \$598,000; average compensation up 19% to \$2,018
- Highest compensation award, \$160,000
- 10% reduction in average time to complete disputes, down from 82 to 74 working days
- Mid-sized participants, with 11% of market share, now account for 17% of cases compared with 14% of cases last year; larger participants accounted for 82% compared with a market share of 88%
- Share of complaints from businesses doubled, from 5% to 11%
- 90% of those whose cases we investigated felt we treated them with courtesy and respect, and 85% thought the scheme easy to use
- Annual staff engagement survey results show the Banking Ombudsman Scheme ranks in the top 25% of organisations surveyed
- Farewelled Chair Professor Ron Paterson and welcomed new Chair Miriam Dean to the board
- Launched upgraded website

Scheme turned

20

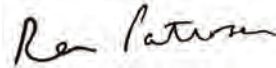
2,592
cases received

\$598,000
in compensation payments

The 2012/13 year marked my final year as Chair of the Banking Ombudsman Scheme. Over the past three years, the scheme has consolidated its position as New Zealand's leading financial services dispute resolution service.

FROM THE CHAIR

Professor Ron Paterson | Chair



As the scheme enters its 21st year, I salute our predecessors, who had the vision to create it, and the many individuals who made it a reality. New Zealand can take pride in having a first class Banking Ombudsman Scheme to highlight emerging financial issues for the public, draw attention to consumers' rights, and ensure good quality dispute resolution services for the benefit of customers and financial institutions.

The Banking Ombudsman Scheme is an approved scheme under the Financial Service Providers (Registration and Dispute Resolution) Act 2008. The purpose of statutory dispute resolution schemes is "to promote confidence in financial service providers by improving consumers' access to redress from providers" through "accessible, independent, fair, accountable, efficient, and effective" approved dispute resolution schemes. That is exactly the service we provide. As our strapline says, Trust us to be fair.

We know that complainants and financial service providers look to our scheme to provide scrupulously fair, independent dispute resolution services, with a focus on sorting things quickly. In addition, the Banking Ombudsman plays an important educational role for the sector and the public.

The scheme has continued to develop and improve in 2012/13. The board has maintained the scheme's banking focus and strengthening of its banking expert brand. The outstanding results achieved over the past year, and case studies reflecting the range of cases resolved by the office, are recorded in this year's Annual Report.

Two developments merit brief mention. With the co-operation of all scheme participants, we were pleased to offer our dispute resolution services to Kiwibank account holders in Niue, after Kiwibank was asked to provide banking services in Niue when its only bank closed. It's good to be able to assist our Pacific neighbour in this way.

The second notable change is removal of the Chair process review, whereby dissatisfied complainants were previously able to challenge the Ombudsman's handling of a complaint. In 2006, Judge Anand Satyanand recommended the removal of the Chair process review. It had become an anachronism, inconsistent with the governance role of the Chair, and a feature that is not shared by other financial service dispute resolution schemes.

The scheme continues to be capably overseen by its board, which I have led as independent Chair. In the past year, the directors have been Consumer New Zealand Chief Executive Sue Chetwin and financial columnist Mary Holm representing consumers, and on the banking side CEOs Kevin Murphy and Peter Clare. I am grateful for the invaluable guidance and dedication all the directors bring to the scheme.

I thank Banking Ombudsman Deborah Battell and the staff of the office for their professionalism and skills. It has been a privilege to work with them over the past three years.

I handed over to my successor as Chair, Miriam Dean QC, on 1 June 2013. Miriam's expertise in commercial law and dispute resolution, and her governance skills, ideally equip her to lead the scheme into its next phase of development.

I know that I leave the scheme in good hands.

From the new Chair – Miriam Dean

The role of independent Chair ticks the boxes in terms of my interests and expertise because it combines law, dispute resolution and governance. The scheme adds another dimension for the industry in terms of best practice, and gives customers a robust and independent platform for unresolved grievances to be given a fair hearing.

I am keen to see the scheme continue to build relationships and share learnings with the sector, and the banking public – the latter is pretty much everybody in New Zealand. Since I took on the role, I have been impressed by scheme participants' motivation and commitment to customer service, including dispute resolution. The Banking Ombudsman Scheme can help the banking sector to do even better by their customers; equally it can help banking consumers to be better informed about banking issues as well as the range of dispute resolution services available to them to solve their disputes.

Finally, I acknowledge the warm welcome and support of fellow board members who bring a wide range of expertise to the table; also to the Chief Executive, Deborah Battell, and her team for their expert advice and support in these early months. I pay special tribute to my predecessor, Ron Paterson, whose leadership over the past three years has allowed me to inherit a strong and stable organisation.



Miriam Dean | Chair (from 1 June 2013)

I am keen to see the scheme continue to build relationships and share learnings with the sector, and the banking public

Having now been the Banking Ombudsman for four of its 21 years, I am delighted to report that the Banking Ombudsman Scheme has continued to build on the strong foundations set by my predecessors. It has also made significant progress towards being a world class scheme that is universally valued and trusted - for its accessibility, independence and fairness.

FROM THE BANKING OMBUDSMAN

Deborah Battell | Banking Ombudsman



Expectations of our service have increased substantially in recent times. We have risen to that challenge by resolving disputes more quickly and becoming less formal and more personal in the way we interact. We have increased oral communication as well as assistance to both customers and participants. The use of electronic communication has made us more flexible too. We have worked to contain costs and I am pleased to report that we have achieved budget despite a higher than budgeted caseload.

To focus our efforts, we set ourselves four main targets: to be world class at resolving disputes; to deliver the best value to customers and participants; to be the best known; and to be the best little place to work. With considerable input from the board and staff we have continued to lift our performance over the past year.

World class dispute resolution

Dispute resolution times were reduced by approximately 10% (eight days) and customer satisfaction with our process improved across a range of measures.

The reduction in resolution times was achieved particularly by resolving greater numbers of cases through more informal means (by facilitation rather than written assessments). In addition, we put in place a range of process and system improvements and applied learning from continuous customer feedback surveys and training. Excellent operational leadership from Deputy Banking Ombudsman Nicola Sladden has also made a significant difference to improving timeliness. Our staff have also worked well as a team to share knowledge and help each other with complex cases – the more skilled and knowledgeable our staff, the quicker they can resolve issues.

Improvements in customer satisfaction are remarkable given that most customers have already been through a relatively lengthy process when they reach our scheme and often expect a successful outcome. Many unfortunately have unrealistic expectations, seeing us as a customer advocate rather than an independent resolver: about one-third will achieve the outcome they hope for and in many cases the best outcome we can offer is a fair hearing, and a clear

explanation. Furthermore, this year we experienced an increase in what the courts have termed “vexatious” complainants, making for a larger than usual number of complex cases.

Complaints present a good opportunity for banks to identify improvements to their services and processes. This year participants said disputes which had been through the Banking Ombudsman Scheme resulted in reminders to the front line staff about policies and processes; reviews of processes; and amendments to standard communications to ensure that customers fully understood their obligations and the consequences of not adhering to these.

Our enquiries team has also achieved impressive improvements. They are now dealing with enquiries and referring complaints in two working days 96% of the time, despite a 30% increase in enquiry volumes. Satisfaction levels with these aspects of our processes are typically over 90%.

Best value dispute resolution scheme

The Banking Ombudsman Scheme has deliberately focused on one industry sector, banking services. Although we have the smallest number of participants, collectively they provide services to most New Zealanders. Having a defined industry enables us to derive added value from the disputes resolved so that we can help prevent future disputes and lift service standards.

This year we continued to produce quick guides covering a range of common issues, but also anticipating issues that may arise. For example, our guide on the new anti-money laundering legislation was designed to inform customers about the impact of the law on their banking relationship.

Quick guides are available on our newly upgraded website, www.bankomb.org.nz, another major project completed this year.

All website content can now be read easily on mobile devices as well as PCs, and the search function is much improved.

We also continued to improve the information provided to banks about complainants’ issues and about banks’ own performance relative to the rest of the industry. In particular, they received information about trends in their own complaints, and their performance on the mystery shopper survey. In addition, we ran two forums for participant complaints handlers, one of these focusing on more effective management of unusually persistent complainants.

Best known dispute resolution scheme

Nielsen was engaged to survey customer awareness of the Banking Ombudsman Scheme. Approximately 50% of respondents knew about the scheme, either prompted or unprompted. This shows we have a way to go before all customers know they can ask for an independent review of their complaints if they are not satisfied with their bank’s response.

Communications adviser, Emma Reilly, was appointed to assist with producing our Current Account e-newsletter, media releases and requests, publications and stakeholder relationships. And we have continued to contribute to Consumer Affairs’ consumer rights forums which have now reached a large range of front-line community agency staff across New Zealand.

Best little workplace

I was thrilled the Kenexa staff engagement survey showed we were in the top 25% of workplaces in terms of our overall organisational performance. The leadership team has put considerable effort into ensuring staff have access to appropriate training, coaching and mentoring, and support.

The Banking Ombudsman Scheme team at the 20th celebrations



This year we also developed, in consultation with staff, remuneration ranges that were aligned to the market and a career progression policy.

In addition, we introduced a “senior” level in the organisation and began to delegate more responsibility: what I have termed going from “me to we”. I have been moving the organisation towards a more professional service-like structure that does not rely as heavily on a single Ombudsman. Much of the operational decision-making on cases has been delegated to my deputy Nicola, and I began delegating more financial responsibility to each of the leadership team members.

All in all it has been a remarkable year. I am most indebted to our board and highly professional, and dedicated staff. I would like to thank Ron Paterson for his wise guidance over the past three years. As a former regulator, I found it particularly helpful having a Chair who has previously been in the business of dispute resolution. And I am delighted to welcome Miriam Dean as our new Chair. Miriam has already begun to make her mark and I know she will continue Ron’s legacy and make a big difference to the scheme.

OUR ORGANISATION

Our vision

To be a world class Ombudsman service that is universally valued and trusted for its independence and fairness.

Our core values

We observe the core Ombudsman values of accessibility, independence, fairness, accountability, effectiveness and efficiency. Internally, our values also include:

- **Respect:** we listen and seek to understand different points of view. We are empathetic but neutral and focus on issues not personalities.
- **Adaptability:** we both respond to and lead change. We look for solutions to problems and learn from mistakes.
- **Courage:** we make decisions on a principled basis irrespective of how difficult they are.
- **Integrity:** we are trustworthy and impartial, and we do what we say we will.
- **Excellence:** we do everything to the best of our ability. We do it better every time and we look to add value from our insights and learning.

Our people

Banking Ombudsman Deborah Battell has a team of 16 permanent and contract staff (14.4 full-time equivalents) based in Wellington. The team is made up of investigators, enquiries advisers, an analyst, a business analyst, administrators and a communications adviser. Between them they investigate cases, work with complainants and scheme participants to come up with fair, common-sense solutions, and develop resources to help customers and banking service providers prevent future complaints.

Senior leadership team (left to right)

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

Elizabeth Ward – Enquiries Manager

Deborah Battell – Banking Ombudsman, BA, MBA

Cheryl Thomson – Executive Administrator

Chantal-Marie Knight – Analyst, BSc (Hons), MSc



Our board

The Banking Ombudsman Scheme is a company, registered as Banking Ombudsman Scheme Limited. It is governed by a board on which banking service providers and customers are represented with neither having the majority. The Chair of the board is independent of banking service providers and customer representatives. The board's main functions are to ensure the Banking Ombudsman's independence and that the scheme is well run, and effective.

Chair

Miriam Dean (from 1 June 2013)

Prof Ron Paterson (until 31 May 2013)

Bank representatives

Peter Clare

Kevin Murphy

Consumer representatives

Suzanne Chetwin

Mary Holm

Alternates

Paul Brock (for bank directors)

Noel McNamara (for bank directors)

David Naulls (for Suzanne Chetwin)

Sue Ineson (for Mary Holm)

CHAIR**Miriam Dean**

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

Chair since 1 June 2013

- Chair, NZ On Air
- Chair, Ministry of Justice Legal Aid Advisory Board
- Deputy Chair, Auckland Council Investments Limited
- Director, Crown Fibre Holdings Limited
- Trustee, Royal New Zealand Ballet
- Company director, mediator and arbitrator

Formerly

- Member, Auckland Transition Agency
- Member, Government Electricity Review Group
- Member, Transitional Electricity Authority
- Immediate past President, New Zealand Bar Association

OUT-GOING CHAIR**Prof Ron Paterson**

LLB (Hons), BCL (Oxon), ONZM

Chair July 2010–31 May 2013

- Professor of Law, University of Auckland
- Board Member, Royal Australasian College of Physicians

Formerly

- Health and Disability Commissioner
- Deputy Director-General, Safety and Regulation, Ministry of Health
- Fulbright Visiting Professor, Case Western Reserve University
- Harkness Fellow, Georgetown University
- Visiting Law Professor, Universities of Ottawa and British Columbia

CONSUMER REPRESENTATIVES**Suzanne Chetwin****Member since November 2007**

- Chief Executive, Consumer New Zealand
- Alternate Board Member, Electricity and Gas Complaints Commission
- Member, Electricity Authority Retail Advisory Group
- Member, Industry Advisory Panel for Landcare's CarboNZero programme
- Trustee, WriteMark Plain English Awards
- Industry representative, Online Media Standards Authority
- Chair, Quality Project Board, Royal NZ College of General Practitioners
- Part-time Law student, Victoria University of Wellington

Formerly

- Editor, Sunday News, Sunday Star Times and Herald on Sunday
- Editorial Business Manager, New Zealand Magazines Limited

Mary Holm

MA, MBA

Member since February 2010

- Senior Lecturer in Financial Literacy, University of Auckland (part-time)
- Award-winning personal finance columnist and author
- Member, Financial Markets Authority board
- Seminar presenter

Formerly

- Member, Savings Working Group
- Member, Capital Market Development Taskforce
- Business Editor, Auckland Sun and Auckland Star

BANKING REPRESENTATIVES**Peter Clare**

BCom, MBA, CPA, FINSIA, CSA

Member since April 2012

- Chief Executive and Managing Director, Westpac New Zealand
- Chair, New Zealand Bankers' Association Council
- Trustee and Chairman, Sir Peter Blake Trust
- Director, BT Funds Management (NZ) Ltd
- Director, Westpac NZ Operations Ltd
- Director, Westpac Securities NZ Ltd

Formerly

- Group Executive and COO, Australian Financial Services, Westpac Banking Corporation
- Group Executive, Product and Operations, Westpac Banking Corporation
- Group Executive, Technology, Operations and Strategy, St George Bank Limited

Kevin Murphy

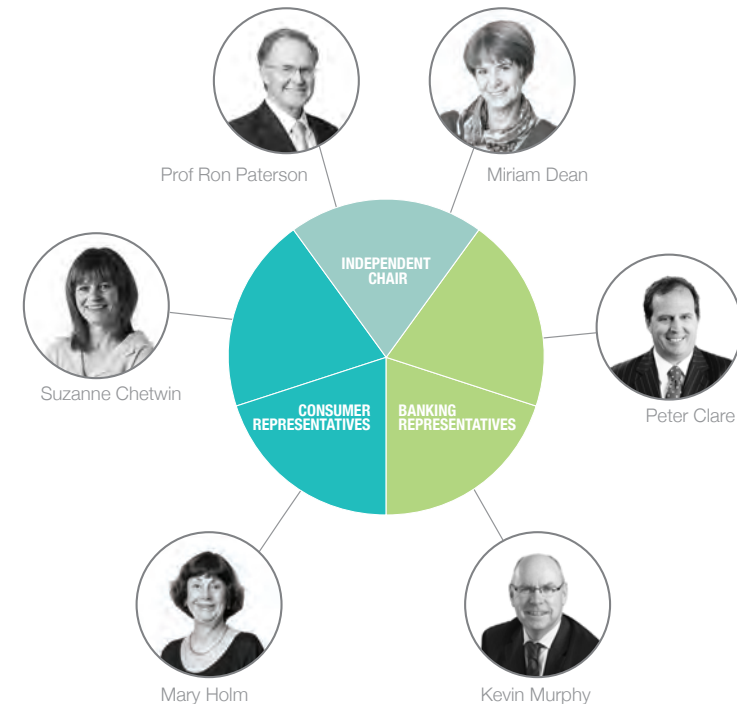
CA, JP

Member since April 2012

- Managing Director/Chief Executive, TSB Bank
- Board Member, Payments NZ
- Member, New Zealand Bankers' Association Council
- Director, Fisher Funds

Formerly

- Deputy Chief Executive, TSB
- Chief Financial Officer, TSB

Board composition

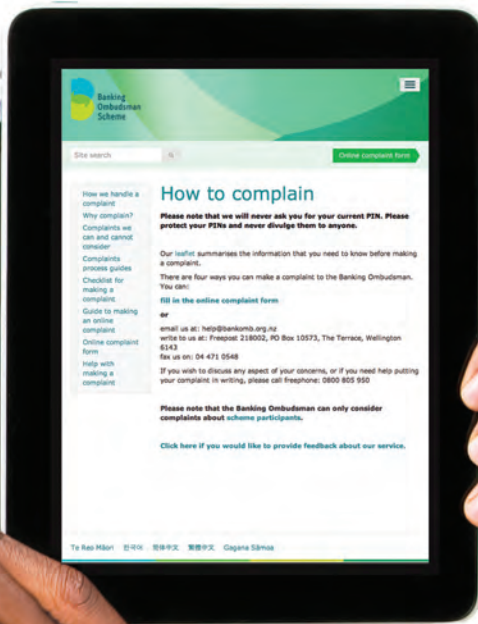
COMMUNITY AND INDUSTRY OUTREACH

It's a challenge ensuring customers who may need to use the scheme know about us. Another challenge is helping prevent complaints. We aim to help lift financial literacy by providing information about common misconceptions and mistakes made. This information is aimed at banks as well as customers because there are always opportunities for both parties to learn.

Our community and industry outreach is therefore multi-layered. We work with participants, industry, government agencies, community groups and media to disseminate information about the scheme. We also promote the scheme through our website and Facebook page. This year we:

- published four new quick guides on banking issues: the new anti-money laundering legislation; closing accounts; stopping and freezing accounts; and telegraphic transfers
- published 64 new case studies in our searchable case note database on the website
- produced five topical issues of the Current Account e-newsletter
- issued six media releases promoting the scheme and its services, supplied two articles to Property Quarterly, and responded to a range of banking-related media queries
- published finance and banking tips, insights, and interesting reads on our Facebook page ("Like" us at www.facebook.com/bankombnz)
- delivered nine speeches nationwide to financial, community and business groups, and one at the Victoria University of Wellington law and commerce graduation

- presented at four Consumer Affairs' consumer rights forums around the country
- participated in the New Zealand Code of Banking Practice focus group on improving assistance to customers with disabilities
- ran two bank officer forums, one in Auckland and the other in Wellington, with combined attendance of approximately 80
- attended the Commission for Financial Literacy and Retirement Income's 2013 Financial Literacy Summit
- supported the Commission for Financial Literacy and Retirement Income's 2012 Money Week by developing a financial literacy quiz which was published in the Dominion Post and Current Account
- contributed to the Commission for Financial Literacy and Retirement Income's publications for those affected by the Canterbury earthquake
- completely refreshed and improved our website, ensuring the information is easier to access and available in readable form on mobile devices.



Scheme perceptions

Customer and participant satisfaction is another way of measuring scheme effectiveness. This research is important to ensure the quality of our service is at a premium level.

Customer satisfaction

This year we surveyed most complainants whose cases were referred back to the banks for resolution and also those whose disputes we investigated. The average survey response rate was high: 50% for enquiries and complaints and 50% for disputes. A good rate for dispute scheme customer satisfaction surveys is around 40%.

Survey results for enquiries phone service	%
Service was courteous and professional	100
Concerns were listened to and complainant given clear understanding of assistance scheme can provide	98

Survey results for enquiries written advice	%
Complaint handling process was clearly explained	93
Given confidence their concerns were being addressed	89
Informed of what to do if they were not happy with outcome	88

Customer satisfaction with the enquiries phone service and complaint referral process was very high.

Survey results for dispute process	%
Complainant was treated with courtesy and respect	90
Calls and emails were responded to promptly	86
Scheme was easy to use	85
Complaint was understood	77
Complainant was kept informed of progress	77
Case management process seen as fair and impartial	65
Complaint resolved in a reasonable timeframe	63

People who had been through the dispute process were asked a series of questions relating to their case management process and their case investigator. Considering disputants might not have necessarily been happy with the outcome of their case, the results were good.

Participant satisfaction

We surveyed complaints managers ourselves this year instead of using an external consultant. The feedback was positive, both around the dispute resolution process and our value-added products (case notes, quick guides, Current Account, six monthly and monthly reports, pre-deadlock advice to enable internal resolution etc). However, timeliness remained an issue despite demonstrable reductions in resolution time.

Response to survey feedback

As a result of the feedback from participants and customers, we provided:

- more detailed and frequent information about the progress of cases
- further clarity around the investigation and facilitation process
- an enhanced case note search function
- written guidance around how we calculate compensation.



Former Banking Ombudsmen Nadja Tollemache and Liz Brown, and incumbent Deborah Battell at the 20th celebrations

ACCESS TO THE SCHEME

Mystery shopper survey

Every year we survey bank branches to assess how well participants help their customers deal with complaints and meet their Code of Banking Practice obligations to provide customers with information about the complaints process.

The Banking Ombudsman Scheme's mystery shopper exercise differs from other customer service surveys as it looks at how banks (and non-bank deposit takers) respond when something goes wrong.

Banks traditionally do well on external customer service surveys. Through the mystery shopper survey, participants are encouraged to do just as well on the other side of the coin – the “putting right” – because this also yields opportunities for lifting overall industry standards.

In the 13th annual survey, 31 students visited 332 participant branches. The biggest improvements were:

- staff directing mystery shoppers to their website for internal complaints process information (up from 15% last year to 23%) – this is consistent with a move to electronic communication
- branches in which staff mentioned the Banking Ombudsman Scheme: 89%, up from 78% the previous year and unprompted mentions up from 50% to 56%
- ability for mystery shoppers to find the Code of Banking Practice, which is required to be available, up from 52% to 58%
- average willingness to help mystery shoppers, up from 7.5 to 8 out of 10.

On the downside, it was disappointing to see a drop in performance for giving mystery shoppers printed information about the bank's internal complaints process (down from 77% to 71%) and for displaying Banking Ombudsman Scheme leaflets (down from 87% to 81%). Mystery shoppers also noted many branches continued to display old leaflets.

Overall, it is pleasing there are more performance gains than slips this year and that the percentage increases were greater than the percentage declines. Participants have been encouraged to focus on:

- improving staff knowledge of both the internal complaints process and the Banking Ombudsman Scheme
- encouraging staff to proactively inform customers about the internal complaints process and the Banking Ombudsman Scheme.

Specific suggestions included:

- informing bank staff of resources available on the Banking Ombudsman Scheme website
- linking the Banking Ombudsman Scheme website to staff intranets
- distributing the Banking Ombudsman Scheme's newsletter, Current Account, to staff
- inviting the Banking Ombudsman or her staff to present at staff conferences
- reminding participants to check on pamphlet stocks.

2013 Mystery Shopper Exercise	2013	2012
Internal complaints process (ICP)		
Mystery shoppers found a leaflet on ICP	80%	80%
Average rating of staff knowledge of ICP (score out of 10)	6.7	6.6
Mystery shoppers given printed information	71%	77%
Mystery shoppers given telephone number to call	57%	60%
Mystery shoppers directed to a website	23%	15%
Banking Ombudsman Scheme (BOS)		
Mystery shoppers found a leaflet on the BOS	81%	87%
Staff mentioned the BOS	89%	78%
Staff mentioned the BOS without being prompted	56%	50%
Average rating of the detail given on the BOS (score out of 10)	5.2	5.3
Code of Banking Practice		
Mystery shoppers found the Code of Banking Practice	58%	52%
Quality of branch staff interaction		
Average rating of staff willingness to help (score out of 10)	8.0	7.5

CASES HANDLED BY THE BANKING OMBUDSMAN SCHEME

The scheme's caseload comprises the disputes we investigate and resolve, enquiries we respond to, and complaints we refer back to participants if these have not been through the bank's internal complaints process. Customers are helped at all stages.

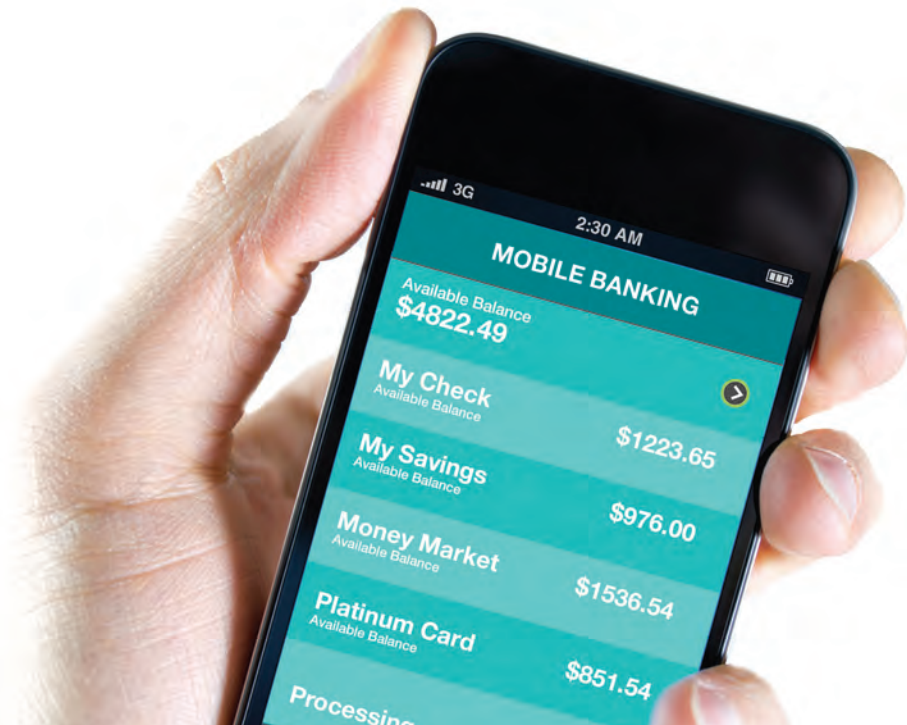
This year telephone enquiries are included in the case statistics. Introducing technology to capture all telephone calls in 2011 has enabled us to better reflect demand for our service and changes in that demand.

The total number of cases received and completed this year increased by 16%. This was mostly attributable to a nearly 30% increase in initial enquiries rather than complaints (which decreased by approximately 6%) and disputes (which increased by about 2%).

The increase in enquiries was driven largely by industry events such as the ANZ and National Bank brand and technology merger, the roll out of contactless cards and publicity around the bank fees litigation. It also reflected customers of newer participants becoming more aware of their ability to access the scheme. Most of the additional enquiries were easily answered and did not lead to a corresponding increase in new complaints or disputes.

Annual statistics

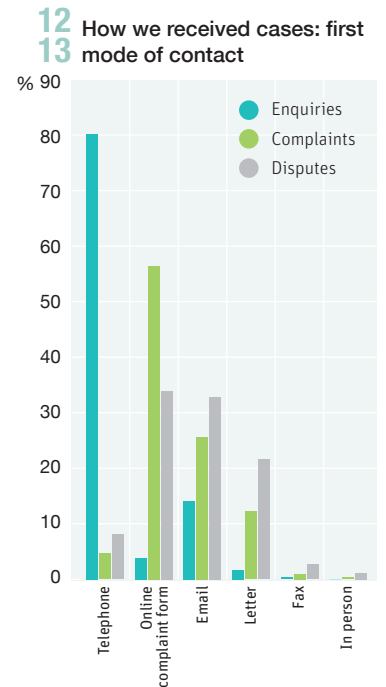
	2012/13	2011/12	Difference
Total cases			
Open at 1 July	89	110	-19.1%
Received 1 July to 30 June	3,033	2,607	+16.3%
Completed 1 July to 30 June	3,060	2,628	+16.4%
Open at 30 June	62	89	-30.3%
Disputes			
Open at 1 July	80	110	-27.3%
Received 1 July to 30 June	274	269	+1.9%
Completed 1 July to 30 June	296	299	-1.0%
Open at 30 June	58	80	-27.5%
Complaints			
Open at 1 July	6	0	n/a
Received 1 July to 30 June	738	782	-5.6%
Completed 1 July to 30 June	741	776	-4.5%
Open at 30 June	3	6	-50.0%
Enquiries			
Open at 1 July	3	0	n/a
Received 1 July to 30 June	2,021	1,556	+29.9%
Completed 1 July to 30 June	2,023	1,553	+30.3%
Open at 30 June	1	3	-66.7%



We were surprised the number of disputes received remained at similar levels to 2011/12: we had expected these to reduce in line with improving economic conditions. However, it seems this improvement may not yet have filtered through to households since the main issues continued to be lending-related.

Nevertheless, we completed more disputes than received with 58 remaining open at the end of the year, compared with 80 last year. This was achieved through faster resolution of dispute cases.

In 2012/13, 80% of all incoming enquiries were made by phone. By contrast, 82% of complaints and 67% of disputes originated via email or the web-based online complaint form. This illustrates how “electronic” customers have become over the past two decades in the way they communicate. It may also explain why, despite considerable improvements in timeliness over the years, many customers seek even quicker resolution. When people communicate via phone or electronically, they tend to expect an immediate response.



Cases received

Scheme participant	2012/13					2011/12					2012 share of total assets [^]
	Enquiry*	Complaint	Dispute	Total (n)	Total (%)	Enquiry*	Complaint	Dispute	Total (n)	Total (%)	
Large participants[^]											
ANZ Bank NZ	548	252	82	882	34.0%	361	234	88	683	30.5%	32.6%
ASB Bank	179	96	50	325	12.5%	165	123	54	342	15.3%	17.6%
BNZ	225	130	51	406	15.7%	187	121	54	362	16.2%	18.4%
Westpac NZ	300	140	65	505	19.5%	277	178	50	505	22.6%	19.7%
Total large participants	1252	618	248	2118	81.7%	990	656	246	1892	84.6%	88.4%
Medium participants[^]											
Citi NZ	3	-	-	3	0.1%	1	-	-	1	0.0%	0.5%
Heartland Bank	24	3	2	29	1.1%	6	2	-	8	0.4%	0.6%
HSBC NZ	5	1	4	10	0.4%	7	5	2	14	0.6%	1.3%
Kiwibank	182	78	7	267	10.3%	100	98	8	206	9.2%	3.8%
Rabobank NZ	8	3	2	13	0.5%	6	4	2	12	0.5%	2.8%
SBS Bank (includes HBS Bank)	32	7	4	43	1.7%	28	2	3	33	1.5%	0.7%
The Co-operative Bank	20	8	3	31	1.2%	10	3	4	17	0.8%	0.4%
TSB Bank	34	9	2	45	1.7%	21	7	3	31	1.4%	1.3%
Total medium participants	308	109	24	441	17.0%	179	121	22	322	14.4%	11.4%
Small participants[^]											
Bank of Baroda NZ	2	-	-	2	0.1%	2	1	-	3	0.1%	0.0%
Bank of India NZ	1	-	-	1	0.0%	-	-	-	-	-	0.0%
Nelson Building Society	3	4	-	7	0.3%	1	-	-	1	0.0%	0.1%
NZCU Baywide	8	3	1	12	0.5%	7	2	-	9	0.4%	0.1%
NZCU South	6	4	1	11	0.4%	6	2	1	9	0.4%	0.0%
Total small participants	20	11	2	33	1.3%	16	5	1	22	1.0%	0.2%
Total	1580	738	274	2592	100.0%	1185	782	269	2236	100.0%	100.0%

[^] Participants have been classified according to total assets as verified by participants in June 2013.

* Includes telephone enquiries and excludes non participant enquiries, which totalled 441 in 2012/13 and 371 in 2011/12.

Use of the scheme

The number of scheme participant organisations for the year remained at 17, with our combined scheme participants making up the vast majority of New Zealand's banking industry.

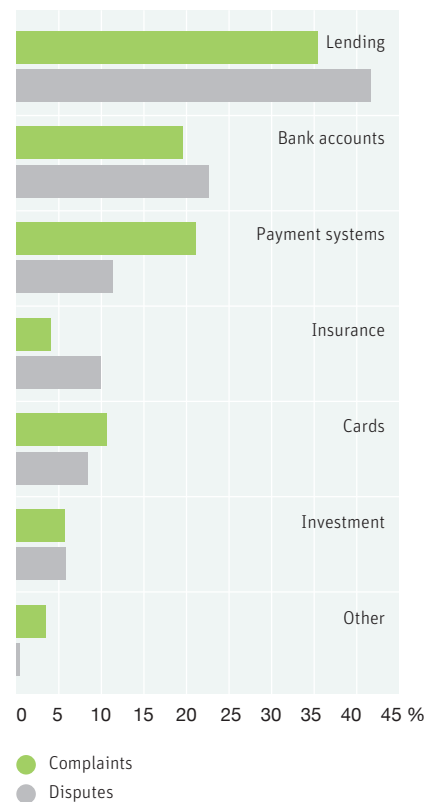
However, this year there was a shift away from the previous close correlation between market share (as estimated by a participant's share of total assets or lending) and the number of cases received for each participant. There was also a small shift in the balance between large and medium-sized participants.

The four largest banks combined had an 88% share of total assets in 2012/13 and an 82% share of cases, down from 85% of cases in 2011/12. Medium-sized participants, whose market share is approximately 11%, accounted for 17% of cases, compared with 14% last year.

Some of this increase likely reflected greater awareness of the scheme (for example with newer participants The Co-operative Bank and Heartland Bank) but we also note that enquiries (but not complaints or disputes) from Kiwibank customers increased by 82%.

In addition to cases recorded in the table, we received 441 enquiries about non-participants (compared with 371 last year). These enquiries are directed to the appropriate dispute resolution service, government agency or other organisation as we can deal only with matters relating to Banking Ombudsman Scheme participants.

12 Complaints and disputes received: 13 business areas



What the issues were

This year we reviewed the way we classify information to ensure the categories reflect modern banking practice. This means newly classified business areas and problem areas cannot be compared with previous years. However, we can say lending continued to generate the most new complaints and disputes, as New Zealanders continued to deal with debt issues.

Lending cases accounted for 42% of disputes and 35% of complaints. Issues around property lending (especially the mortgagee sale process and early repayment charges) made up 70% of lending disputes and 54% of lending complaints.

A large share of new complaints and disputes also related to bank accounts, especially transactional accounts, and payment systems, including internet banking, cheques and telegraphic transfers. Together, bank accounts and payment systems accounted for 41% of complaints and 34% of disputes.

Lending and insurance complaints are more likely to become disputes than other case types because of the large amounts of money typically in dispute and the complexity of the issues. Insurance cases this year were dominated by life insurance and loan protection insurance, accounting for 67% of insurance disputes and 50% of insurance complaints.

Conversely, although payment systems matters are the second largest category of complaint, they are less likely to become disputes because they are more easily resolved through banks' internal complaints processes. This is because they typically involve smaller amounts of money and tend to be more factually straightforward.

Tracking and acting on developing issues

To help reduce the number of complaints about banking services, we inform participants and customers about issues as they arise. One method involves tracking "mega matters" – the issues we think are causing or likely to cause complaints.

The top mega matters in 2012/13 were:

ANZ and National Bank brand and technology merger

The 74 cases (mainly enquiries) about the merger were referred to the bank to resolve directly with customers. When following up these cases the bank reported all had been resolved satisfactorily through its internal complaints process.

Canterbury earthquakes

The Canterbury earthquakes have not led to many banking complaints: this year we received 32 cases (22 enquiries, seven complaints and three disputes). Almost all were about lending, mostly property lending, and insurance, especially home and contents insurance. Key concerns included: disagreements between banks and their customers about how to use EQC/insurance payouts; banks not releasing EQC payouts; and assertions that banks had missold insurance policies.

Bank fees litigation

We received 19 cases (almost all enquiries) related to the Australian-backed bank fees litigation, Fair Play on Fees, most involving customers wanting to claim back bank fees. We also received a number of media queries about this matter. We can look at individual cases where a complainant considers the bank has made a mistake in its calculations or in the application of its fees. However, generally speaking, we cannot make a finding on a complaint involving a bank’s policy or practice with respect to fees and costs. We expect to receive more enquiries about this matter as the case continues.

Electronic and mobile banking

We received 31 complaints and three disputes involving internet banking, and two complaints about mobile banking. We expect this to increase over the next few years as more New Zealanders access banking services through the internet via their computers, tablets and mobile phones. The quick guide on our website helps New Zealanders understand some of the mobile banking services that are available and gives security tips.

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

We received 11 cases arising from the new anti-money laundering legislation (eight enquiries, two complaints and one dispute). We expect this matter to gain more traction in 2013/14 as the legislation only came into force on 30 June 2013. We published a quick guide to explain the new requirements and what types of new information banks require customers to provide. Complainants’ main concerns were:

- having to provide proof of identity and address to banks when they had been customers for some time
- bank retention of proof of identity leading to concerns about privacy breaches

- inability to open new accounts or withdraw from existing accounts due to insufficient proof of identity or address
- unhappiness that banks closed their accounts either due to policy changes arising from the legislation or without explanation.

Complainants’ perceptions of what went wrong

We classify cases by complainant perceptions of what their banking service provider has done wrong.

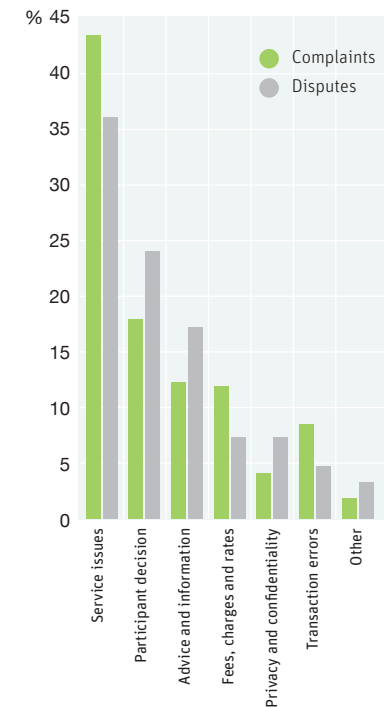
In 2012/13 complainants told us service issues were their greatest concern, with these generating 44% of new complaints and 36% of new disputes. Key service issues included:

- failing to act as instructed or promised
- acting without authority or instruction
- denying complainants access to funds in accounts.

Concerns about participant decisions also drove a large portion of complaints (18%) and disputes (24%). Customers complained about banking service providers:

- declining an application or claim
- declining to compensate for fraud or theft
- failing to provide reasons for decisions.

12 Complaints and disputes received:
13 problem areas



Resolving disputes

Disputes are the cases we investigate. As in the previous year, 92% of completed disputes involved the four largest participants (ANZ Bank NZ, ASB Bank, BNZ and Westpac NZ).

Most (90%) of the disputes investigated came to our office first as an enquiry or complaint. The remaining 10% had proceeded fully through a participant's internal complaints process before referral. This shows the importance of customer awareness of the Banking Ombudsman Scheme: those people who already know about the scheme are more likely to return for an independent resolution either at their own request or by bank referral.

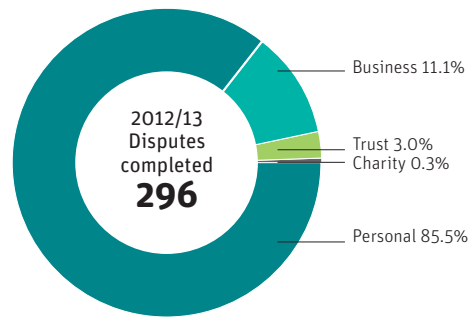
Disputes were concluded either partially or wholly in a customer's favour in 32% of the disputes inside jurisdiction. Disputes are only classified as "upheld" if they proceed through the entire process to a formal recommendation. This is not usually necessary as participants tend to settle disputes if it becomes clear that the Banking Ombudsman will find either fully or partially in the customer's favour.

Disputes completed

Scheme participant	Jurisdiction declined		Abandoned		Withdrawn		Settled favouring participant		Settled favouring both parties		Settled favouring complainant		Not upheld		Partially upheld		Fully upheld		Award		Total by participant		
	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	
Large participants^																							
ANZ Bank NZ	13	14	4	16	26	11	-	-	17	21	9	11	21	19	4	7	-	-	-	-	94	99	
ASB Bank	8	10	2	4	24	17	-	-	6	7	3	-	15	18	3	1	-	-	-	-	61	57	
BNZ	14	25	2	4	14	8	1	-	11	11	4	4	5	5	1	1	-	-	-	-	52	58	
Westpac NZ	9	8	5	8	21	16	-	1	10	12	4	3	13	12	2	2	-	-	-	-	64	62	
Medium participants^																							
Citi NZ	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Heartland Bank	-	-	-	-	1	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	2	-	
HSBC NZ	-	1	-	-	1	-	-	-	-	1	1	-	1	-	-	-	-	-	-	-	3	2	
Kiwibank	2	2	-	-	4	2	-	-	-	-	1	-	1	4	-	-	-	-	-	-	8	8	
Rabobank NZ	-	1	-	-	-	-	-	-	-	-	-	-	2	1	-	-	-	-	-	-	2	2	
SBS Bank (includes HBS Bank)	-	-	-	-	2	1	-	-	-	1	-	-	-	2	1	-	-	-	-	-	3	4	
The Co-operative Bank	-	-	-	-	2	-	-	-	1	-	-	1	1	-	-	-	-	-	-	-	4	1	
TSB Bank	-	1	-	1	-	2	-	-	-	1	-	-	1	-	-	-	-	-	-	-	1	5	
Small participants^																							
Bank of Baroda NZ	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Bank of India NZ	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Nelson Building Society	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
NZCU Baywide	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	1	-	
NZCU South	-	-	-	-	1	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	1	1	
Total	46	62	13	33	96	57	1	1	46	54	22	20	61	61	11	11	-	-	-	-	296	299	

^ Participants have been classified according to total assets as verified by participants in June 2013.

Disputes completed: type of complainant



Who the disputes were from

Most (86%) disputes came from personal banking customers, that is individuals, couples or groups. Business customers made up 11% of completed disputes, which is approximately double the percentage last year.

Personal customers had a wider range of disputes than business customers. For example, 63% of personal customer disputes were lending or bank account-related, compared with 82% for business customer disputes.

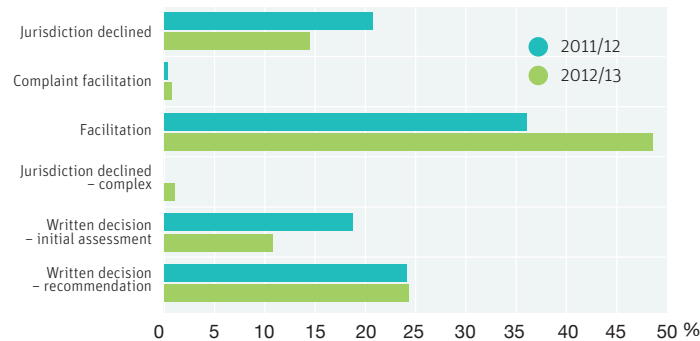
Business disputes tended to involve smaller businesses because of our compensation limit for direct loss of \$200,000.

Methods used to resolve disputes

Our strategic focus is on resolving disputes as early as possible which means we actively seek to facilitate resolution ahead of other options. Facilitation tends to lead to a faster and more satisfactory outcome for both parties.

Of the disputes within jurisdiction, we resolved 58% without needing to issue a formal written decision, compared with 46% last year.

Methods used to resolve disputes



However, 69% of the disputes requiring a written initial assessment proceeded to a formal final recommendation, up from 56% last year. This reflects the higher proportion of complainants unwilling to accept our initial views.

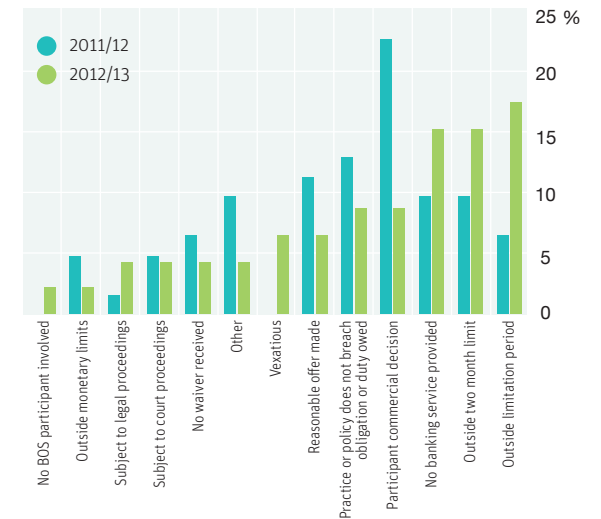
Dealing with disputes outside scheme jurisdiction

The proportion of disputes falling outside our terms of reference dropped from 21% in 2011/12 to 16% in 2012/13.

Having found that many complainants had unrealistically high expectations about outcomes for their case, we reviewed the information provided about our jurisdictional limits and began providing it at an earlier stage.

In 2011/12, the two top reasons for declining jurisdiction were the complaint related to a participant's commercial judgement or to a practice or policy that did not breach any obligation or duty owed to the complainant.

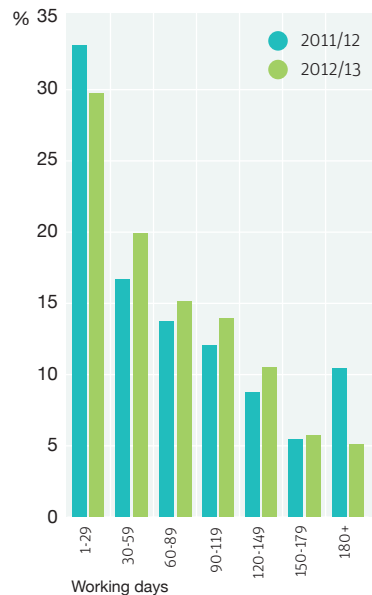
Reasons for declining jurisdiction



Key reasons for not accepting disputes for investigation this year were that the:

- matter occurred either more than six years ago and the complainant could reasonably have become aware of it sooner, or the matter occurred before the participant joined the scheme
- complainant brought the dispute to the scheme more than two months after their banking service provider informed them that it had reached an impasse (deadlock)
- complaint was not made by (or on behalf of) those for whom the participant provided (or failed to provide) the services complained about.

Time taken to complete disputes



Timeliness

Consistent with our strategic goal to resolve more cases quickly, this year we reduced the average number of working days to resolve a dispute from 82 to 74 days. We made our biggest efficiency gains with longer-running disputes, on average completing formal written decisions (both initial assessments and recommendations) 10 days faster than last year. The percentage of disputes taking more than 200 working days to complete reduced from 8% to 3%.

In addition, we made efficiency gains by facilitating more resolutions – which take 50 working days on average – rather than issuing initial assessments or recommendations. The latter, on average, take 122 and 127 working days respectively.

At year end only four disputes on hand were older than 120 working days, down from 16 at the start of the year.

We completed 99% of enquiries and 96% of complaints within two working days (up from 97% and 88% respectively last year), helped by the electronic referral of complaints to participants, and in-house process changes.

Compensation awarded

We facilitated \$597,831 in compensation for complainants in 2012/13, an increase of 18% on last year.

The average compensation for disputes increased from \$1,689 to \$2,018 in 2012/13, and the highest amount of compensation increased from \$59,000 to \$160,000.

As in the previous year, a quarter of resolved disputes resulted in some financial compensation. Seven disputes resulted in total compensation of \$10,000 or more.

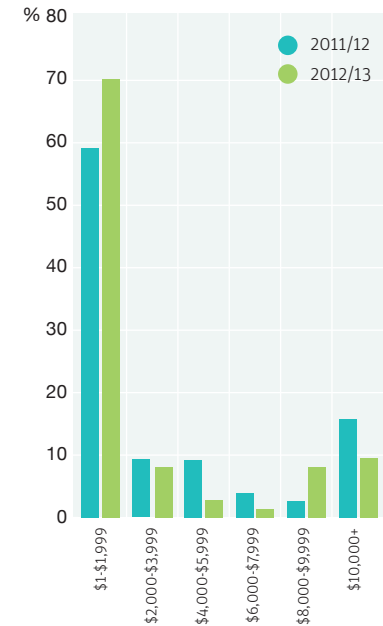
Financial compensation is made up of reimbursement for direct loss (86%) and compensation for inconvenience (14%). This year three disputes received the highest level of compensation for inconvenience (\$9,000). In fact, one was for \$10,000, which the bank concerned offered to pay.

Resolving disputes appropriately sometimes involves options other than lump sum payments. This year complainants in 17 disputes accepted other resolutions including reductions in debt, fee waivers, preferential interest rates or repayment arrangements.

The proportion of complainants whose cases were inside jurisdiction and who obtained a favourable outcome reduced from 36% in 2011/12 to 32% in 2012/13.

Disputes about cards, bank accounts and payment systems were more likely to involve some form of favourable outcome for the complainant than disputes about other business areas.

Compensation facilitated for complainants



KiwiSaver

We anticipated an increase in KiwiSaver cases as the scheme matured and as more New Zealanders tried to withdraw their funds. KiwiSaver turned five on 1 July 2012 so this was also the first financial year people could withdraw funds at 65, and qualify for the maximum first home deposit subsidy.

In 2012/13 we received 57 KiwiSaver cases (32 enquiries, 21 complaints and four disputes). Many cases were withdrawal-related, including complaints that, in fact, related to trustee decisions: even though a KiwiSaver fund may be run by a bank, it is often trustees who decide whether funds can be withdrawn.

Complainants' key concerns were:

- applications to withdraw KiwiSaver funds being declined
- being provided with incorrect/inaccurate information
- delays processing applications to withdraw funds
- onerous documentation requirements for withdrawals.

Permanent emigration (especially to Australia) was a key reason for complainants wishing to withdraw from KiwiSaver. A number of cases arose from customers who were unaware of the withdrawal deadline before new legislation came into effect on 1 July 2013. While this legislation enables superannuation transfers between New Zealand and Australia, it also stops emigrants to Australia accessing their KiwiSaver funds early on the basis of permanent emigration.

Other key reasons for complainants contacting us about withdrawals from KiwiSaver included:

- allegations banks either misrepresented or failed to fully inform customers of the rules around withdrawing funds

- customers experiencing significant financial hardship
- family members seeking to access funds following the death of the account holder
- customers wishing to purchase their first home.

Compared with last year, the number of KiwiSaver cases increased by more than 55%, with the biggest increases in cases about withdrawals due to emigration and alleged misrepresentations. As most of the emigration cases related to a one-off issue, we expect to see fewer KiwiSaver cases next year.

Issues potentially affecting more than one customer

To be an effective Ombudsman scheme, we remain alert to issues that may affect more than one customer or that could recur. These are known as systemic issues.

Two years ago we developed a voluntary protocol for dealing with these.

Banking Ombudsman Scheme participants operate in accordance with the voluntary protocol and in many cases have already identified a problem before a case reaches us. Sometimes they also proactively alert us to issues. This means we can forward complainants to the relevant bank for resolution without the need for further assistance from us.

One example of a case in the past year which was investigated using the protocol involved a woman who had upgraded to the iOS6 operating system on her iPad, then used the Safari browser to do some internet banking, logging in with her customer number and transferring money before logging out.

Her partner went to do the same on her iPad immediately afterwards but found he could see her balances as well as their joint ones. In doing so her partner found out details of her balances which she had not disclosed to him.

The woman complained about the privacy breach to her bank which initially said what happened was not possible. However, it later found the change to the new operating system meant some Apple devices retained more information than usual when a customer logged out of internet banking.

We recognised the potential for a wider privacy breach problem straight away when we received the complaint and worked with the bank concerned and other participants to find out if there was a more widespread issue. Within four working days we established the problem was confined to one bank, obtained that bank's commitment to immediately fix the problem and were able to brief the Privacy Commission, and seek its guidance on an appropriate compensation level for the affected complainant.



Breach of privacy

If a bank employee accesses a customer's account for improper reasons there will be a breach of the customer's rights. Bank systems can reveal who has accessed accounts and employees found doing so without good reason are disciplined. Third parties such as complainants and our scheme are not entitled to know what disciplinary action has been taken but complainants may receive compensation for privacy breaches. The quantum varies according to the impact of the breach. Over the past year we have worked collaboratively with the Privacy Commission to resolve such complaints quickly and fairly, while also preserving a customer's right to lodge a complaint with the Commission if they prefer to take this route.

CASE STUDY

Mrs K had recently taken a protection order against her ex-husband and moved to another part of the country with her children to get away from him.

She believed her ex-husband had wanted to find out whether she was in a financial position to support their children. She believed he had also asked his new partner, who worked at her bank, to find out where she was living by viewing her EFTPOS transactions.

After putting the allegations to the bank, it investigated and found its employee had accessed the account information, without valid reason, a number of months previously. The bank disciplined its employee and offered Mrs K \$550 to recognise the stress the privacy breach had caused. Mrs K thought the offer was too low and complained to us.

To determine if the compensation was reasonable in the circumstances we consulted the Privacy Commission. We had to establish if there was a connection between the earlier browsing of Mrs K's accounts and her recent safety fears. We concluded there was no link because the accounts had been accessed before moving. However, had the bank employee accessed the accounts when Mrs K was worried for her safety, our view of the bank's offer is likely to have been different.

We therefore considered the bank's compensation offer was reasonable and Mrs K accepted on that basis.

Canterbury earthquakes

Given the difficulties experienced by Canterbury residents, we have received relatively few complaints. This appears to be primarily because all banks have worked to assist those affected by the earthquakes. This case note describes one of the few disputes we have investigated.

CASE STUDY

Mr and Mrs T owned a Christchurch property which was security for their bank lending. The property was categorised red zone and the couple accepted a Crown purchase offer. They found another home and made an unconditional offer which was also accepted.

The Crown's offer required the damaged property's mortgage to be discharged before Mr and Mrs T could receive full payment. However, when they approached their bank to arrange the discharge the bank said it did not yet have the required special discharge documentation.

As the new property's settlement approached, Mr and Mrs T became concerned and secured finance for the purchase from another bank. Their first bank maintained it did not have the documentation so they were repaying two loans (one at each bank) and could not receive the Crown's funds for their red-zoned house.

The bank then found it did have the paperwork, apologised, discharged the mortgage and offered to pay the extra interest. However, the couple wanted additional compensation for bank-switching costs and stress. They asked us to investigate.

Balancing the inconvenience caused by the conflicting advice with Mr and Mrs T's failure to check discharge requirements before making an unconditional offer, we agreed a small amount of additional compensation was warranted. We then spoke to the bank which increased its offer to include \$300 for inconvenience. Mr and Mrs T accepted this.

Frauds and scams

Money-making scams unfortunately abound and bank customers continue to be caught by them. In general, banks have no legal obligation to refund customers who have authorised and therefore instructed the bank to make payment, even if the transaction is fraudulent. Nor do banks have to refund fraudulent transactions made when a merchant accepts a transaction where the card is not present.

Banks may not be aware, when a particular transaction is entered into by its customer, that the transaction is associated with a fraud. And when the transaction is online it is most unlikely. However, we do expect banks to be alert to potential scams and to warn customers if they spot the hallmarks of a scam. We may award compensation if the facts of the case reveal that the bank was or should have been on notice of a scam and had been negligent.

CASE STUDY

Mr P received an email from an unknown person inviting him to be a mystery shopper. His task was to receive \$12,000 into his account, then check with his bank branch that the funds were available, and finally, transfer them offshore via Western Union minus his commission.

Mr P phoned the branch, explaining he was a mystery shopper expecting to receive \$12,000. The branch confirmed the money was there and Mr P went in to withdraw and transfer it. He again mentioned he was a mystery shopper.

Mr P complained to us when the bank subsequently reversed the transaction because it was fraudulent and held him accountable for the lost funds.

The bank said Mr P was liable because he was working for a company he didn't know and he'd accepted a lot of money into his account before transferring most of it offshore. He should have read the Western Union warning about fraud when he completed the paperwork.

However, the bank acknowledged it had failed to act on several warning signs flagging potential fraudulent activity, so it offered \$8,000 towards Mr P's loss and proposed the \$4,000 balance become an interest-free unsecured overdraft. Its offer was only for part of the amount he owed because the bank maintained he should also be liable for his actions.

Mr P accepted the offer after discussing it with us. We advised him the bank's offer to compensate a customer for this type of fraud was unusual.

CASE STUDY

Mr H owned an online sales company. Somebody overseas purchased \$1,200 of goods by credit card. The transaction was processed and goods dispatched.

A month later the bank told Mr H the transaction was fraudulent and the credit card holder's Canadian bank had applied for a funds chargeback for its customer. His bank said it would deduct \$1,200 from his company account to cover the refund. This meant Mr H's company account became overdrawn.

Mr H complained to us the chargeback was unfair as he was also a fraud victim. He was now \$2,400 out of pocket because he had to cover the cost of the fraudulent purchase as well as refund the credit card.

We sympathised with Mr H's situation. However, he had agreed to bear financial losses resulting from accepting a fraudulent internet payment under the Merchant Credit Card Facility Agreement terms and conditions. These specify risks involved in accepting "card not present transactions", which this transaction was.

We asked the bank if it would refund the unarranged overdraft charges Mr H had incurred, which it agreed to. Mr H accepted the refund in full and final settlement.

KiwiSaver

Many complaints about KiwiSaver relate to the ability to withdraw funds, including when customers are experiencing hardship. Each scheme has its own trustee who is responsible for assessing hardship withdrawal applications in accordance with the criteria in the KiwiSaver Act. In these cases we refer complainants to the relevant trustee. If complainants are not satisfied with the trustee's decision they can complain to that trustee's dispute resolution scheme. However, we note if the trustee had been a member of our scheme, we could consider whether a trustee had, for example, ensured it had all the necessary information to make a decision and had appropriately assessed that information.

CASE STUDY

Mrs B was heavily indebted to a finance company which threatened bankruptcy proceedings if she didn't settle immediately. Mrs B wanted to withdraw all her KiwiSaver funds through its hardship withdrawal provision.

The trustees had already approved a partial weekly drawdown to cover her basic expenses. Mrs B complained to us the partial drawdown was not enough to settle her debt.

We explained trustees had decision-making responsibility for KiwiSaver scheme funds release and as the trustee was not a member of the Banking Ombudsman scheme we could not investigate. Mrs B withdrew her complaint.

Early repayment costs

Our scheme still receives complaints from customers who have been charged the costs of repaying fixed term loans early. Because this has been a common complaint, we produced a quick guide which is available on our website. It is rare for early repayment costs to be reduced or repaid as fixed loan contracts clearly specify this obligation.

CASE STUDY

Mr E had a fixed rate loan with one bank but wanted to shift this to another bank. He asked his current bank to estimate the cost of repaying early and was quoted approximately \$8,000.

However, when Mr E broke his loan six weeks later, he was charged \$17,000 in break costs as the quote had been incorrect.

The bank offered Mr E \$750 stress and inconvenience compensation because it considered Mr E should have got another quote before breaking the loan as quotes only last a few days.

We determined Mr E had not been told about the quote's short timeframe, and had in fact checked it was still valid on numerous occasions, which the bank had confirmed.

On this basis, the bank offered Mr E an \$8,600 refund plus a \$500 goodwill payment, which Mr E accepted.

Lending

Many complaints to our office could be avoided if bank officers gave adequate and prompt explanations to customers. When you are immersed in an industry and its products, it is easy to forget customers lack the same understanding. This case illustrates how even a product which had the flexibility to work to a customer's advantage caused considerable stress simply because it was never properly explained.

CASE STUDY

Mr and Mrs L believed their bank loan repayments were incorrect and more than they could afford. The repayments kept increasing even with a fixed interest rate, and they were sent annual information indicating shorter terms than their two loans' 25-year terms.

Mr and Mrs L kept querying this with the bank but were told everything was correct. They asked us to investigate.

We found Mr and Mrs L's loans were set up so repayments increased each year, meaning loan principal was paid at an accelerated rate. Because repayments were higher, they saved interest long-term.

The loan agreements they signed set this out, as did the annual review letters which also gave them the chance to opt out of the increased payments. However, it appeared neither the loan structure nor opt-out provision had been adequately explained to them.

As the lending structure was complex, we wanted to ensure repayments were correct and asked the bank for a detailed breakdown. We were satisfied the repayments were right. However, the bank acknowledged the couple had had difficulty obtaining information and offered to pay them \$1,750 to compensate for the inconvenience, which they accepted.

Payment systems (ATMs)

This case highlights both the value of an independent investigation and the process to follow if there is an issue with EFTPOS card use at ATMs. The process is:

- 1. When an EFTPOS card is used at an ATM belonging to another bank, the cardholder should contact his or her own bank, which will approach the ATM-owning bank.**
- 2. The ATM-owning bank should check whether the ATM has malfunctioned or failed to balance. If there is an ATM security camera, this should also be checked.**
- 3. The ATM-owning bank should then report the results of these enquiries to the customer's bank. Banks and their customers are reliant on the ATM-owning bank making proper enquiries in these cases.**

CASE STUDY

Ms F gave her EFTPOS card to her partner to withdraw \$200 from another bank's ATM, but part way through the transaction an on-screen message advised him the transaction could not continue and the card was returned without any money.

However, the next day, Ms F saw via internet banking the money had been withdrawn from her account. She contacted her bank to dispute the transaction and made a claim for \$200.

The ATM-owning bank had told her bank the ATM had balanced and all money had been accounted for on the day in question. Her bank then declined her claim.

After complaining to us, we asked Ms F's bank for all information about the balancing of the ATM. Ms F's bank then found out from the ATM-owning bank there had, in fact, been a \$200 discrepancy on the day in question.

It apologised and offered Ms F a \$100 payment on top of the \$200 reimbursement. Ms F was pleased with this and the case was settled.

We note that though Ms F breached her card's terms and conditions by sharing her PIN, this was not relevant to her loss. Customers are obliged to keep PINs secret and not give their cards to anyone else to use. If they do not comply, they may be liable for resulting transactions.

Insurance

The scheme investigates complaints about the full range of banking services, including insurance products. This case illustrates the obligations on both customers and insurance providers. Generally speaking, the obligation for customers is to fully disclose all material health information. The obligation on the insurer is to clarify or seek further information if it is sufficiently on notice that this is warranted.

CASE STUDY

Mr V applied for a term life policy from his bank. He was asked health and lifestyle questions by phone. He said he was currently having medical tests for high blood pressure but did not have results or a diagnosis.

The bank provided Mr V with a life policy. Four years later, Mr V died suddenly of a heart condition.

Mr V's partner lodged a claim under the policy. The bank declined it because Mr V had not fully disclosed the extent of medical investigations underway when he applied for insurance. It also said he had not disclosed a heart condition diagnosis. Mr V's partner complained to us.

Medical information showed Mr V had visited his GP for high blood pressure and chest pain two months before applying for insurance. The GP referred him to a specialist for a possible heart condition and he had a range of appointments and tests over two months. During this time, Mr V's doctors discussed his high blood pressure and the appropriate medication. The information included a record of a heart condition diagnosis.

The bank said it would not have offered a policy if it had known all the facts.

Mr V's partner said when Mr V applied for the insurance, he did not know he was being investigated for anything other than high blood pressure, and had not received a heart condition diagnosis. He answered questions to the best of his knowledge and told the bank he was undergoing tests. The bank still did not accept Mr V was unaware he was being investigated for a heart condition.

Reviewing the information, we believed Mr V had not been told that he had a heart condition when he applied for the insurance. He received echocardiogram results after the policy was granted. However, we did decide he answered several health questions incorrectly.

We also noted Mr V had told the bank he was having tests, but the results were not in yet. To see if a prudent underwriter would have undertaken further enquiries, we presented three underwriters with anonymised call transcripts between Mr V and the bank. All said a prudent insurer would have made more enquiries before deciding on the application. They also noted apparent inconsistencies in Mr V's answers were not followed up. On that basis, we considered a prudent insurer should not have proceeded with the application without making further enquiries.

We asked the bank if it would reconsider its position. It did and made a 75% claim payment offer on a "without prejudice" basis. Mr V's partner accepted the offer and the file was closed.

Guarantees

This case involves both guarantees and relationship debt, two areas likely to lead to difficulties for some customers. It is particularly important to obtain independent legal advice when contemplating entering into a guarantee as guarantors can be liable for more than the original debt (an “all-obligations” guarantee). Our quick guide on guarantees, available on our website, is a useful introduction to this topic.

CASE STUDY

Mr and Mrs D had a \$30,000 loan with their bank, secured by a mortgage on their house.

Mr D asked the bank for a \$50,000 business overdraft facility, which the bank agreed to if Mr D and his wife were guarantors.

Both signed the guarantee, but they separated six months later with the business overdraft at its \$50,000 limit.

Mrs D's lawyer wrote to the bank saying her guarantee was invalid because she was coerced into signing it and had done so without legal advice or advice from the bank.

The bank said its staff member recalled speaking to Mrs D about the guarantee. It could not determine if the guarantee was signed under duress and suggested the overdraft debt be dealt with in the couple's relationship property negotiations.

Mr D wanted the facility to be repaid from the proceeds of the house sale, which Mrs D eventually agreed to but it meant her share would be reduced by \$25,000 – her contribution to the overdraft debt.

Mrs D complained to us saying this was unfair as she had not received any advice about guarantees. Mrs D

said when she signed the guarantee, her husband said the overdraft was a stand-alone business facility. She felt pressured into signing the documents, did not read them, and was adamant there was no discussion with the bank about the guarantee. She sought \$25,000 reimbursement.

The bank confirmed its policy was in line with the Code of Banking Practice which stipulates potential guarantors are made aware of their obligations and told to take legal advice before signing. It apologised because this had not occurred in Mrs D's case.

The bank also said the staff member involved could not specifically recall explaining the ramifications of signing a guarantee to Mrs D.

The bank said it was possible Mrs D may still have agreed to be guarantor even if she had got legal advice and as the overdraft was for her husband's business, both Mrs D and her husband may have benefitted in which case she would have no grounds for complaint.

Nevertheless it was committed to reaching a resolution with Mrs D, because it appeared in her case good banking practice had not been followed. It made a formal apology to Mrs D and a \$10,000 payment, both of which she accepted.

Responsible lending

We receive complaints alleging irresponsible lending as well as complaints about banks refusing to lend. By and large, the percentage of bank loans that go into default is low but implications for borrowers are serious. Unfortunately, some bank customers have been caught out by fraudulent brokers. In these cases, the complaint should be directed to the broker's dispute resolution scheme as the bank is entitled to rely on the information provided to it.

CASE STUDY

Mrs N approached a broker for a loan to buy a house and completed a lending application enclosing a copy of her payslip and confirmation she intended letting out a room.

The broker sent an application on Mrs N's behalf to a number of banks and obtained a competitive home loan offer from a bank, which Mrs N accepted. Unfortunately, she could not service the loan and the house was sold by the bank as mortgagee with a \$20,000 shortfall.

Mrs N complained that the bank should not have approved the loan because she could not afford it. She asked the bank to wipe the shortfall but it declined maintaining the information in her application showed she could afford the loan.

Mrs N disputed the information was hers and asked our office to investigate.

We soon discovered Mrs N's broker was a convicted fraudster. We concluded while her application was not part of the court case, it was likely the broker

fraudulently altered her application information. However, we did not have jurisdiction to consider the broker's actions and could only consider whether the bank had acted responsibly when it had given Mrs N her loan.

When considering complaints about irresponsible lending we determine whether the bank has made appropriate enquiries and whether the customer:

- can afford the repayments
- actively seeks a loan (as opposed to being approached by the bank)
- is under any sort of disability
- either meets the bank's usual lending criteria, or is not far from them.

We were unable to uphold Mrs N's complaint as the information submitted by the broker did not suggest the lending was unaffordable and she met the bank's criteria. Further, as there was nothing to alert the bank to the fraud, it was entitled to rely on the information provided.

Foreign exchange

Unfortunately, miscommunication and unspoken assumptions underlie many of our complaints. In some cases, such as this, the bank is the intermediary, acting on others' instructions. The real problem lies in the communication between other, non-bank parties. The case also illustrates that when foreign currency transactions are involved, the risks increase. This is because they are subject to fluctuations in the value of the currencies and to the costs of having to convert funds into and out of different currencies.

CASE STUDY

Mr A lived in Australia and was to receive some funds from his late mother's estate in New Zealand. He decided he wanted the funds in New Zealand dollars, opened a NZD account with a bank in Australia, and forwarded the details to the estate's New Zealand-based lawyer.

The lawyer completed an international money transfer form using the law firm's bank to transfer the funds from its trust account to Mr A's account in Australia. The lawyer specified the currency to be sent as "AUD" as he was not aware Mr A's account was a NZD account.

The law firm's bank converted the funds in AUD, and transferred them. Mr A's Australian bank then converted them back to NZD to deposit money in his NZD account. He received about \$16,000 less than if the funds been transferred in NZD.

Mr A wanted the law firm's bank to reimburse the loss because the bank had not included all the details

of his Australian account number when processing the information on the form. The account number included the notation "NZD".

The bank said it was the client's responsibility to check whether the instruction given was correct: it had processed the funds to the specified account as instructed.

Mr A thought it was unfair he had to pay the conversion costs when he had not wanted the money converted. However, we considered the bank had not breached any duty or obligation to Mr A as it had followed instructions from its client (the law firm's bank) to transfer the funds in AUD.

We considered the situation arose from a misunderstanding between Mr A and the estate's lawyer about which currency to use. We did not consider the bank account number was part of the instruction concerning the currency. Mr A accepted our assessment, and the file was closed.

Banking Ombudsman Scheme Limited


STATUTORY INFORMATION

For the year ended 30 June 2013.

The board of directors present their annual report including the financial statements of the company for the year ended 30 June 2013 and the auditor's report thereon.

The shareholder of the company has exercised her right under section 211 (3) of the Companies Act 1993 and agreed that this annual report need not comply with paragraph (a) and (e) to (j) of section 211 (1) of the Act.

For and on behalf of the board:



Ms Miriam Dean QC CNZM, Chair

10 September 2013



Independent Auditor's Report

To the Shareholder of Banking Ombudsman Scheme Limited

Report on the Financial Statements

We have audited the financial statements of Banking Ombudsman Scheme Limited on pages 30 to 36, which comprise the statement of financial position of Banking Ombudsman Scheme Limited as at 30 June 2013, and the statement of comprehensive income, and statement of movements in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholder, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements,

whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor and tax adviser we have no relationship with, or interest in Banking Ombudsman Scheme Limited.

Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company.

Opinion

In our opinion, the financial statements on pages 30 to 36:

- ▶ comply with generally accepted accounting practice in New Zealand; and
- ▶ give a true and fair view of the financial position of Banking Ombudsman Scheme Limited as at 30 June 2013 and its financial performance for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- ▶ We have obtained all the information and explanations that we have required.
- ▶ In our opinion proper accounting records have been kept by Banking Ombudsman Scheme Limited as far as appears from our examination of those records.

10 September 2013
Wellington

Banking Ombudsman Scheme Limited

Statement of financial position

As at 30 June 2013

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

NOTE

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Current assets			
Bank – cheque account		2,460	1,041
Bank – on call account		113,468	361,643
Petty cash		100	100
Accounts receivable	9	1,143	1,649
Prepayments	10	15,570	19,698
Tax refundable		3,565	26,353
GST receivable		17,355	5,121
		153,661	415,605
Property, plant and equipment	5	80,015	100,482
Intangibles	6	63,919	29,019
Total assets		\$297,595	\$545,106
Current liabilities			
Sundry payables and accruals	8	259,320	517,050
Bank – credit card		3,215	2,601
Total liabilities		\$262,535	\$519,651
Net assets		\$35,060	\$25,455
Equity			
Contributed equity		1	1
Accumulated profits		35,059	25,454
Shareholder's surplus		\$35,060	\$25,455

for and on behalf of the Banking Ombudsman Scheme Limited which approved the issue of these financial statements on 10 September 2013.


Chair Ms Miriam Dean QC CNZM

Date 10 September 2013


Director Kevin Murphy

Date 10 September 2013

NOTE

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Income			
Levies		2,200,000	2,150,000
Interest		10,237	16,107
Other income	16	3,638	20,000
Total operating income		\$2,213,875	\$ 2,186,107
Expenses			
Audit fees		15,391	20,317
Board controlled costs	17	104,180	28,663
Contractors and external advice		31,671	29,058
Depreciation	5	30,418	46,572
Amortisation of intangibles	6	15,138	18,363
Directors' remuneration	12	102,900	98,000
Entertainment		3,857	3,328
Loss on disposals		11,645	27
Office costs		98,916	100,934
Publications & promotions		47,366	44,522
Rent		181,000	180,099
Scheme compliance		6,023	5,445
Staff salaries & superannuation		1,418,503	1,466,688
Staff costs – other		42,659	48,190
Staff cost – recruitment		8,687	8,172
Technology & website costs		44,128	36,346
Travel and conferences		40,267	43,481
Total expenses		\$2,202,749	\$2,178,205
Profit before taxation		11,126	7,902
Taxation expense	11	(1,521)	(3,349)
Net profit after taxation		\$9,605	\$4,553
Total comprehensive income for the year is Wholly attributable to owners of the company		\$9,605	\$4,553

Banking Ombudsman Scheme Limited

Statement of comprehensive income

For the year ended 30 June 2013

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

Banking Ombudsman Scheme Limited

Statement of movements in equity

For the year ended 30 June 2013

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

	Shareholders capital	Accumulated profit/ (losses)	Total
As at 1 July 2011	1	20,901	20,902
Profit for the year	-	4,553	4,553
As at 30 June 2012	1	\$25,454	\$25,455
As at 1 July 2012	1	25,454	25,455
Profit for the year	-	9,605	9,605
As at 30 June 2013	1	\$35,059	\$35,060

1. Corporate information

The financial statements of the company for the year ended 30 June 2013 were authorised for issue in accordance with a resolution of the directors on 10 September 2013.

The company was incorporated on 19 June 2007 and is incorporated and domiciled in New Zealand.

The company provides a free, independent and impartial dispute mechanism for those receiving “banking services” from the participating banks and non-bank deposit-takers in New Zealand.

2. Summary of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements are presented in New Zealand dollars (\$).

Differential reporting

The company qualifies for differential reporting exemptions as it has no public accountability, and its shareholder is a director of the company. All available reporting exemptions allowed under the framework for differential reporting have been adopted.

(b) Statement of compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They

comply with the New Zealand equivalents to international financial reporting standards, and other applicable financial reporting standards, as appropriate for profit oriented entities that qualify for and apply differential reporting concessions.

(c) Basis of measurement

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on a historical cost basis are followed by the company.

3. Accounting policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied.

(a) Cash and cash equivalents in the statement of financial position comprise cash at the bank and in hand.

(b) Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost. Gains or losses are recognised in profit or loss when the receivables are derecognised or impaired. They are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(c) Property, plant and equipment are stated at cost less accumulated depreciation. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of

replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation has been calculated on plant, property and equipment on a diminishing value basis using the rates permitted for income tax purposes. Depreciation rates are as follows:

Furniture, fixtures and fittings	7.5%-19.2%
Office equipment	13.0%-67.0%
Hardware	36.0%-60.0%
Other property, plant and equipment	9.5%-48.0%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

(d) Intangibles –

(1) Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Amortisation rates for software are 40% to 50%.

(2) Website

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

Banking Ombudsman Scheme Limited

Notes to the financial statements

For the year ended 30 June 2013

(e) Sundry payables and accruals are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid and arise when the company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(f) Leases – the company leases its office premises. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

(g) The financial statements have been prepared on a GST exclusive basis except for receivables and payables which are shown gross when billed.

(h) Provisions and employee benefits – provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(1) Wages, salaries, annual leave and sick leave – liabilities for wages and salaries, including non monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees'

service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(2) Defined contribution pension plans – obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

(i) Revenue recognition

(1) Levy revenue – revenue from members of the scheme is recognised on an accrual basis. Levies are paid on a quarterly basis.

(2) Interest revenue – revenue is recognised as interest accrues during the life of the investment.

(j) Income tax and other taxes

Income tax is accounted for using the taxes payable method. The income tax expense recorded in the statement of comprehensive income for the year represents the income tax payable for the year.

The current income tax asset or liability recognised in the balance sheet represents the current income tax balance due from or obligation to the Inland Revenue Department at balance date.

(k) Other taxes

Revenues, expenses and assets are recognised net of the amount GST except:

- when the GST incurred on the purchases of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the acquisition of the asset or part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST inclusive.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the balance sheet.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

4. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows.

The company adopted the following new and amended New Zealand equivalents to international financial reporting standards and IFRIC interpretations as of 1 January 2011.

- Improvements to NZ IFRSs effective 1 January 2011

The adoption of the above amendments did not have any impact on the financial position or performance of the company.

5. Property, plant and equipment

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

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

	Cost	2012 Accumulated depreciation	Book value
Fittings	6,545	2,164	4,381
Furniture	23,595	9,349	14,246
Office equipment	82,779	57,970	24,809
Hardware	82,355	62,468	19,887
Other property, plant and equipment	52,008	14,849	37,159
	\$247,282	\$146,800	\$100,482

	2012 Depreciation
Fittings	542
Furniture	2,986
office equipment	17,507
Hardware	20,393
Other property, plant and equipment	5,144
	\$46,572

6. Intangibles

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

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

	Cost	2012 Accumulated amortisation	Book value
Computer software	74,997	57,623	17,374
Website	53,682	42,037	11,645
	\$128,679	\$99,660	\$29,019

	2012 Amortisation
Computer software	7,523
Website	10,840
	\$18,363

7. Lease commitments

Lease commitments under non-cancellable operating leases:

	2013	2012
Not later than one year	180,100	180,100
Later than one year, not later than five years	258,278	435,239
	\$438,378	\$615,339

8. Sundry payables and accruals

	2013	2012
Sundry payables	48,703	66,226
Levies overpaid	-	250,000
Accruals	106,919	108,578
Provision for holiday pay	103,698	92,246
	\$259,320	\$517,050

9. Accounts receivable

	2013	2012
Sundry debtors	\$1,143	\$1,649

10. Prepayments

	2013	2012
Conference expenses	11,462	17,073
Healthcare	1,414	1,096
Professional subscriptions	1,756	1,412
Other	938	117
	\$15,570	\$19,698

11. Income tax expense

	2013	2012
Profit before tax	11,126	7,902
Tax at statutory income tax rate of 28%	3,115	2,213
Add/deduct tax effect of non-deductible expenditure	(1,594)	5,773
Over provision in respect of prior years	-	(4,637)
Current year taxation as per income statement	\$1,521	\$3,349

12. Directors' remuneration

The directors had remuneration due or paid during the year of \$102,900 (2012: \$98,000).

13. Contingent assets and liabilities

There are no contingent assets or liabilities at year end.

14. Transactions with related parties

Other than transactions with the company's banker, ANZ (a scheme participant) which are conducted on normal commercial terms, there have been no related party transactions during the year.

15. Financial instruments

The carrying amounts of categories of financial assets and liabilities are as follows.

Loans and receivables

	2013	2012
Accounts receivables	1,143	1,649
Bank	115,928	362,684
	\$117,071	\$364,333

Financial liabilities measured at amortised cost

	2013	2012
Sundry payables	\$48,703	\$66,226

16. Other income

	2013	2012
New participants' joining fees	-	\$20,000
Sundry income	\$3,638	-

17. Board controlled costs

	2013	2012
Recruitment of new Chair	41,866	-
Legal and engineering expenses re lease	6,750	-
Internal audit undertaken	10,920	-
AGM and 20th anniversary expenses	10,242	-
Training	13,129	-
Other	21,273	28,663
Total	\$104,180	\$28,663

18. Post balance sheet events

Following an earthquake affecting Wellington on 21 July 2013, the business has been unable to make use of the rental premises to which the lease commitments in note 7 relate. At the time of this report uncertainty still exists regarding these commitments.

DIRECTORY

Directors

Miriam Dean
Suzanne Chetwin
Peter Clare
Mary Holm
Kevin Murphy

Banking Ombudsman

Deborah Battell

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BOS

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