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A message from the Executive Manager (EM)

You should have by now received the Annual Compliance Statement (ACS) for the year ended 30 June 2010 which has been developed by the Code Compliance team following consultation with the industry. The initial responses we have received from Mutuals have been positive, but many of you have sought further clarification in regards to Key Promises 2, 7 and 9. We will publish our results and recommendations in our Annual Report once we have finalised the ACS analysis.

Our other current activities include:

- Review of compliance with Clause 20 - Direct Debits;
- Attendance of the Abacus Convention in October in Adelaide;
- Establishing a Code Compliance Advisory Committee to help develop and provide important industry feedback on the compliance activities.

Tara McInnes is leaving us to pursue a similar role in the Financial Ombudsman Service EDR team and I would like to thank her for the work done as our Complaints Manager. A new Complaint Manager will be appointed in due course.

If you have any questions or concerns please feel free to email me or contact our Compliance Manager – Daniela Kirchlinde at ccc@fos.org.au *.

Damian Paull
Executive Manager, Code Compliance

A message from the Code Compliance Committee (CCC)

We are pleased to confirm that after a successful first year, the CCC has decided to re-appoint the Financial Ombudsman Service (FOS) to act as its Compliance Manager.

This newsletter provides a summary of the early findings from the information collected for the first 'annual compliance statement' against the 10 key promises of the Code. We have identified a number of areas which require further review and some areas where there are concerns. As this is the first year of the Code's operation much of this is to be expected. Our job is now to work with your organisations to ensure that there is a clearer understanding of what changes you can make to ensure compliance.

We have completed a review of whether samples of Mutuals are correctly advising customers on how to cancel direct debits. These results indicate that many Mutuals will need to take further action to improve their performance in this area.

The CCC and key staff from the FOS Compliance team will attend the Abacus Conference (www.abacusconvention.com.au) in Adelaide in October this year and we hope to meet as many of you as possible.

For comments or queries, please contact the Executive Manager, Damian Paull:

dpauill@fos.org.au *

Complaints Manager Tara McInnes is leaving and a replacement will be appointed in due course.

Committee members:

- Jeff Whalan (independent chairperson)
- Patricia Langham (industry representative)
- Gail Pearson (consumer representative)

Next CCC meeting on 18 October 2010.

Meet the CCC at the Abacus Convention in October in Adelaide.

Contact the CCC by email to ccc@fos.org.au *

Annual Compliance Statement (ACS)

This is the first ACS requested by the CCC since commencement of the Code in July 2009. The information contained in the ACS will give the CCC a picture of how credit unions and mutual building societies (Mutuals) are implementing the obligations under the 10 key promises (KP) of the Code.

A full report of our final findings will be included in our Annual Report and will be published on our website www.cccmutuals.org.au.

A summary of our areas where we have identified issues that need to be addressed is set out below. These findings are divided into two categories:

1. Areas of review (general performance against these Key Promises suggests that some improvement should be made):

- KP2 (*'We will focus on our members'*)
 - Lack of formal written guidelines and procedures in regards to dealing with elderly, disabled or otherwise disadvantaged customers and/or low income earners.
 - However, Mutuals provide many day to day examples of activities which suggest compliance.
- KP5 (*'We will deliver high customer service and standards'*)
 - Main training was completed by Abacus online training.
 - Lack of follow up training and/or maintenance of an adequate training diary and register.
 - Privacy policy still refers to old Credit Union Code, does not include Code at all or contains a mixture of both.
- KP6 (*'We will deal fairly with any complaints'*)
 - Code information not included in Internal Dispute Resolution (IDR) and External Dispute Resolution (EDR) information.
 - No contact details or link provided to EDR facility.
- KP 9 (*'We will recognise our impact on the wider community'*)
 - Lack of formal written guidelines and procedures in regards to involvement and contribution to community activities and projects.
 - However, Mutuals provide day to day examples of activities which suggest compliance.
- KP10 (*'We will support and promote the Mutual Banking Code of Practice'*)
 - Lack of information about Code or listing of 10 key promises on websites.
 - Websites contain only provision to obtain a copy of the Code.

2. Areas of concern (general performance against these Key Promises suggests that major improvement is required):

- Part B Commitment to comply (*'We will incorporate this Code by reference...within six months of the date on which we first subscribe'*)
 - Lack of incorporation of the Code into the terms and conditions of products to which the Code applies.
 - Reference still being made to the old Credit Union Code, no reference at all being made to the new Code or contains a mixture of both.
- KP7 (*'We will recognise members rights as owners'*)
 - Lack of formal documented guidelines and procedures on mergers and takeovers to ensure compliance with KP7.
 - Mostly rely on legal advice or Abacus Manual.
- KP8 (*'We will comply with our legal and industry obligations'*)
 - Lack of formal documented guidelines and procedures on how to monitor whether Code compliance obligations are being followed.
 - Confusion between complaints register (EDR) and breach register (Code).

Following our full report on the result of the ACS, we will undertake some research in regards to the above issues and consult with the industry before finalising our recommendations about what action should be taken.

Annual Compliance Statement:

- Information and reporting form have been emailed to you in July 2010
- Form is to be completed and returned to the CCC by 30th September 2010

Emerging compliance issues to be addressed in future reviews:

- Part B: general commitment to incorporate Code by reference in written Terms and Conditions
- KP7: recognising member rights as owners
- KP8: complying with legal and industry obligations

Compliance with Clause 20 - Direct Debits

The CCC has undertaken a review of compliance with Clause 20 - Direct Debits, of the Code with randomly selected Mutuuls, including the ten (10) largest Mutuuls as per KPMG report 2009 (*Building Societies and Credit Unions 2009 – Financial Institutions Performance Survey*)

A shadow shopping survey was undertaken across selected subscribing Mutuuls to ascertain the extent to which Mutuuls are complying with this clause by correctly advising customers on how to cancel direct debit instructions.

The testing of staff members' knowledge and understanding was based on telephone contacts with the selected Mutuuls' main contact number.

A shadow shopper using a general enquiry script undertook the testing. The inquiry related to the cancellation of a direct debit used to establish and service a mobile phone account. The key outcome of the survey was to gather the range of responses provided to the shadow shopper by Mutuul staff members.

Our analysis has identified three possible outcomes;

- fully compliant with clause 20 of the Code
- partially compliant with clause 20 of the Code
- not compliant with clause 20 of the Code.

Clause 20 requires that Mutuuls will promptly stop a direct debit facility linked to a members transaction account whenever the member requests that it be cancelled.

The key determinant was whether the shadow shopper was directed to make the request for the cancellation of the direct debit directly with the merchant - which is in contravention of Clause 20.1 of the Code. The following table summarises the results.

Response provided	Compliance with Clause 20.1	In per cent of surveyed Mutuuls
Yes, you can cancel the direct debit facility with us; however, you should also contact your mobile service provider.	Fully compliant	30%
No, you should go to your mobile service provider first and only if you have difficulties there, you can contact us to cancel your direct debit facility with us.	Partially compliant	28%
No, you have to go to your mobile service provider to cancel your direct debit.	Not compliant	42%

The full report will be e-mailed to all Mutuuls. A copy will be provided to the Australian Payments Clearing Association and Abacus. Another 'shadow shopping' exercise will be conducted in three (3) months time to measure any improvements and a revised report will be published on our website.

Shadow shopping exercise on compliance with Clause 20 – Direct Debits:

- 42 per cent not compliant
- A copy of the report will be e-mailed to all Mutuuls

Future Projects:

- Meeting the Mutuals
- Annual Report including reporting on issues arising out of ACS
- Desktop review: Terms and Conditions (Part B general commitment)
- Shadow shopping exercise: Hardship procedures and guidelines (Clause 24)
- Shadow shopping exercise: Debt collection procedures and guidelines (Clause 26)
- Review statistical data from EDR schemes in regards to potential systemic and industry issues

Future Projects

The scheduled activities of the CCC can be categorised as monitoring, investigating, and influencing

Monitoring

- Evaluating the responses received from the ACS and providing feedback to industry in regards to emerging issues;
- Addressing individual concerns with Mutuals as and when they arise through the ACS.

Investigating

- Reviewing data received via the EDR complaint schemes in regards to any potential Code breaches and/or systemic issues;
- Reporting and further consultation on the shadow shopping exercise in regards to the direct debit provisions of the Code (Clause 20);
- Reviewing the Hardship procedures and guidelines (Clause 24);
- Reviewing the Debt collection procedure and guidelines (Clause 26);
- Reviewing compliance with Part B of the Code and incorporation of the Code by reference in the Terms and Conditions for products and facilities to which the Code applies.

Influencing

- Publishing our bulletin Accomplish and posting regular updates and results of our investigations on our website;
- Establishing a formal Code Compliance Advisory Committee;
- Ongoing communication with key industry people and organisation;
- Identifying opportunities to meet with the industry.

If you wish to be considered for a position as part of our formal **Code Compliance Advisory Committee**, please register your interest with ccc@fos.org.au. It is envisaged that the Committee will meet via monthly teleconferences to discuss emerging issues and keeping industry up to date with CCC activities.

Contacting the CCC:

If you have a complaint?

If you believe that a Mutual has breached the Mutual Banking Code of Practice, and they have subscribed to the Code, then you can:

1. Telephone CCC General Enquiries on 1300 780 808 *
2. Write to the CCC, care of:
Executive Manager
Code Compliance Committee
PO Box 14240
Melbourne VIC 8001

Please note that we will move offices from 31 Queen Street, Melbourne to 717 Bourke Street, Melbourne in mid September. Our postal address and all other contact details will remain the same.

3. Lodge a complaint via our online complaint form at www.cccmutuals.org.au

If you have a general enquiry?

You can contact us directly using the postal address and telephone details above.

You can also email your enquiry to us at ccc@fos.org.au *

If you want to pass on some feedback?

You can call us on 1300 780 808* between 9am and 5pm (Melbourne time) or use our email address ccc@fos.org.au *

If you want to know more about the Mutual Banking Code of Practice?

If you would like to know more about the Code, you can see it on our website or alternatively have a look at the Abacus Australian Mutuals website at www.abacus.org.au

If you have a media enquiry?

Any media inquiries regarding the Committee's work should be referred to the Executive Manager, Damian Paull, at dpaul@fos.org.au *, or by telephone on 1300 780 808*.

General information about our work is available via our website www.cccmutuals.org.au.