FSCL
FINANCIAL SERVICES COMPLAINTS LTD

ANNUAL REPORT
2016/17

We resolve complaints simply and confidentially by working with consumers and their financial service provider to reach a fair outcome.

CONTENTS

SNAPSHOT OF OUR YEAR

ABOUT US

We are a dispute resolution scheme approved by the Minister of Consumer Affairs to resolve individual complaints between financial service providers and their clients – fairly, reasonably, quickly and as informally as possible. We can look into complaints about most types of financial matters, including loans, insurance, financial and insurance advice and retirement funds.

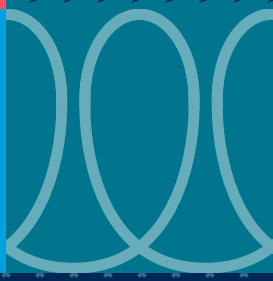
If our scheme participant and their client can't resolve a problem themselves, we can step in to sort things out. We're independent and unbiased and can get to the heart of what's happened. We aim to reach a fair, pragmatic outcome that helps both sides move on.

If we think the scheme participant has acted fairly, we'll explain how things stand. But if someone's been treated badly or received poor advice, we'll use our powers to put things right. That could mean telling our scheme participant to pay compensation, (if the client suffered a financial loss), to settle an insurance claim, accept a loan hardship application, or apologise.

Since we started up seven years ago, we've seen the lessons that can be learned when things go wrong and the impact of financial problems on people from all backgrounds and livelihoods. We're committed to sharing our insight and experience to encourage transparency and confidence in financial services.

CASES INVESTIGATED AND RESOLVED

216



20%

REDUCTION IN ANNUAL FEES CHARGED TO SCHEME PARTICIPANTS

ENQUIRIES AND COMPLAINTS ANSWERED

4,365

MORE THAN

120

ATTENDEES AT THE FSCL CONFERENCE

SATISFACTION WITH OUR SERVICES BY CONSUMERS AND PARTICIPANTS

90%

SCHEME PARTICIPANTS

6,800

CHAIRMAN'S FOREWORD

FSCL plays a leading role in resolving complaints in the financial services sector. Our (nearly) 7,000 members include lenders, insurers, financial advisers, trustee companies and fund managers, and we receive more than 4,300 enquiries and complaints a year from across these areas of business.

STRATEGIC OBJECTIVES

During the year, the Board reviewed our strategic objectives. Those objectives include increasing consumer awareness of FSCL and the types of complaints the scheme resolves, and offering participants new services, training and education opportunities.

We were pleased to see real progress during the course of the year in meeting those objectives.

The fact that FSCL has enjoyed such success in attracting participants to the scheme does not mean necessarily that there is high consumer awareness of it. Participants are encouraged to tell their clients about FSCL when a complaint arises, and to refer unresolved complaints to FSCL. However, research and our experience show that while many participants do inform their clients, around 35% of complaints that reach FSCL for investigation are referred by other means, often as a result of the consumer having 'accidentally' found out about FSCL.

Because FSCL has high participant numbers, and there is, therefore, a correspondingly high number of consumers who may need to access our services, it is very important that FSCL has a strong public profile.

USE OF OMBUDSMAN TITLE

As I reported last year, mindful of the need to ensure the scheme is accessible to consumers, the Board decided to seek the Chief Ombudsman's consent to use the 'Ombudsman' title. Our application to the High Court to judicially review the Chief Ombudsman's decision not to allow FSCL use of the title, which was heard in February this year, was unsuccessful.

After taking legal advice, and because the issue is of such importance, the Board has decided to appeal the High Court's decision to the Court of Appeal. A hearing date for the appeal is expected later this year and I will report on the outcome of that appeal in due course.

ANNUAL FEE REDUCTION

The extra resources devoted to FSCL's outreach and accessibility programmes have not come at the expense of efficiency. Careful management has resulted in an operational surplus once again. While taking a prudent approach to ensuring that FSCL has sufficient reserves, including the ability to operate in the event of a natural disaster, we were able to reduce annual fees for participants by 20% for the 2017/18 financial year, just as we did in 2016/17.

THANKS

My thanks to my fellow directors for their wisdom and support. I am grateful for their steadfast commitment to an organisation which, as this report shows, has achieved much in the past year.

We were delighted to welcome Mary Holm to the Board last October, replacing Bruce Cronin as one of our two consumer representatives. Mary will be familiar to many from her personal finance column in the Weekend Herald, financial segment on RNZ, and as a bestselling author and seminar presenter on personal finance. She is also a director of the Financial Markets Authority. Mary has already made a valuable contribution to the Board and I look forward to working with her and the other directors over the year ahead.

As ever, it is appropriate to recognise that whilst governance is important, so too is the efficient day-to-day management of FSCL. During the year our Chief Executive Officer, Susan Taylor, and her staff have continued to manage the company's affairs superbly, and I extend the Board's, and my personal, thanks to them for all their work.

Kenneth Johnston QC:
Board Chairman

"The fact that FSCL has enjoyed such success in attracting participants to the scheme does not mean that there is necessarily high consumer awareness of it. Participants are encouraged to tell their clients about FSCL when a complaint arises, and to refer unresolved complaints to FSCL."

CEO OVERVIEW

The year ended 30 June 2017 has been busy and productive for the FSCL team. We continued to enhance the services we offer our scheme participants and introduced new initiatives to raise consumer awareness of the scheme. We also investigated an increased number of complaints, with a 20% rise in both initial complaints and enquiries, and disputes investigated and resolved.

The rise in complaints may be due in part to our increased efforts to ensure consumers know who we are, what we do, and how to reach us. As usual, the complaints involved a range of financial products and services, from consumer credit and travel insurance to superannuation funds and timeshares. However, underlying each complaint is typically an alleged breach of consumer protection legislation and/or disappointment with the level of service provided.

An often overlooked, but very important, facet of our role as an independent dispute resolution scheme is to pass on the lessons we have learned from complaints we have resolved. Examples of these are shared in our case studies section later in this report. We find that many complaints could have been avoided by better communication between the financial service provider and their customer. Clear communication, understanding how breakdowns in communication can result in complaints, and recognising complaints at an early stage were key themes in our successful conference "Seeing the wood for the trees" in May this year.

HOW FSCL INVESTIGATES COMPLAINTS

When considering how we go about investigating a complaint, it is important to remember that we are an entirely independent body – we do not advocate for the consumer, nor are we an apologist for our scheme participants.

When we start our investigation, we always look to see whether it can be resolved by mutual agreement between the parties. We do this by mediation, or shuttle negotiation. If we have to make a formal decision on a case, we are required to act fairly. We are required to produce decisions that are fair and are seen to be fair to both parties by:

- observing natural justice and procedural fairness principles
- making decisions on information before us, and
- specifying the criteria on which decisions are based.

We cannot and do not ignore the law when making our decisions. Sometimes we will seek an independent opinion from an industry expert; for example, where we need guidance as to what is best industry practice in a certain situation. Or, we may seek an independent legal opinion if the case involves particularly complex legal issues or the case is likely to have wider relevance.

"Sometimes we will seek an independent opinion from an industry expert, for example, where we think we need guidance as to what is best industry practice in a certain situation."

RESPONSIBLE LENDING

The new responsible lending rules and code have now been in effect for two years and we have started to see complaints from consumers alleging a breach by the lender of their responsible lending obligations. The complaints show that most lenders are acting responsibly and are complying with their obligations to ensure that the credit is suitable for the borrower and that the borrower can afford to repay the loan without suffering substantial hardship. However, there are a few instances where we have found the lender has not complied at all. One of these cases features later in this report.

REVIEW OF FINANCIAL ADVISERS' LEGISLATION

We have continued to take a keen interest in the current review of the financial advisers' legislation by the Ministry of Business, Innovation and Employment. We strongly support the intended simplification of the financial adviser regime and removal of unnecessary compliance and regulatory boundaries. In particular, we strongly agree with the duty to put the client's interest first as we consider it to be fundamental to the role of a professional adviser. That duty should apply to all actions an adviser takes when giving advice and throughout the adviser's relationship with their client.

STAFF

As a result of a bigger case load and increased outreach activities, our former Early Assistance Officer, Josephine Byrnes, was promoted to Case Manager at the start of 2017 and Lauren Barker started with us as our new Early Assistance Officer. Eddie Paul then joined us as Case Manager in May this year when Josephine Byrnes left to travel overseas. Olivia Ofsofke has been in the role of Administration Assistant since August last year while Kylie Gore is on parental leave.

THANKS

I extend my usual thanks to the Board for their unstinting support and for challenging us to be the best we can be. It was a pleasure to welcome Mary Holm as a new consumer representative on the Board when she replaced Bruce Cronin in October last year.

Finally, I sincerely thank all of my team for another year's outstanding performance. An organisation is only as good as the people who work for it and we are truly fortunate to have dedicated staff members who care about the work we do, and work hard every day to produce the best possible results for our stakeholders.

Susan Taylor: CEO

SECTOR AND CONSUMER OUTREACH

PARTICIPANT RELATIONS

Membership numbers have remained steady this year with total membership now standing at just over 6,800; an increase of about 5% from last year.

A major event for participants this year was our second conference, "Seeing the wood for the trees". Guest speakers talked about why and how people justify committing fraud, the benefits of clear customer communications, and what consumers really want from their financial service provider. Our staff ran workshops on topical issues including FSCL's approach to the sale of replacement insurance, responsible lending and hardship issues, and how FSCL goes about investigating a case. More than 120 participants and other stakeholders attended the conference and feedback was very positive. We plan to hold another conference in 2019.

We held half-day regional workshops for participants in Palmerston North and Christchurch during the year, both of which were well attended and received. We will continue with our workshop programme as it has proven popular with participants and is a convenient way to earn CPD points. We have workshops planned for Wellington and the Auckland North shore later in 2017.

"We would be happy to use FSCL for any complaint where we reach a deadlock, whether it worked for or against us. This is because of the impartial process and the experience of those involved mean we know if we are right or wrong with the way the complaint was dealt with."

We also ran in-house training on complaints handling and specialist topics for a number of participants, and partnered with the Professional IQ College and the Financial Advisers' Association of New Zealand to present webinars on a range of topics.

We produced quarterly newsletters for participants and a specialist newsletter for lenders twice during the year.

We also added another 100 case notes to our website this year. Case notes are a valuable resource for both participants and consumers and our website statistics show that they are accessed frequently.

CONSUMER OUTREACH

To be accessible to consumers, they need to know about us and understand what we do. Raising consumer awareness continues to be a key strategic objective for the scheme.

This objective underlies our ongoing efforts to be granted use of the "ombudsman" title, which the chairman reported on earlier.

We developed an animated video in 2016 to provide a quick introduction to FSCL and how we can help consumers. As well as featuring on the home page of our website (www.fscl.org.nz), we distributed the video to a range of consumer advocates to share in their own channels.

The video was also ideal content for sharing on our new Facebook page (@FSCLNZ) which we set up to help keep the community advised of our work and to provide links to interesting and relevant articles about money and financial advice.

We produced our first consumer newsletter in March this year and distributed it to consumer organisations. This will be a six-monthly communication. We have also produced a case of the month for the past few months, most of which have attracted good media coverage.

"It was impressive how your staff was able to separate the fluff and excuses from (financial service provider)... And a most thoroughly researched and summarised document provided at the end of it!"

We welcomed the return of consumer rights days organised by the consumer affairs team at the Ministry of Business, Innovation and Employment (MBIE). Our staff presented at these events in Wellington and Christchurch and also presented at the New Zealand Federation of Family Budgeting Services conference.

EXTERNAL RELATIONSHIPS

During the year we continued to work with key external stakeholders across the financial services and dispute resolution sectors.

We had a programme of regular meetings with stakeholders and provided expert input into a range of matters including:

- meeting with the Commerce Commission to discuss issues of common interest and attending its credit and consumer forums
- submitting on relevant legislation, including the review of the financial advisers' legislation and the Commerce Commission guidelines for reasonable credit fees
- meeting with the Financial Markets Authority (FMA) and MBIE to discuss issues of mutual interest and to update them on recent case issues and statistics
- presenting at conferences, including the Workplace Savings Organisation 2016 conference
- participating in the FMA's consumer advisory network and the Commission for Financial Capability's Wellington financial capability network
- holding regular meetings with representatives from the other three financial dispute resolution schemes to discuss issues of common interest and ways in which we can work together cooperatively.

We also kept up to date with our overseas counterparts. Our CEO, Susan Taylor, attended the annual conference of the International Network of Financial Services Ombudsman Schemes in Armenia in September 2016, where financial dispute resolution scheme representatives from more than 20 countries around the world gathered. Issues discussed included cultural particularities influencing Ombudsman schemes, balancing transparency and confidentiality, media relations strategies, and financing models for Ombudsman schemes.

Late in 2016, Susan joined ANZOA, the Australian and New Zealand Ombudsman Association, the peak body for ombudsmen in Australia and New Zealand, and attended meetings in November 2016 and May 2017.

HOW DO CONSUMERS RATE US?

We survey all consumers who have had a complaint formally investigated by us. Their feedback helps us to continually look for service improvements.

THE FSCL COMPLAINT PROCESS WAS EASY TO USE AND UNDERSTAND

98% AGREE

2% DISAGREE

FSCL STAFF LISTENED TO ME AND SHOWED ME COURTESY AND RESPECT

98% AGREE

2% DISAGREE

THE FSCL PROCESS PROVIDED AN OUTCOME IN A TIMELY MANNER

92%

AGREE

8%

DISAGREE

FSCL STAFF DESCRIBED THE PROCESS TO ME AND EXPLAINED THE MERITS OF MY POSITION IN RELATION TO THE COMPLAINT

90%

AGREE

10%

DISAGREE

"What a wonderful service you offer. I truly believe if we hadn't used you, we would still be trying to get a response. Thank you!"

CASE STATISTICS

In the year to 30 June 2017, we answered 4,365 consumer enquiries and complaints, up 21% on last year's total.

We believe this increase is the result of our continued efforts to raise awareness of the scheme. Most of these enquiries and complaints were about lenders and finance companies, followed by insurance brokers and transactional service providers such as trading platforms and foreign exchange dealers. Unlike last year, we saw a corresponding increase in the number of cases we fully investigated.

When we first receive a complaint or enquiry, we check to see if our scheme participant has had the opportunity to resolve the complaint directly with their client. If not, we help the complainant take their complaint to the participant and follow up later to check that it has been resolved. We only open a formal investigation where:

- the complainant has been unable to resolve their complaint with our participant
- a complaint is unresolved after 40 days of being made to a participant, or
- a participant tells their client to take their complaint to us.

In 2016/17, we opened 213 cases for investigation, a 20% increase from last year (178). We also completed 20% more investigations, with 216 cases closed, compared to 180 in 2015/16. We took 67 working days on average to investigate and resolve a case, up from 61 days last year. This increase reflects the growing complexity of disputes and an increased workload this year. We have recently recruited an additional case manager which should see the average time taken for investigations decrease in the year ahead.

As is usual, complaints against insurers made up the greatest proportion of the cases we investigated – 31%, or 67 out of 216. Complaints against lenders were again the second largest category at just under 25%. We had a large increase in the number of complaints against financial advisers (up 71%) and trustees (up 80%), although overall numbers, 24 and 18 respectively, remained relatively low. There is no obvious explanation for the rise in complaints about trustees, but the rise in complaints against financial advisers may be due to greater awareness of problems from the sale of replacement life, trauma and income protection insurance as a result of the Financial Market Authority's ongoing investigation into insurance "churn".

We have also noticed a trend of advisers encouraging their clients to make a complaint about a previous adviser, where the new adviser has concerns about the quality and suitability of the previous adviser's actions or advice.

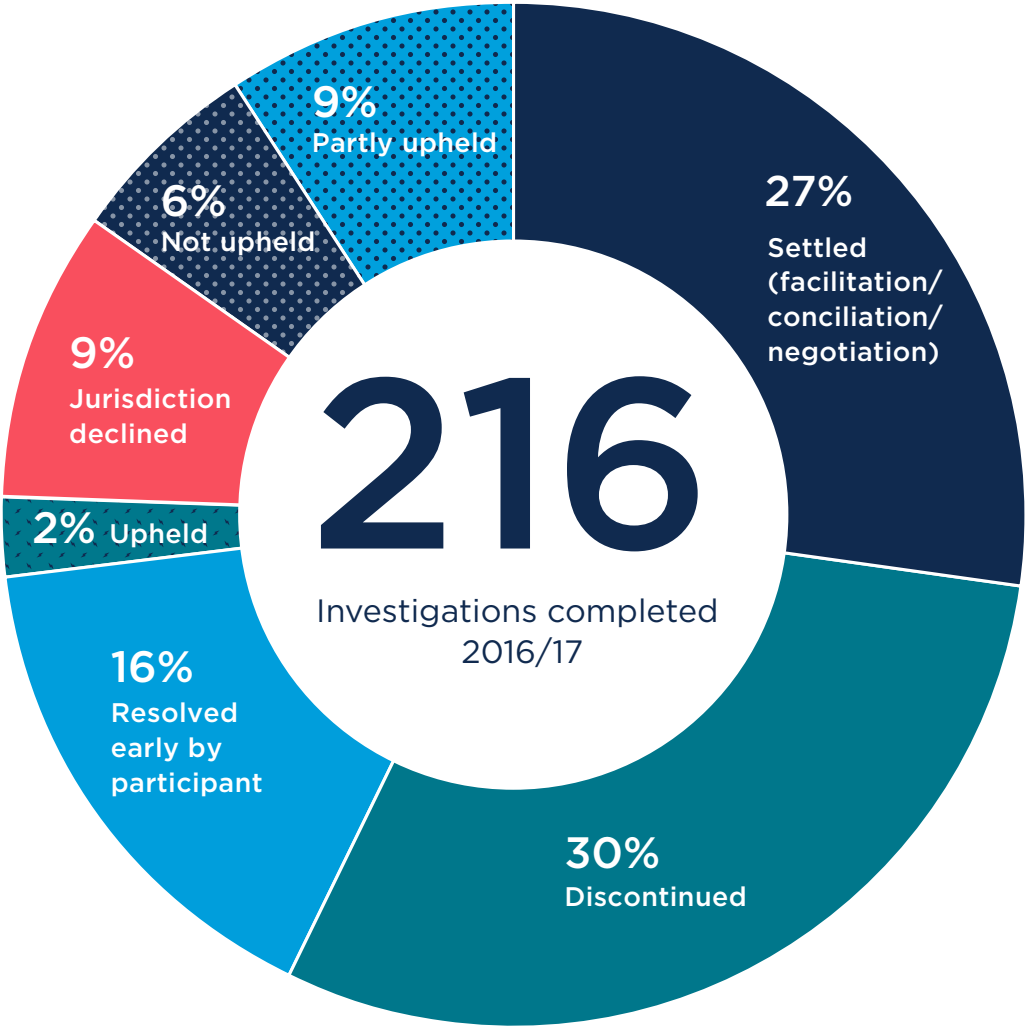
The financial products most complained about were consumer credit arrangements, both personal loans to consumers for motor vehicle or household goods purchases and mortgage loans, followed by travel insurance.

We negotiated compensation totalling $783,920, an increase on last year ($655,483). The largest individual settlement was $126,500.

This year the number of cases that were discontinued by the complainant after we advised them that we were unlikely to uphold their complaint (60), was slightly more than those cases that were settled (54). In cases that were settled, the complainant received compensation or some other remedial action such as an apology, a waiver of a fee or a loan restructure that resolved their complaint.

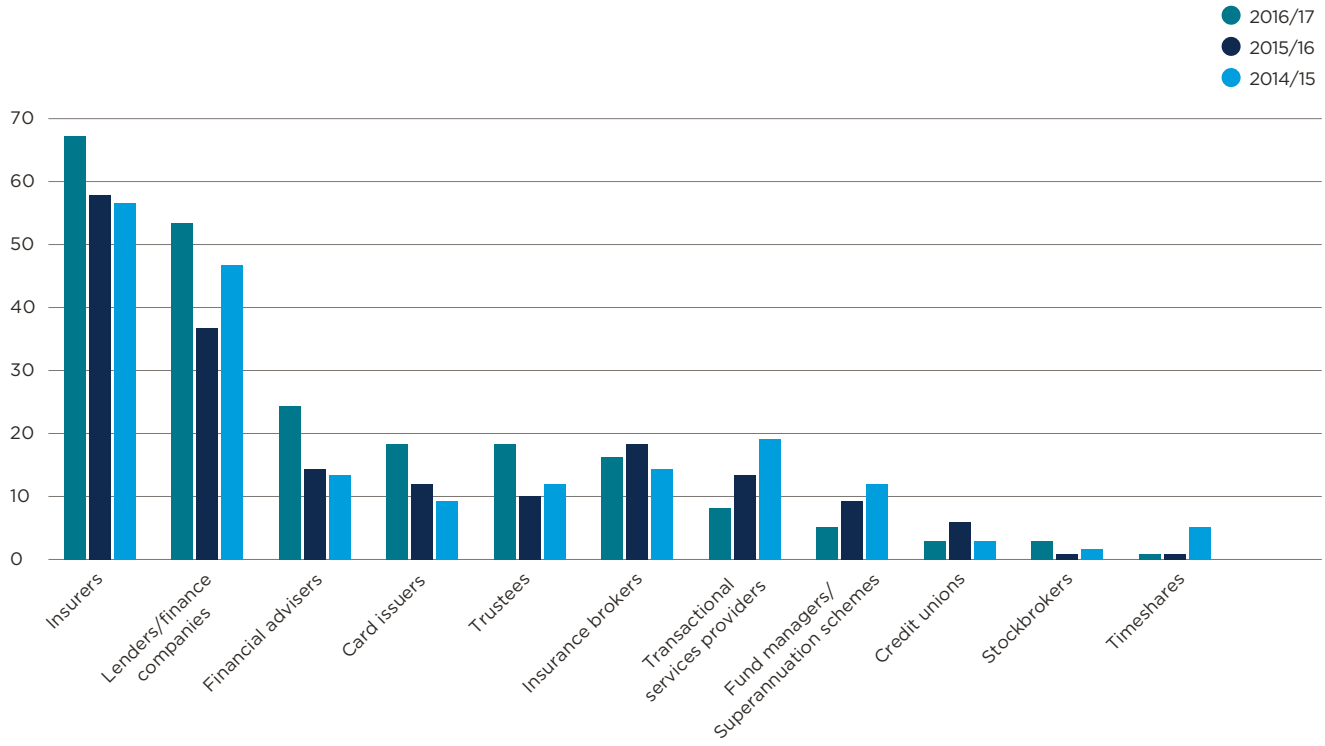
We issued formal recommendations, the final step in our process, on 38 cases.

CASE OUTCOMES

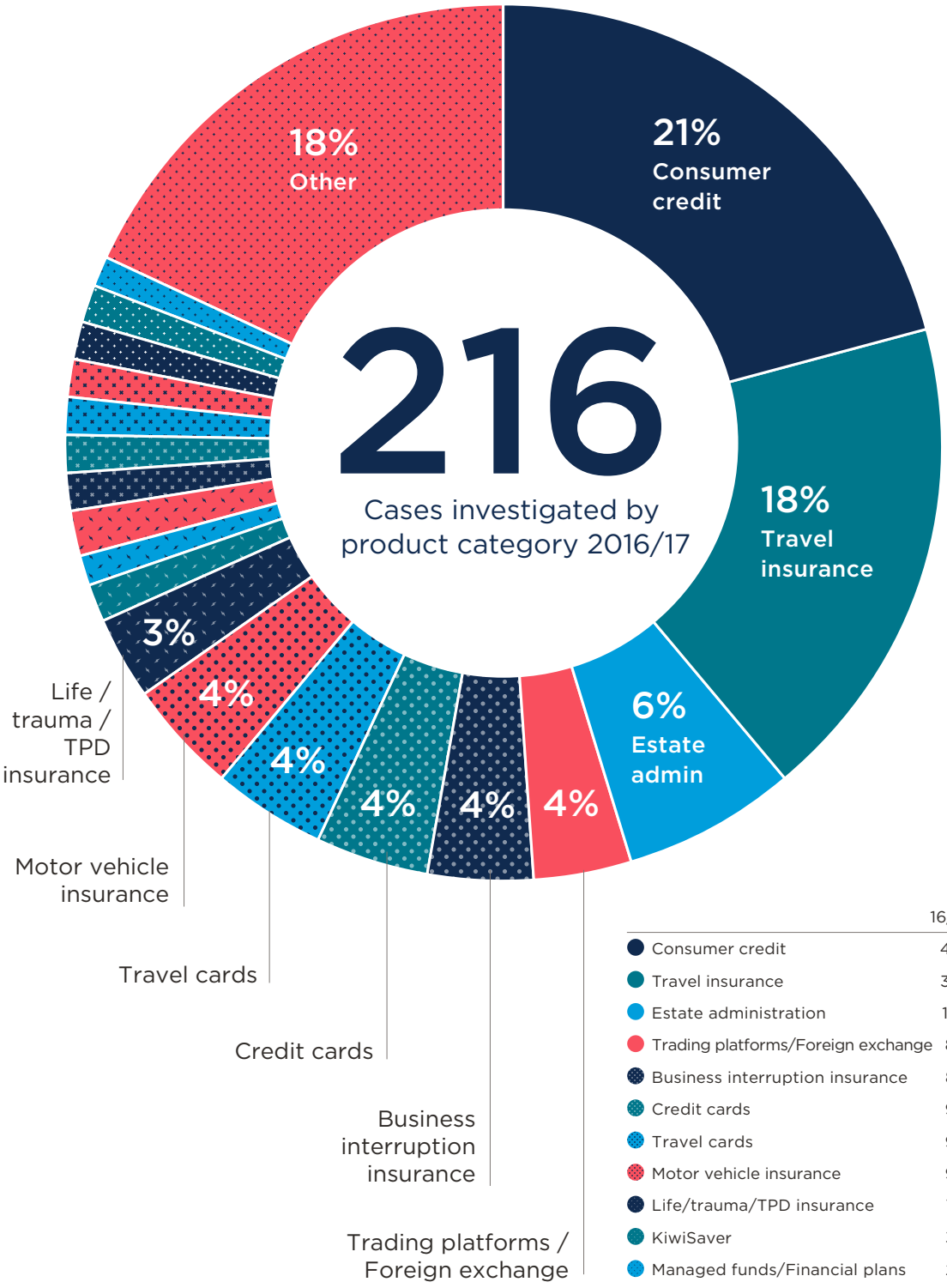


	16/17	15/16	14/15
Settled (facilitation/conciliation/negotiation)	59	52	67
Discontinued	65	47	58
Resolved early by participant	34	36	29
Upheld – formal recommendation	5	5	6
Jurisdiction declined	20	14	16
Not upheld – formal recommendation	13	17	10
Partly upheld – formal recommendation	20	9	7
Total	**216**	**180**	**193**

CASES INVESTIGATED BY PARTICIPANT CATEGORY



PRODUCT CATEGORIES FOR CASES INVESTIGATED



	16/17	15/16	14/15
Consumer credit	45	47	51
Travel insurance	39	41	40
Estate administration	14	7	8
Trading platforms/Foreign exchange	8	11	20
Business interruption insurance	8	-	-
Credit cards	9	4	7
Travel cards	9	8	5
Motor vehicle insurance	9	11	6
Life/trauma/TPD insurance	7	-	-
KiwiSaver	3	5	7
Managed funds/Financial plans	2	4	5
Superannuation schemes	4	6	4
Home and contents insurance	3	8	5
Material damage insurance	3	-	-
Pet insurance	3	-	-
Health insurance	3	-	-
Shares and securities	3	-	-
Income protection insurance	3	-	-
Mechanical breakdown insurance	2	-	-
Other	39	27	43
Total	**216**	**180**	**193**

CASE ISSUES

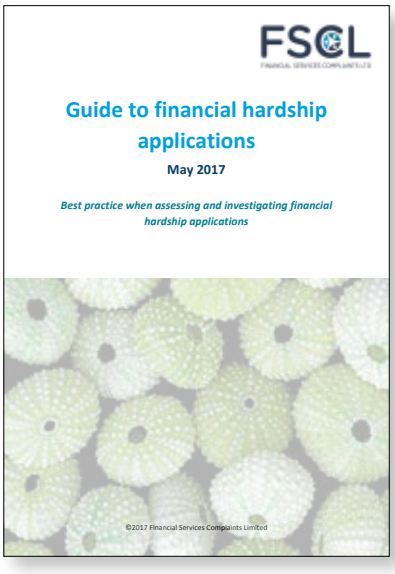
RESPONSIBLE LENDING?

Complaints and inquiries about lenders remain high. Our lender participants range from large finance companies and credit unions to small pay-day lenders and mobile traders.

While it appears most lenders are meeting their obligations under the revised credit laws that came into effect in mid-2015, we have seen a few complaints where a lender has failed to comply with its responsible lending obligations. Typically, this has involved a lender not making reasonable enquiries into whether a borrower will be able to make loan repayments without suffering substantial hardship.

Case study 1 (page 20) is an example of a lender failing to meet its responsible lending obligations when entering into a loan top-up agreement with a borrower who had guaranteed her son's car loan. The case is also a reminder to anyone considering guaranteeing a loan – whether for a friend, family member, or business colleague – to think very carefully about what it means. It is best to seek independent legal advice and to consider how your financial position would be affected if you were called upon to make the loan repayments.

"The case is also a reminder to anyone considering guaranteeing a loan – whether for a friend, family member, or business colleague – to think very carefully about what it means."



TAKING THE BURDEN OUT OF HARDSHIP APPLICATIONS

We have also seen cases where lenders don't appear to have effective processes in place for assessing a borrower's hardship application.

Under the Credit Contracts and Consumer Finance Act 2003, a borrower can request relief when they suffer an unforeseen change in their financial circumstances and can't meet their repayments, but could if their credit contract was temporarily varied.

When a lender receives a hardship application, they have set periods of time to acknowledge and assess the borrower's application. In a few cases we have investigated, the lender has either:

- not had a hardship assessment process in place at all, or
- made the application process too onerous on the borrower by, for example, requesting very detailed information from the borrower about their financial position – often far more detailed information than the borrower had to provide when they first applied for the loan.

Case study 2 (page 24) is an example of this.

We have prepared a guide for lenders when assessing and investigating financial hardship applications which is available on our website in our members' section.

INSURANCE - WHAT'S COVERED – AND WHAT'S NOT

Of all the complaints we investigate, those against insurers remain the highest proportion. While travel insurance complaints make up the majority, we also investigate other types of insurance issues.

Earlier this year we received our first complaint about insurance coverage for contamination of a property, which the complainant owned as a rental property, by methamphetamine. This is covered in case study 3 (page 26).

Unfortunately for the complainant, while the policy provided cover for contamination as a result of the manufacture, storage or distribution of an illegal drug from the property, there was no cover for contamination arising from use only of the illegal drug.

Once again, this case demonstrates the importance of making sure you read your insurance policy carefully so that you understand what is and, perhaps more importantly, what is not covered.

Although we found that the policy did not provide cover for contamination arising from the use of an illegal drug, we felt the insurer could have done more to advise its clients and insurance brokers of this important limitation under its policy. Rental property insurance policies are available that cover loss as the result of contamination caused by the use of illegal drugs, but conditions apply and often carry a high excess.

NO COVER FOR CHANGE OF MIND

Another common theme in insurance complaints is that people assume a travel insurance policy will cover them for every eventuality. Insurers are ultimately entitled to set the level of risk they are prepared to cover, including limitations and exclusions. Equally, customers have a responsibility to read their policy document and take reasonable care. Case study 4 (page 30) is an example where the insured changed their mind about travelling and expected the insurer to cover their holiday cancellation costs. Travel insurers will not provide cover for a traveller's change of mind.

COMMUNICATE, COMMUNICATE, COMMUNICATE

As with many of the complaints we investigate, a communication issue is often the cause.

In case study 5 (page 32), a complaint arising from the November 2016 Kaikoura earthquake, the insurance broker had not told their client about policy limits that applied to their business interruption insurance cover.

The client did not suffer any direct financial loss from the broker's failure to explain, because no business interruption policy would have provided the full cover he was expecting in the circumstances. However, the complaint could have been avoided if the broker had done a better job of explaining the policy's limitations when it was sold to the client.

Case study 6 (page 34) also demonstrates how inadequate communication can result in a complaint. Again, the complaint would never have arisen had a detailed explanation been given at the point the foreign exchange service was offered to the client. The scheme participant made the mistake of assuming the client had a far more detailed knowledge of the service's terms and conditions than the client actually had.

CASE STUDY 1

THE BIG SHORT (-TERM LOAN)

In 2012 Wendy took a $4,000 loan from a finance company. The loan was secured by her car and her house. Wendy's son, Luke, had a loan from the same company.

Two years later, Luke's loan of about $4,000 was in arrears. Nevertheless, the finance company agreed to refinance his loan and advance him an additional $1,000. Wendy signed a guarantee for Luke's new loan and gave her house as security. At the time, Wendy's own loan was in arrears.

Less than a month after receiving the $1,000, Luke defaulted on his new loan and Wendy was called upon to meet his repayments. In June 2015 the finance company transferred Luke's loan balance to Wendy's loan account as a 'top-up', taking her balance from $5,635.12 to $13,877.24.

DISPUTE

In November 2016 Wendy's budget adviser contacted FSCL claiming Wendy had been treated unfairly by the finance company. The budget adviser was particularly concerned about the top-up, as prior to this, Wendy had struggled to meet repayments and her own loan account was in arrears. The budget adviser considered the finance company had breached its responsible lending obligations. The budget adviser said that Wendy had believed the finance company would take her house if she had not agreed to Luke's loan balance being transferred to her own loan account.

The finance company said that Wendy had asked for the loans to be combined. It said it had no record of Wendy being advised that if she did not combine the two loans she would risk losing her house. The finance company provided us with a change disclosure statement which had been signed by Wendy. It said a broker had assisted Wendy with the top-up and the broker had explained to Wendy that once the two loans were combined she would only have to make one repayment.

REVIEW

We found two key issues: the finance company's acceptance of Wendy as a guarantor for Luke's new loan, and the top-up transferring Luke's loan balance to Wendy's loan account.

Unconscionability

In our view, the finance company engaged in unconscionable conduct when it accepted Wendy as a guarantor for Luke's new loan. To meet the legal threshold for unconscionability, we needed to be satisfied that:

- Wendy was in a position of significant disadvantage and was unable to look after her own interests, and
- the finance company knew, or ought to have known, of her significant disadvantage and took advantage of this.

There is no strict definition of significant disadvantage. However, at the time she signed the guarantee, Wendy had:

- little to no financial capability
- struggled to meet her loan repayments since receiving the loan in 2012
- received no financial benefit from assisting her son to borrow a further $1,000
- put her home (and only significant asset) at risk
- agreed to a repayment obligation she would be unable to meet
- received no legal advice
- not understood what she was signing or the potential consequences.

Given these factors, we were satisfied that Wendy was in a position of significant disadvantage when she guaranteed Luke's loan.

We also found that the finance company knowingly took advantage of Wendy's position. When it accepted Wendy's guarantee, it knew her loan had largely been in default. We considered that the finance company was also aware, from Luke's repayment history, that he was unlikely to meet repayments for his new loan. The notes for Wendy's loan account showed that, prior to Luke's loan being refinanced, she had been making repayments towards his first loan.

Luke's loan went into arrears one week after he received the $1,000. The account statement showed that Luke had made four repayments towards his new loan and that Wendy was called upon to meet his repayments within two months of the top-up being advanced.

There were other circumstances that supported our finding that the finance company's behaviour was unconscionable. While Wendy received no benefit from guaranteeing Luke's new loan, the finance company did. Wendy's house was taken as security, which suggested that Luke's initial loan was either unsecured or the security was inadequate. By refinancing Luke's loan, the finance company benefitted by exchanging a high risk, unsecured loan for a loan that was secured and guaranteed.

The guarantee forms Wendy signed stated: "You are advised to obtain independent legal advice before signing this guarantee." However, there was no evidence to suggest the finance company had spoken to Wendy about this. In our view, the finance company should have strongly urged Wendy to obtain legal advice before it accepted the guarantee. We also found the finance company was indifferent to the fact that it was placing Wendy at risk of losing her home when it accepted her as guarantor for Luke's new loan.

"In our view, the finance company had placed Wendy in an impossible position."

The top-up

The balance of Luke's loan transferred to Wendy's account was $5,808.28. Fees and charges were also added including a $390 establishment fee, a $395 brokerage fee and a $1,623 up-front premium for loan protection insurance. In total, Wendy's loan increased by $8,216.28.

Although the finance company said Wendy had asked for Luke's loan balance to be transferred to her own loan, we were not satisfied that Wendy understood the effect the top-up would have, or the additional fees and charges that had been added to her account.

The finance company said it had no record of telling Wendy she could lose her house if the two loans were not combined. However, there was a note on the finance company's file which read: "Her son reneged on payments, we started considering legal action against the property. We then agreed to combine the two loans to make it more affordable for her to maintain payments."

We accepted that Wendy genuinely believed she could lose her house if the two loans were not combined. Further, combining the two loans did not make it more affordable for Wendy. Prior to the top-up, the total fortnightly repayments for Wendy's and Luke's loans was $185.64. After, the total fortnightly amount due was $202.25.

Responsible lending principles

The top-up variation occurred after the amendments to the Credit Contract and Consumer Finance Act 2003 came into force. Therefore the Act's responsible lending principles applied.

The finance company was obliged to help Wendy make an informed decision about the top-up. Apart from the signed disclosure statement, there was no evidence that either the finance company or the broker took any steps to assist Wendy in making an informed decision.

The responsible lending principles also apply to the sale of credit-related insurance. In our view, the finance company made no enquiries as to whether:

- the loan protection insurance met Wendy's objectives or requirements
- Wendy understood what the insurance policy covered
- Wendy could afford to pay the premium.

If Wendy was unable to afford her loan repayments before the top-up, it seemed unlikely she would be able to afford to pay $1,623 for loan protection insurance. In Wendy's circumstances, it was inappropriate for the finance company to sell and finance this insurance.

RESOLUTION

Between the top-up in June 2015 and January 2017, Wendy paid the finance company $8,292.74. However, her loan balance only decreased by $235.16 during this same period. Wendy's loan had essentially remained at a standstill for eighteen months.

In our view, the finance company had placed Wendy in an impossible position. Despite making regular repayments, Wendy was unable to pay enough to catch up the arrears, meaning default interest and fees continued to accrue on her account.

We considered that a fair outcome would be to put Wendy back in the position she would have been in had the finance company not accepted the guarantee. We asked the finance company to calculate the amount Wendy would still owe on her own 2012 loan had Luke's loan balance not been added to her loan account.

The finance company showed that, had the top-up not occurred, Wendy would still owe $1,489.69. It agreed to release Wendy from her guarantee and to fix the balance of the loan at $1,489.69. Wendy accepted the offer and agreed to continue to make fortnightly repayments until this amount was paid.

"Before signing as a guarantor, get independent legal advice and consider how your financial position would be affected if you were called upon to make the repayments."

CASE STUDY 2

LOANS NOT AS HARD AS HARDSHIP RELIEF

Lacie borrowed $4,000 from a finance company to buy a car. A few months later, her father passed away unexpectedly. Lacie, her father and Lacie's young son had been living in a rental property together with both Lacie and her father paying the rent. Following her father's death, Lacie had to cover the rent payments on her own. This significantly affected her financial position.

Lacie contacted her finance company and asked if she could decrease her loan repayments until she had moved into a cheaper rental property. The finance company said she could apply for hardship but had to provide a letter explaining the reasons for hardship along with a budget sheet from a budget adviser, a three-month bank statement and a letter from her employer.

When Lacie finally got an appointment with a budget adviser, the budget sheet they prepared showed that she had a weekly deficit of $178.86. The finance company agreed to reduce her loan repayments from $112.60 per week to $50. However, Lacie could not afford $50 a week and asked for the repayments to be reduced to $25. The finance company said it was not willing to go below $50.

DISPUTE

Lacie complained to FSCL, unhappy with the finance company's assessment of her application. She said it had been a very stressful and sad time for her and that the finance company had made it difficult for her to seek hardship relief.

By the time Lacie's complaint had come to us, she had found a rental property that was within her budget and was due to move in a few weeks. However, her loan was already significantly in arrears given the time that had passed since she first applied for hardship relief.

REVIEW

In our view, the finance company's process for assessing hardship applications should have been better. It should only have sought information that was relevant to the request for hardship relief and it had failed to meet the timeframes set out in the Credit Contracts and Consumer Finance Act for assessing hardship applications.

Lacie was surprised it had been so difficult to apply for hardship relief when, only a few months earlier, it had been so easy to receive the loan. Lacie said that when she applied for the loan, all the finance company had asked for was a three-month bank statement.

We agreed with Lacie that a three-month bank statement should have been sufficient for the finance company to assess her hardship application. Lacie's statement showed the amount of rent going out each week as well as the amount she had been receiving from her father towards the rent.

RESOLUTION

The finance company agreed to reduce Lacie's repayments to $25 per week for a month until she had moved into her new property. The finance company also removed the arrears that had accumulated on her account since Lacie first applied for hardship relief.

CASE STUDY 3

THE PROBLEM WITH P

Charles discovered his tenanted apartment had been contaminated by methamphetamine residue. The apartment complex was part of a body corporate which held an insurance policy that covered Charles' apartment.

Charles claimed $13,000 from the insurer to cover decontamination and drug testing costs, loss of rent for around three months while the apartment was being repaired, and a replacement blind.

The contamination levels were reasonably low, suggesting the contamination was likely caused by use, as opposed to cooking of methamphetamine at the apartment. As a result, the insurance company declined the claim.

The insurer pointed to the clause of the policy that covered loss resulting from chemical contamination in connection with the manufacture, storage, or distribution of an illegal drug from the property and for loss resulting from fire or explosion. It explained that it only covered loss in a 'P-lab' situation, where methamphetamine is being manufactured or larger volumes are being stored or distributed from the premises, not the use of methamphetamine.

DISPUTE

Charles complained to FSCL that the insurer should have paid out his claim. He argued that there was contamination in connection with storage, on the basis that the methamphetamine used in the apartment must have been stored in the apartment for at least a short time prior to use. Charles also argued that:

- The absence of methamphetamine precursors in the test samples did not necessarily mean methamphetamine was not cooked in his apartment.
- The policy did not refer specifically to P-labs, the volume of manufacture required, or the amount of storage or distribution required, to trigger cover. On this basis, the policy should be interpreted in his favour.
- Because the contamination clause said 'manufacture, storage, or distribution', all three elements did not need to be present.
- There were body corporate minutes recording clandestine meetings between Charles' tenant and the neighbouring tenant, and the neighbouring apartment was contaminated by methamphetamine at the same time as Charles' apartment. Charles said this suggested the methamphetamine was stored at his apartment.
- A letter from the neighbouring landlord to the body corporate's property manager said the property manager's staff member recorded feeling dizzy, with his eyes watering, after visiting the neighbouring property. There was also some indication the neighbouring apartment was cleaned prior to testing, meaning contamination levels at that apartment could originally have been higher.

REVIEW

No cover for contamination resulting solely from 'use'

On a plain reading of the contamination clause, losses resulting from contamination caused only by use were not covered. When looking at the policy wording as a whole, including that the clause also provided cover for loss resulting from fire or explosion, we found that the clause was designed to cover a 'P-lab' situation. The fact that the policy did not refer specifically to P-labs, or the volume of manufacture, storage, or distribution required, did not change this.

Had it been intended for the clause to cover contamination arising from use alone, the word 'use' could have been added to the list of 'manufacture, storage, or distribution'. We spoke with the policy underwriter who confirmed the clause's intention was to cover commercial P-lab situations, but not situations where there has just been use.

Was 'manufacture' proved?

Although manufacture could not be definitively ruled out, the absence of precursors meant it was more likely than not that methamphetamine had been used rather than manufactured at Charles' apartment. There was also no other evidence of manufacturing such as the presence of manufacturing tools.

It appeared there was a drug-related relationship between Charles' tenant and the tenant next door. However, there was insufficient evidence that methamphetamine was manufactured at either property.

"When looking at the policy wording as a whole, including that the clause also provided cover for loss resulting from fire or explosion, we found that the clause was designed to cover a 'P-lab' situation."

"The only other way the policy may have provided cover was if the methamphetamine use had been "in connection with" manufacture, storage, or distribution of methamphetamine.

'In connection with' at law

The only other way the policy may have provided cover was if the methamphetamine use had been 'in connection with' manufacture, storage, or distribution of methamphetamine.

With reference to the cases IAG NZ Ltd v Jackson [2013] NZCA 302, and JCS Cost Management Limited v QBE Insurance (International) Limited [2015] NZCA 524, the phrase 'in connection with' requires a nexus between two things, but the closeness of the required connection will depend on context and purpose. 'In connection with' does not necessarily require the connection to be one of direct or proximate cause, and the connected thing may follow after the liability in time. There just needs to be a connection of sufficient consequence or significance in the circumstances of the case.

With this in mind we considered that saying manufacture, storage, or distribution accompanies use, or that use assumes manufacture, storage, or distribution, was a leap too far.

Applying the law to the circumstances in Charles' case

Not all three elements of 'manufacture, distribution, or storage' needed to be present for there to be cover. It was enough if one of the elements was present. Charles was unable to prove manufacture. This meant there had to be sufficient evidence of either storage or distribution of methamphetamine at Charles' property, and evidence that the storage or distribution was to such a level that contamination occurred, for the policy to provide cover.

There was no evidence of distribution. As the insured, the onus was on Charles to prove, on a balance of probabilities, that the drug had been stored at the property.

It could be argued that the tenant must have used methamphetamine regularly and there must have been storage of the drug at the apartment at some point, rather than all the instances of use being immediate and complete consumption of all the methamphetamine held by the tenant at any particular time. However, there was insufficient evidence to find that storage could be assumed from the mere fact there was methamphetamine use.

RESOLUTION

We formally recommended that Charles discontinue his complaint. As a formal recommendation is the final step in our process, we then closed our investigation.

CASE STUDY 4

WHETHER WEATHER CAUSED THE CANCELLATION

Harry was in his final year at school and wanted a gap year before going to university. He applied to a not-for-profit organisation offering overseas placements for volunteers and accepted a placement in Vanuatu starting in late February 2016.

Harry paid a $150 application fee and $800 deposit. The $3,050 balance was due 40 days before departure. Harry arranged insurance through the organisation's preferred insurer and in November 2015 purchased airline tickets to Vanuatu.

In late January, the airline advised that due to runway safety concerns it was no longer flying to Vanuatu. The airline offered to either refund the airfare or rebook Harry on another flight. At around the same time Harry paid the balance of the organisation's fee.

Although other airlines were still flying to Vanuatu, the organisation decided the risk was too great, and it could no longer offer Harry the placement. It offered Harry alternative placements in the Pacific and Harry accepted one in Fiji starting on 9 March 2016.

On 20 February 2016, Cyclone Winston hit Fiji. On the same day, unrelated to the cyclone, Harry learned the teaching position was as a teacher's assistant. He was not happy about the change and told the organisation that the placement did not meet his requirements for a full-time teaching position in an under-resourced, remote school.

Following the cyclone, the organisation advised it was reviewing all placements. The insurer said it would cover any amendment costs and cancellation fees. On 1 March, the organisation advised Harry that due to damage to the intended village, he would now be placed in an urban setting, within walking distance of shops and resorts, with an uncertain start date.

Harry declined the placement, and made an insurance claim. The insurer declined the claim on the basis that Harry had changed his mind – Harry had explained the trip offered no longer met his objectives and expectations. While the cyclone was an unforeseen circumstance covered by the policy, the insurer was not satisfied that it was the cyclone that prevented the trip. In the insurer's view, the real cause of the cancellation was that the placement offered to Harry failed to meet his expectations.

DISPUTE

Harry complained to FSCL that his insurer should have accepted his claim. He said he cancelled his trip to Fiji because the cyclone had destroyed the village he intended to visit. The organisation was unable to find an alternative placement that met his criteria leaving him with no option but to cancel his trip. If the cyclone had not occurred, he would have travelled to Fiji as planned.

REVIEW

Harry's policy covered travel and accommodation costs if he cancelled his trip due to unforeseen circumstances. However, the policy did not cover loss following the decision not to continue with a trip, in other words, a change of mind.

After carefully reviewing all the available information, we were satisfied Harry decided not to accept the Fiji placement because it was not comparable with the Vanuatu placement. Harry could still have travelled to Fiji and participated in volunteer work, but not in a remote setting. While the cyclone frustrated Harry's plans, it did not prevent them. In our view, the cause of the cancellation shifted from an unforeseen weather event to Harry's decision that the placement offered did not live up to his expectations. On this basis, the insurer was entitled to rely on the exclusion and decline Harry's claim.

Harry discontinued his complaint.

CASE STUDY 5

KAIKOURA EARTHQUAKE CAUSES LOSS

Alan arranged insurance through his broker for his accommodation business near Kaikoura. The broker recommended business interruption insurance, which would cover Alan if his lodge was affected by a natural disaster. The broker sent Alan the policy and policy schedule, showing business interruption cover of $50,000 was in place.

The November 2016 Kaikoura earthquake caused considerable damage in the region. While Alan's buildings weren't affected, Alan's guests were unable to reach the lodge because the roads were closed.

Alan claimed for a loss of $50,000 under his business interruption policy. Alan's insurer accepted the claim but offered compensation of $12,500. Alan contacted his broker assuming the insurer had made a mistake given the cover he had in place. The broker explained that because his lodge was undamaged, he was only eligible for contingent business interruption cover. Alan's policy limited the contingent business interruption cover to 25% of the total amount insured.

DISPUTE

Alan did not accept the insurer's offer and complained to FSCL that his broker did not provide insurance advice with the reasonable care, diligence and skill required of an adviser under the Financial Advisers Act 2008.

He said the broker should have told him, when the cover was arranged and renewed, that the contingent business interruption cover was limited to 25% of the total business interruption cover. Alan said that if he had known about the limit he would have asked his broker to find a policy that would have covered 100% of his loss if a natural disaster prevented guests reaching his lodge.

Alan's broker considered they had placed the best cover available on the market for Alan.

REVIEW

On the basis of expert opinion, we were satisfied that it would not have been possible for the broker to place cover for all Alan's contingent business interruption loss. We were advised that standard contingent business interruption insurance was limited to 10% of the total gross profit of a business, and it was unusual that Alan's broker had been able to place cover for 25%.

We explained to Alan that we could not see that the broker had caused him a loss. Even if Alan had been aware of the 25% limit, the broker could not have placed better cover. By failing to advise Alan about the cover, the broker had denied him the opportunity to self-insure for the balance of the contingent business interruption cover, but Alan acknowledged he would have been unlikely to do so.

While we recommended that Alan discontinue his complaint, we were concerned that the service provided by the broker was not as good as it could have been. Insurance policies can be complicated documents that are difficult to understand. A person engages a broker not only to place cover best suited for their needs, but to explain the extent of the cover.

Although the broker could not have placed better cover, the broker could have explained that the business interruption cover would be limited to $12,500 if Alan's buildings were undamaged by a natural disaster, but damage elsewhere caused a loss. If the broker had given Alan complete advice, he would not have been surprised by the insurer's response that only 25% of the business interruption cover was available.

RESOLUTION

The broker offered Alan an ex gratia payment of $500 as an acknowledgement that their service was not as good as it could have been. We encouraged Alan to accept the offer, which he did.

"While we recommended that Alan discontinue his complaint, we were concerned that the service provided by the broker was not as good as it could have been."

CASE STUDY 6

I DIDN'T AGREE TO THAT

Veronica was moving to Australia. She needed to transfer the settlement sum of $350,000 from the sale of her house in New Zealand to her Australian bank account. She contacted a money remitter she had used previously to transfer money to Australia.

Because Veronica was a former client, the remitter said that all they needed to do was confirm a conversion rate and the transfer could proceed. Veronica and the remitter agreed to a transfer of NZD350,000 to AUD329,455 on the following Monday. The remitter emailed Veronica a copy of the trade confirmation.

On the Monday, Veronica discovered she could not transfer $350,000 from her bank account to the remitter because the amount was too large. Veronica told the remitter she would discuss increasing her transaction limit with her bank. Veronica and the remitter also discussed the possibility of transferring the money by way of a series of transactions over several days.

When Veronica met with her bank, it offered to transfer the money at a better rate than that offered by the remitter. Veronica agreed to the bank transfer.

When Veronica contacted the remitter to advise that she no longer required its services, the relationship quickly deteriorated.

DISPUTE

The remitter said that Veronica had entered into a binding contract the previous week. On the strength of that contract, the remitter had also entered a binding contract with its provider, and would suffer an exchange rate loss of about $6,000 that it wanted to recover from Veronica. The remitter believed that Veronica was aware she was contractually bound to complete the transfer and simply wanted out of the agreement because the bank had offered a better rate.

Veronica said she was unaware she had entered into a binding contract and thought she had only asked the remitter for a quote. Veronica did not remember reading the terms and conditions the remitter had given her when she had previously used its services, but those terms and conditions stated that once a transfer rate had been accepted there was a binding contract, and the remitter could recover costs associated with any failure to conduct the transfer.

Veronica believed the remitter should have reminded her of the terms and conditions before accepting the trade. She complained to FSCL.

REVIEW

We accepted that Veronica and the remitter had entered into a binding contract when Veronica accepted the conversion rate. However, we were not convinced that Veronica understood the implications of her acceptance of the conversion rate, and genuinely believed she had only asked the remitter for a quote. We were also not satisfied that Veronica was a sophisticated trader, as suggested by the remitter. This was only her second transaction in just over four years.

Although the remitter may have given Veronica the terms and conditions when she previously used its services, it was not reasonable to expect Veronica to remember those terms and conditions. We would have expected the remitter to give Veronica another copy at the time of the trade, as well as draw her attention to the fact that she was entering into a binding contract both during their conversation and in the follow-up email.

We also considered that when the remitter discovered that the transfer of funds was not straightforward, and that Veronica was making enquiries of her bank, it would be reasonable for the remitter to remind her of her contractual obligations.

In our view, if Veronica had known she had entered into a binding contract with the remitter, she may well have declined the bank's offer to transfer the funds.

RESOLUTION

We suggested that the remitter agree not to pursue Veronica for the $6,000 it considered was owed. Both the remitter and Veronica accepted our proposal.

“It was impressive how your staff was able to separate the fluff and excuses from [financial service provider] … and a most thoroughly researched and summarised document provided at the end of it!”

BOARD DETAILS

KENNETH JOHNSTON QC
Board Chair

Kenneth is a Wellington barrister and past National Managing Partner of one of New Zealand's large national law firms. Since commencing practice as a barrister in 1997, Kenneth has specialised in commercial litigation, but is also regularly engaged in more general civil litigation, and as an arbitrator and mediator.

Kenneth is a member of the New Zealand Law Society, the New Zealand Bar Association, the Arbitrators' and Mediators' Institute of New Zealand, and a member of LEADR's Advanced Mediation Panel.

MARY HOLM
Consumer representative
(As from 1 October 2016).

Mary writes a personal finance Q&A column in the Weekend Herald, presents a financial segment on RNZ, and is a best-selling author and seminar presenter on personal finance. Mary is also a director of the Financial Markets Authority. She holds an MBA in finance from the University of Chicago. Mary has been the business editor of the Auckland Sun and Auckland Star, and a member of the Capital Markets Development Task force and the Savings Working Group.

RAEWYN FOX
Consumer representative

Raewyn has been the CEO of the New Zealand Federation of Family Budgeting Services Inc since 1999. Raewyn has worked in budget advice for 20 years, starting as the manager of the Porirua Budget Service. She has held numerous governance roles in the community and commercial sectors, including being a foundation member of the Community Trust of Wellington, a past consumer representative on the Commission of the Insurance and Savings Ombudsman scheme, and a member of the Task Force on the Regulation of Financial Intermediaries.

ROGER J KERR
Industry representative

Roger provides consultancy services to PwC for the treasury advisory business. Roger was formerly a PwC Partner and a shareholder in Asia-Pacific Risk Management Ltd. He has over 35 years' experience in New Zealand's wholesale financial and investment markets.

Roger is regarded as one of New Zealand's leading professional advisers and commentators on local and international financial markets, the New Zealand economy and corporate treasury management.

Roger is a director of Pie Funds Management Limited, ETOS Limited and Hedgebook Limited.

GARY YOUNG
Industry representative

Gary has been the IBANZ CEO since 2006. Prior to this Gary worked in insurance for 30 years, mainly in insurance broking with local and international companies as a broker/adviser, CEO, director and shareholder. Since 2009 Gary has been a member of the Code Committee for financial advisers and is currently a director and CEO of Professional IQ College, an NZQA – accredited private training establishment for financial services.

BRUCE CRONIN QSM
Consumer representative
(Until 30 September 2016).

Bruce has a management degree (Accounting) from Victoria University and a post-graduate degree in social science (Psychology) from Massey University. He is a Justice of the Peace and a Fellow of the NZ Trustees' Association (NZTA).

Bruce has been extensively involved with community groups for over 30 years. In 2014 Bruce received the NZTA Trustee of the Year award and was awarded the Queen's Service Medal in the 2016 New Year Honours in recognition of his services to the community.

SUMMARY FINANCIAL STATEMENTS

Summary profit and loss statement for the year ended 30 June 2017

	2017	2016
	$	$
Revenue	1,675,333	1,623,922
Total revenue	**1,675,333**	**1,623,922**
Expenses		
Administration	1,418,696	1,534,867
Finance	-	1
Non cash items	52,371	54,124
Total expenses	1,471,067	1,588,992
Net business surplus	**204,266**	**34,930**
Other income		
Interest received	84,304	82,081
FSCL conference	2,434	-
	86,738	82,081
Net surplus	**291,004**	**117,011**

Summary statement of movements in equity for the year ended 30 June 2017

	2017	2016
	$	$
Net surplus for the year	291,004	117,011
Equity at beginning of year	2,146,497	2,029,486
Equity at end of year	**2,437,501**	**2,146,497**

These summary statements are to be read in conjunction with the notes to the summary financial statements

SUMMARY FINANCIAL STATEMENTS

Summary balance sheet
for the year ended 30 June 2017

	2017	2016
	$	$
Equity	**2,437,501**	**2,146,497**
Current assets		
Cash, bank balances and short term deposits	2,308,297	2,012,713
Receivables	73,082	53,377
Prepayments	23,410	24,966
	2,404,789	2,091,056
Non current assets	119,081	131,221
Property, plant and equipment	44,514	76,261
Intangibles	163,595	207,482
Total assets	**2,568,384**	**2,298,538**
Current liabilities		
Accounts payable	43,957	53,779
Income in advance	15,231	-
Accrued charges	69,492	84,059
Lease incentive	2,203	14,203
	130,883	152,041
Total liabilities	**130,883**	**152,041**
Net assets	**2,437,501**	**2,146,497**

APPROVAL OF FINANCIAL STATEMENTS

These summary financial statements have been approved by the board on 1 September 2017..
For and on behalf of the Board of Directors:

Director

Director

These summary statements are to be read in conjunction with the notes to the summary financial statements

SUMMARY FINANCIAL STATEMENTS

Summary statement of cashflow for the year ended 30 June 2017

	2017	2016
	$	$
Cash was provided by (used for)		
Operating activities		
Receipts from Participants	1,688,059	1,623,657
GST movement	1,262	3,582
Operating costs	(1,473,616)	(1,537,639)
Income tax paid	4,059	21,793
	219,764	111,393
Investing activities		
Payments to property, plant and equipment and intangible assets	(8,485)	(8,397)
	(8,485)	(8,397)
Financing activities		
Increase of term deposits	(486,234)	(44,272)
Net interest received	84,304	82,080
	(401,930)	37,808
Net movement in cash	**(190,651)**	**140,803**
Opening cash balance	317,092	176,289
Closing bank balance	**126,441**	**317,092**
Represented by		
Bank balances	126,441	317,092
Closing bank balance	**126,441**	**317,092**

These summary statements are to be read in conjunction with the notes to the summary financial statements

SUMMARY FINANCIAL STATEMENTS

Notes to the summary financial statements for the year ended 30 June 2017

The Summary Financial Statements have been prepared for the individual entity Financial Services Complaints Limited for the accounting period ended 30 June 2017. Also included for comparative purposes are figures for the period ended 30 June 2016.

The specific disclosures included in the Summary Financial Statements have been extracted from the Full Financial Services Complaints Limited Financial Statements. The Summary Financial Statements do not include all disclosures provided in the Full Financial Statements and cannot be expected to provide as complete an understanding as provided by the Full Financial Statements.

Financial Services Complaints Limited does not have a general purpose financial reporting requirement. Financial Services Complaints Limited's constitution requires the preparation of special purpose financial statements within five months of the company's balance date.

The Full Financial Statements for Financial Services Complaints Limited have been prepared applying the Public Benefit Entity Simple Format Reporting - Accrual (Not for Profit) ("PBE SFR-A (NFP)") standard with the exception of an entity information page and the preparation of a statement of service performance.

The purpose of the Full Financial Statements is to provide users with consistent year on year information regarding the financial performance and position of Financial Services Complaints Limited and so that the company can meet its obligations under the Income Tax Act.

The Summary Financial Statements are presented in New Zealand dollars, which is the operational currency of Financial Services Complaints Limited. All financial information presented in New Zealand dollars has been rounded to the nearest dollar.

The Full Financial Statements for the year end 30 June 2017 were authorised for issue by the directors of Financials Services Complaints Limited on 1 September 2017 and an unmodified audit report was issued by BDO at that date.

The Full Financial Statements for the year end 30 June 2016 were authorised for issue by the directors of Financials Services Complaints Limited on 26 August 2016 and an unmodified audit report was issued by BDO at that date.

A copy of the Full Financial Statements can be obtained via the Financial Services Complaints Limited's website; http://www.fscl.org.nz/.

SUMMARY FINANCIAL STATEMENTS

BDO WELLINGTON

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS
To the Shareholders of Financial Services Complaints Limited

The accompanying summary financial statements, which comprise the summary statement of financial position as at 30 June 2017, and the summary statement of comprehensive income and summary statement of changes in equity for the year then ended, and related notes are derived from the audited special purpose financial statements of Financial Services Complaints Limited for the year ended 30 June 2017. We expressed an unmodified audit opinion on those special purpose financial statements in our report dated 1 September 2017. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not include all the disclosures included in the special purpose financial statements. Reading the summary financial statements, therefore is not a substitute for reading the audited special purpose financial statements of Financial Services Complaints Limited.

Directors' Responsibility for the Summary Financial Statements
The directors are responsible for the preparation of a summary of the audited special purpose financial statements in accordance with FRS-43: *Summary Financial Reports* ("FRS-43").

Auditor's Responsibility
Our responsibility is to express an opinion on these summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810, "Engagements to Report on Summary Financial Statements".

Other than in our capacity as auditor we have no relationship with, or interests in, Financial Services Complaints Limited.

Opinion
In our opinion, the summary financial statements derived from the audited special purpose financial statements of Financial Services Complaints Limited for the year ended 30 June 2017 are consistent, in all material respects, with those special purpose financial statements in accordance with FRS-43.

Basis of Accounting and Restriction on Distribution and Use
Without modifying our opinion, we draw attention to the Notes to the summary financial statements, which describes the basis of accounting. The summary financial statements are prepared to assist the shareholders by providing users with consistent year on year information regarding the summary financial performance and position of Financial Services Complaints Limited. As a result, the summary statements may not be suitable for another purpose. Our report is intended solely for the shareholders and should not be distributed to or used by parties other than the shareholders.

BDO Wellington

BDO Wellington
Wellington
New Zealand
1 September 2017

COMPANY DIRECTORY

Level 4, 101 Lambton Quay
Wellington 6011

INCORPORATION NUMBER

2303993

IRD NUMBER

103-018-668

DIRECTORS

Kenneth Johnston QC
Mary Holm (from 1 October 2016)
Raewyn Fox
Gary Young
Roger J Kerr
Bruce Cronin (until 30 September 2016)

SHAREHOLDER

The Board Chairman is the company's sole shareholder and holds the shares on trust for the fulfilment of the company's objective, which is to provide an external dispute resolution scheme for its participants.

ACCOUNTANTS

KPMG
10 Customhouse Quay
Wellington

AUDITORS

BDO Wellington
Level 1, 50 Customhouse Quay
Wellington 6011

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