

18 May 2018

Adrian Orr
Governor
Reserve Bank of New Zealand

Rob Everett
Chief Executive
Financial Markets Authority

Dear Adrian and Rob

Your review of New Zealand's banking sector

The Banking Ombudsman Scheme notes your letter of 3 May 2018 to bank chief executives and the New Zealand Bankers' Association seeking information to show that the banking sector here is not experiencing misconduct of the type highlighted by the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

We support your request for such assurances because it is vital customers' concerns about the integrity of New Zealand's banking sector and any parallels with the Australian banking sector are allayed as quickly as possible.

We thought it might be helpful to provide an overview of the cases we have seen in the past five years. We also want to advise you of several initiatives that will result in more trust and confidence in the banking sector.

As you know, a strong dispute resolution framework is an essential element in a fair banking sector. Banks are the primary resolvers of complaints. Through their internal dispute resolution processes, they have the opportunity to hear customers' complaints first-hand and respond accordingly. Complaints that cannot be resolved internally come to us. Proportionately, few do. As a result, our data represents only a small percentage of all complaints to banks. But it is nonetheless useful in identifying emerging issues and potential areas of misconduct. And we are pleased to say we have not identified any of the systemic abuses revealed by the Australian royal commission.



Our dispute resolution and prevention work

The Banking Ombudsman Scheme has been resolving banking problems for more than 25 years. Our industry-funded service is free to users and offers a cheaper, faster option than the courts. In looking at each case, we consider what is fair in all the circumstances, having regard to legal principles, applicable industry codes and good industry practice.

We have deliberately and strategically focused on a distinct segment of the financial services sector, banking services. We consider that there are significant benefits in an industry-specific, expert scheme to ensure tailored dispute resolution and education. Although we have the smallest number of scheme participants, collectively they provide services to most New Zealanders. We have therefore developed specialist expertise in the sector and established commonly understood approaches to issues.

Last year the board approved our strategy for 2017-2020 (attached). This highlights our dual role in resolving and preventing banking problems. Our increased focus on prevention is supported by all of our key stakeholders, including the banks. We publish consumer guides and case studies on our website, distribute monthly prevention insights to banks, hold industry and consumer forums and make submissions on policy developments.¹ We are pleased that banks, either on their own initiative or on our recommendation, improve their systems and policies in light of the insights from our cases.

Our prevention strategy also aims to build a comprehensive picture of complaints to banks. This includes an initiative, currently under way, to obtain more detailed complaint data from banks and merge it with our own (see below).

Reporting and information-sharing

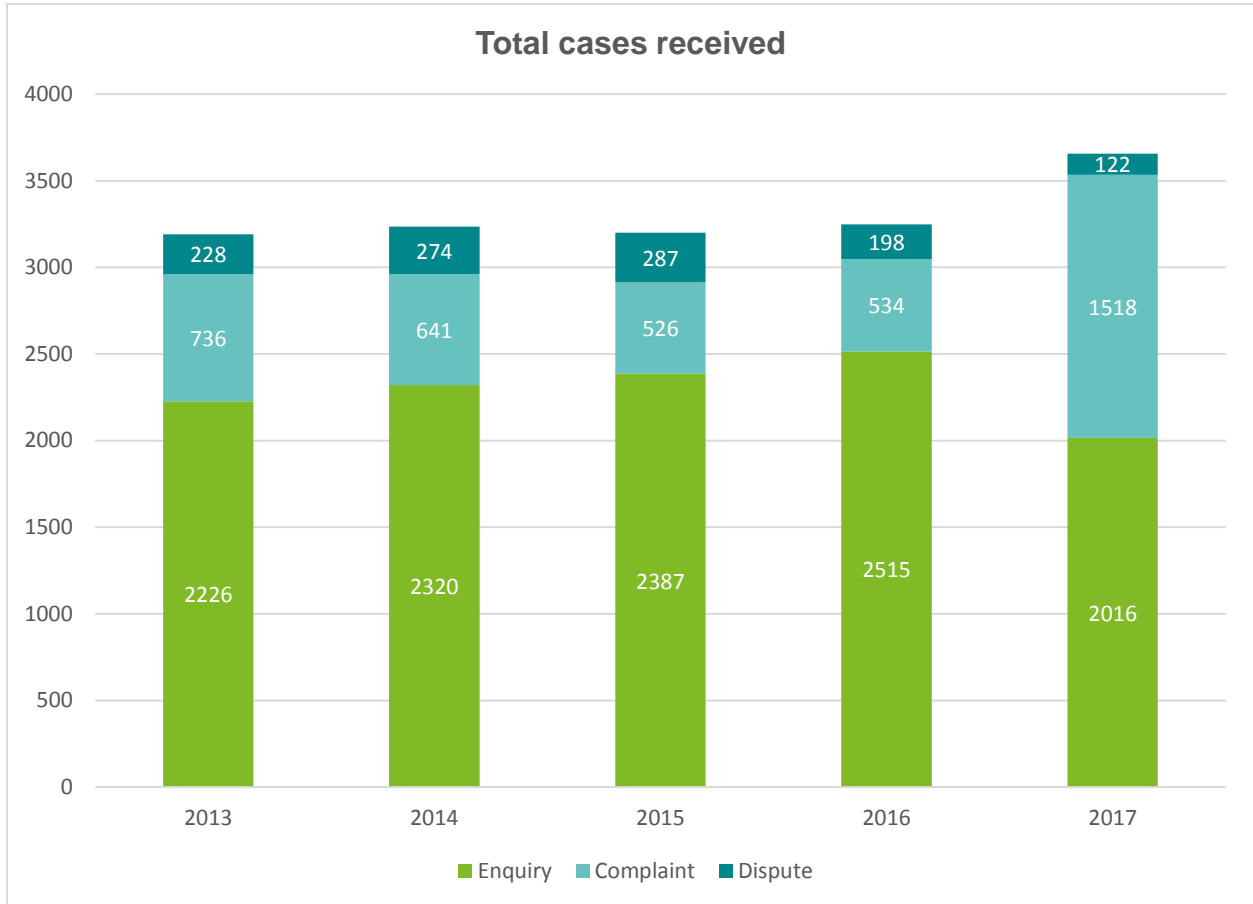
We are required to advise regulators of any series of material complaints that could give rise to a risk of public harm. We also supply aggregated data each quarter to the Financial Markets Authority so it can maintain an industry-wide view of complaint trends. We also have a systemic issues protocol that outlines an agreed approach to identifying, resolving and reporting systemic issues. This is not a feature of all dispute resolution schemes.

Systemic issues may affect many customers of one bank, or a few customers at many banks. Typically, an investigation into an individual case unearths a system or process error that could affect other customers in similar circumstances. We may ask a bank to tell us the number of customers affected, the potential impact, the proposed redress and what steps it will take to avoid a recurrence. If satisfied with the corrective action, we resolve the case in the normal way. If not, we may name the bank in our annual report and notify the regulators.

¹ A recent example was our submission to the New Zealand Bankers' Association, which resulted in the retention of certain consumer protections in its revised Code of Banking Practice.

Analysis of our cases

In recent years, our overall caseload has increased, but the number of cases that escalate to a formal dispute has decreased.

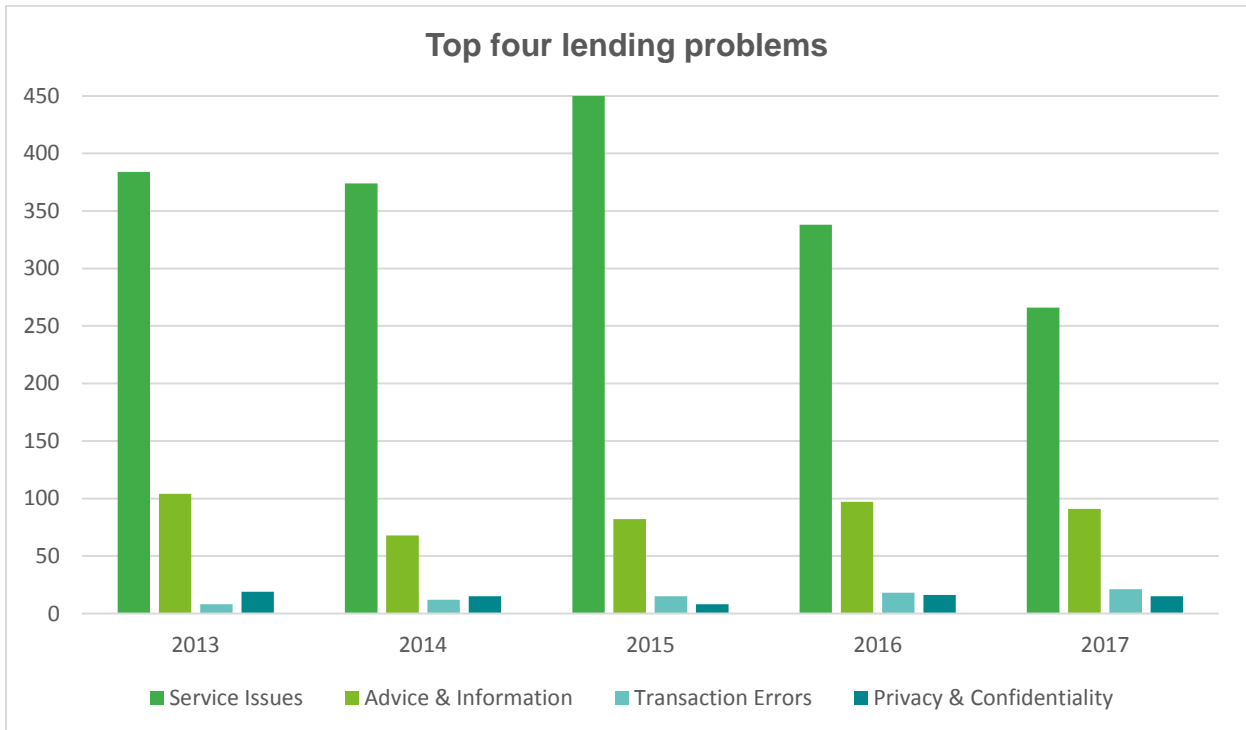
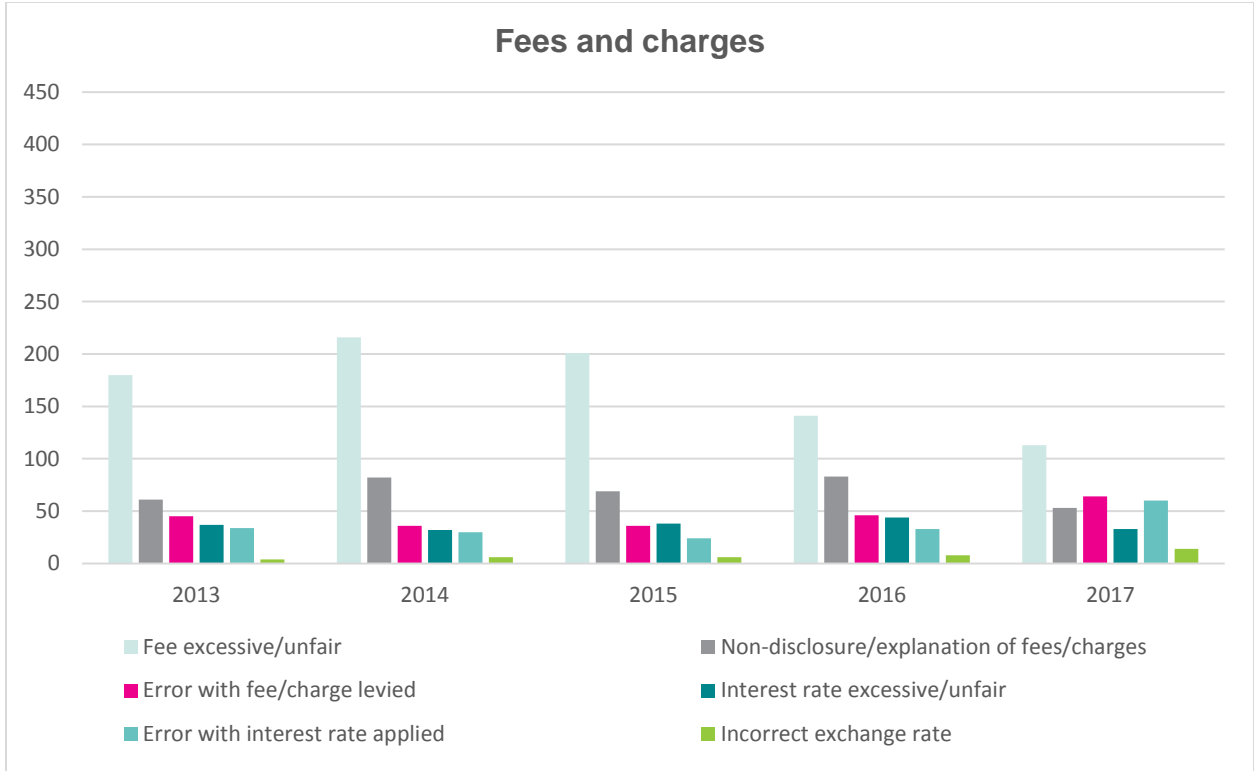


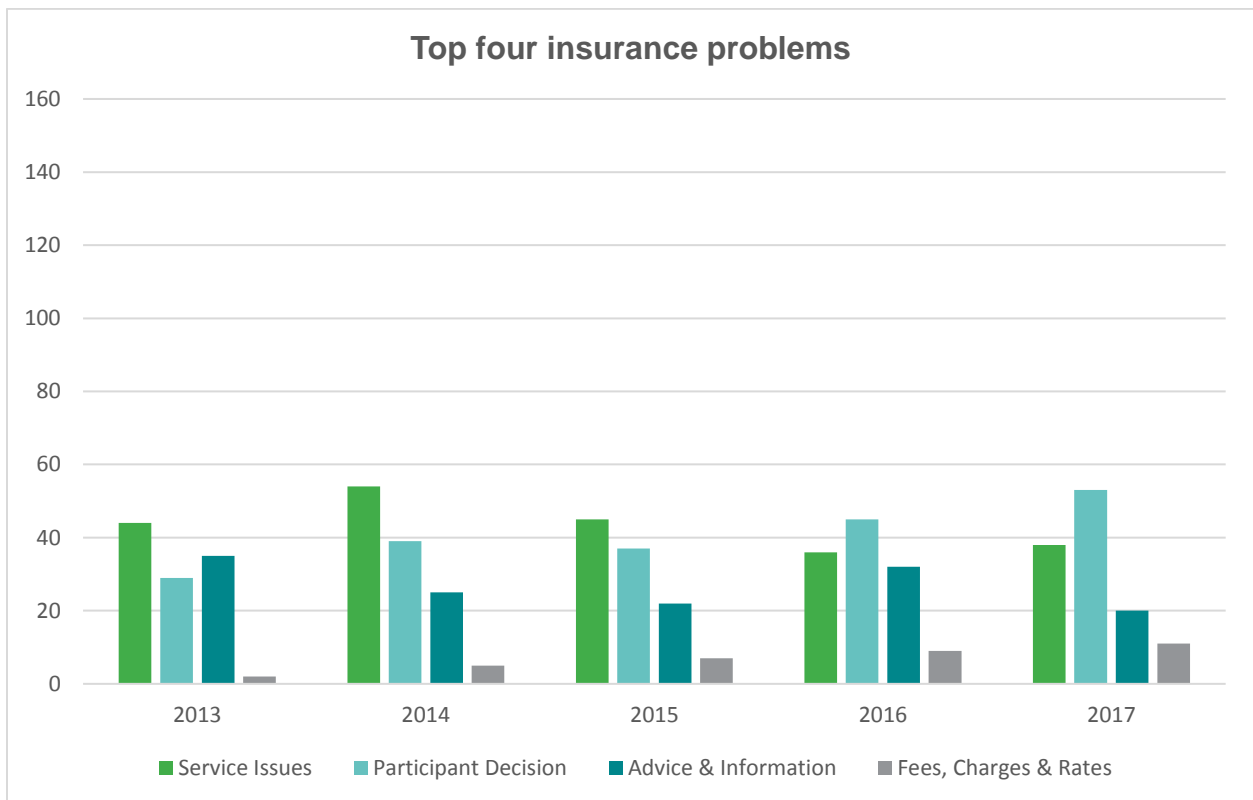
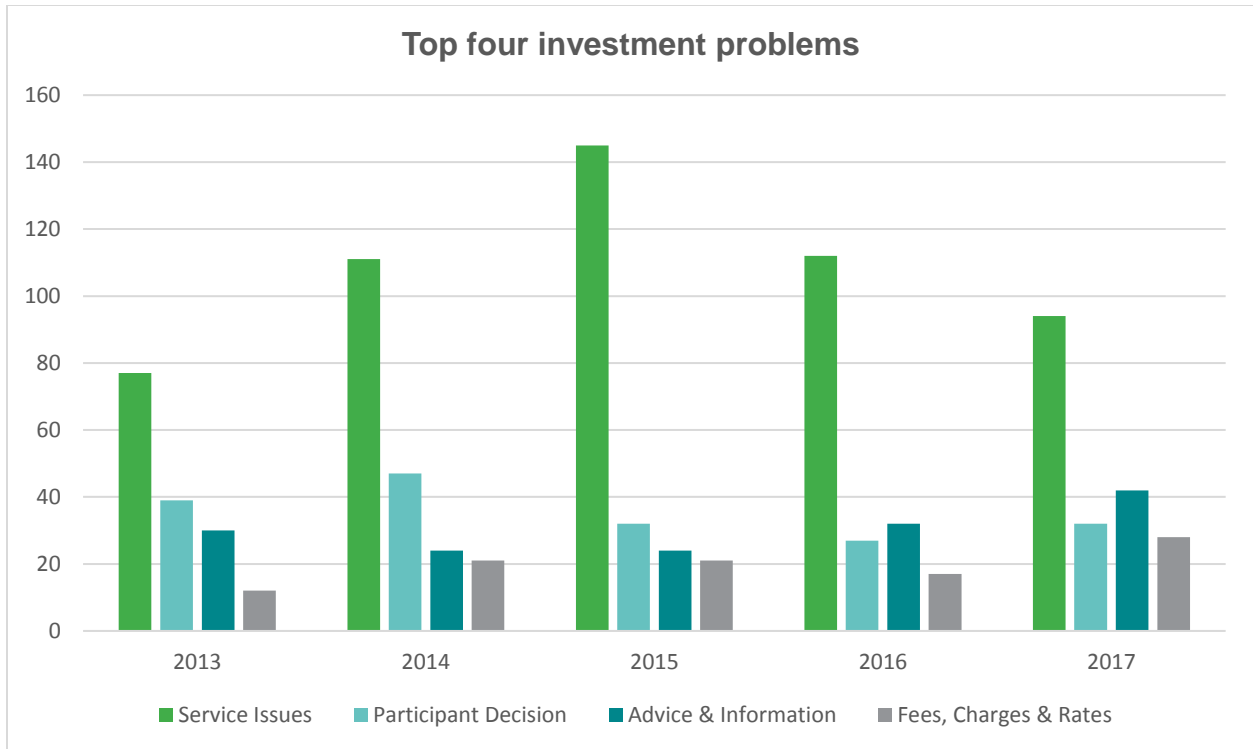
Note: the definition of an enquiry was narrowed from 1 July 2017.

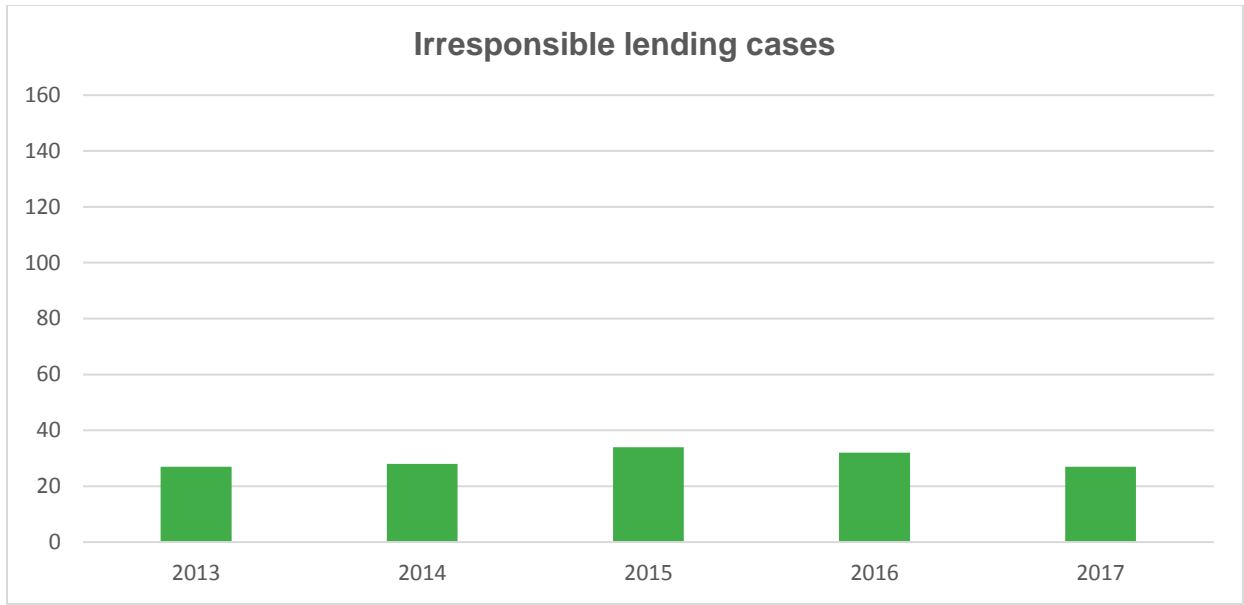
We sort out most callers' or complainants' problems almost immediately and refer the rest to the bank concerned. If the bank is unable to resolve the problem, we investigate and try to facilitate an agreed outcome or, failing that, make a formal decision. Only a small proportion of cases come back from the banks for investigation – typically about 200 disputes a year, or between 5 per cent and 10 per cent of our total caseload. This reflects banks' increased willingness to sort out problems early on.

In general, cases fall relatively evenly across most aspects of banking – credit cards and home loans, contactless cards, foreign exchange accounts, insurance, KiwiSaver, term deposits and managed funds – yet the overwhelming majority centre on poor customer service or miscommunication.

We have reviewed our data over the last five calendar years in the areas recently highlighted by the royal commission.







Initiatives for 2018-19

We have begun receiving and reviewing information collected by banks about complaints they resolve internally, including:

- complaints data (volumes, topics and resolution times)
- any systemic issues (and systems for identifying them)
- any emerging issues (and systems for identifying them)
- customer satisfaction figures for complaints resolved internally.

The New Zealand Bankers' Association supports this initiative.

We also plan to develop a sector-wide complaint data system. Some of the initiatives under way in Australia will be a useful guide in this respect. We would welcome your input on the system's design so it can also meet your needs.

At the same time, we plan to seek more formal reports about complaints we refer back to banks, to ensure these referrals are leading to good customer outcomes.

Together, these measures will help us to build a better picture of banks' complaint-handling practices. Relaying the results to banks will enable them to improve their performance. These initiatives should also create opportunities for us to work together more closely to ensure the dispute resolution arm of the regulatory framework is working effectively to promote trust and confidence in the banking sector.

We are very happy to meet to discuss these initiatives further if that would assist.

Yours sincerely



Miriam Dean CNZM QC
Chair



Nicola Sladden
Banking Ombudsman

Copy to:

Adrienne Meikle
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