

Accomplish

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Committee members:

- Dr Sue-Anne Wallace
(Chairperson)
- Patricia Langham
(Industry Representative)
until 31/12/2013
- Prof Gail Pearson
(Consumer
Representative)

Proposed CCC meetings for 2014:

- 26 Feb 2014
- 14 May 2014
- 30 July 2014
- 10 Sep 2014
- 3 Dec 2014

Farewell and thanks to Patricia Langham

A message from the Code Compliance Committee (the CCC)

An independent review of the first three years of the operation of the Mutual Banking Code of Practice (the Code) concluded that the Code was working effectively and the CCC was seen by stakeholders as a suitable oversight body.

The Review commented that the Code was well regarded by subscribers and consumer representatives and although considerable regulatory developments had occurred, the Code's principles based approach *'had stood the test of time well'*.

The CCC's involvement in the Independent Review of the Code of Practice has been the major undertaking during the past year. The Review has also involved staff at COBA and customer owned banking institutions, to ensure that the Code responds to changes in the regulatory environment, industry practice and public expectations. Such consultation leads to heightened awareness of the Code, further developing the foundation work of the CCC and the industry.

Farewell to Patricia Langham

The CCC would like to thank Patricia Langham for her valuable contribution during the first four years of its operation.

Patricia was one of the three founding Committee members and was re-appointed to her position in October 2010. At the end of her term in



September 2013, Patricia kindly accepted the CCC's request to extend her term until 31 December 2013 to fill the casual vacancy at that time. This allowed the CCC to continue its operations during the transition period to the revised Code and its new governance structure.

The CCC acknowledges Patricia's impressive knowledge of the industry sector and her valuable contribution to the development of the CCC during the past four years. Her attention to detail and her broad understanding of mutual banking policies and procedures was a vital factor in the success of the CCC's work to date.

Code Compliance Committee Annual Report 2012 - 2013

The CCC is pleased to advise that the Code Compliance Committee's Annual Report for 2012-2013 has been published in accordance with section E18 of the Code.

A copy of the report can be downloaded from the CCC website at <http://www.cccmutuals.org.au/2013/12/04/annual-report-20122013/>

One of the primary tools used by the CCC to monitor and report compliance with the Code is the Annual Compliance Statement (ACS). The CCC was pleased to note ACS information was received from all institutions before the 30 September 2013 due date, for the first time.

Major outcomes and conclusions from the review of the 2012-13 ACS data were as follows:

Code breaches

- The increase in number of breaches reported (152% increase to 917) was mostly the result of an intensive code breach monitoring program instituted at one institution where 350 breaches were identified.
- Breaches related primarily to training, chargebacks, account access and account suitability.
- Significant breach reporting was successfully introduced for the 2012-13 ACS. There were 16 breaches identified and it was pleasing to note that remedial actions were all completed or underway.

A preliminary conclusion following a desk review of the data is that the increase in breaches represents a further progression towards more comprehensive monitoring and reporting processes in institutions rather than a decline in overall code compliance performance.

Increase in self reported breaches primarily under training, chargebacks, account access and account suitability obligations.

16 self reported significant breaches.



Verification of 2012-13 ACS data has commenced.

In this context, the CCC is pleased to acknowledge initiatives introduced by institutions to improve code awareness and compliance during the reporting year. These initiatives included improvements to monitoring and reporting processes together with the promotion of no blame awareness programs to encourage staff to report actual and suspected breaches.

Verification of the ACS breach data has commenced and 12 institutions will be contacted over the next two months to discuss and clarify aspects of their breach reporting. The objective of these teleconferences is to identify any potential risk areas and assist the institutions to comply with code obligations and implement effective breach and complaints reporting.

Customer complaints

Increase in self reported complaints.

- Institutions reported 14,393 customer complaints (a 38% increase) identified through internal dispute resolution processes. 74% of these complaints were resolved in favour of the customer or by mutual agreement.
- The major service/product areas of customer complaint concerned transactions and services related to payment systems and deposit taking.
- 309 breaches of the Code were identified from internal analysis of customer complaints

The key market differentiator for the customer owned banking sector is superior customer service which is demonstrated by a recent Roy Morgan Research Customer Satisfaction Survey¹ indicating that the customer owned banking sector enjoys a customer satisfaction score of almost 90 per cent.

A deteriorating trend in customer complaint resolution times may represent a threat to the sector maintaining this advantage.

Chargebacks

Chargebacks represent the 3rd highest category of breaches in the 2012-13 reporting period.

The CCC noted that breaches of section D21 of the Code (chargebacks) represent the 3rd highest category of breaches in the 2012-13 Annual Report. The CCC previously agreed to undertake an investigation into chargebacks, which was put on hold based on budget restraints.

The CCC would like to address their concerns in this area and would like to refer to the Chargebacks Inquiry Report related to the Code of Banking Practice. This Report should raise awareness in the customer owned banking sector as the CCC is planning to undertake a similar Inquiry during the 2014-15 reporting period.

¹ Roy Morgan, Mutual Banking Sector: "Love can't buy you money", 14 October 2013, Finding 5241, <http://www.roymorgan.com/~media/Files/Findings%20PDF/2013/October/5241-MutualSectorSatisfactionDollarShare.pdf>



The Report can be downloaded at <http://www.ccmc.org.au/2013/10/18/chargebacks-follow-up-inquiry/>

Example of good industry practice

One customer owned banking institution (the institution) agreed to provide the CCC with information in regards to their positive breach reporting. The CCC appreciates the institution's input and would like to congratulate that institution for its exemplary guidelines for good industry practice regarding handling of chargeback issues.

Any incident where a customer raises an issue of a disputed transaction on a payment card constitutes a complaint for the purposes of the dispute resolution procedures. This means the institution applies the various elements of their dispute resolution procedures, including, recording the complaint in the relevant complaint database, adhering to the timelines for the handling of the complaint, and seeking to resolve the matter, hopefully, in the best interests of its customer.

The institution also reports the complaints that are received, whether they are related to a chargeback matter or otherwise, to its monthly Risk & Compliance Committee meeting for information and discussion. This ensures there is senior management review of the actual complaint load, the specifics of particular matters, and whether there are any systemic issues that are developing that might require a change in their existing approach.

While the right to a chargeback is not universal to all matters raised by consumers in relation to card based complaints, where the right exists because of the particulars of the transaction the institution will, as a matter of course, seek a chargeback on the customer's behalf, where it is appropriate to do so.

Seeking a chargeback can ultimately limit the costs that the institution might have to meet in dealing with the customer's complaint. However, the institution also believes the legitimate use of chargeback rights under the card scheme rules assists in having the other participants and intermediaries within the scheme understand their role in ensuring the legitimacy of charges that are processed against a card.

It also reinforces that participation in the card scheme carries certain responsibilities and obligations.

The institution considers this aspect to be particularly important where the charge might have arisen as a result of fraudulent activity that could have been stopped at the point of the transaction. Similarly, the institution considers it important that matters involving fraudulent conduct, at the merchants end, are also logged so their conduct can be appropriately reviewed if they become a focus for such matters.

Activities in relation to chargebacks are also informed and assisted by the fact that the institution has had a stable, well trained, team within its Operations Area that understands the scheme rules, has a keen interest in pursuing matters on behalf of customers, and is not easily dissuaded where they receive a response that requires a degree of perseverance in

Any incident of a disputed transaction on a payment card constitutes a complaint.

Complaints are reported to the Risk & Compliance Committee on a monthly basis.

Seeking a chargeback on the customer's behalf, where it is appropriate to do so.

Watch out for fraudulent activity.

Well trained team in Operations Area assists in pursuing chargeback matters on behalf of customers.



Prepared to expend funds to recover money through the chargeback arrangements.

Examples of good industry practice involving chargeback concerns.

the pursuit of the matter being raised. The institution will also go directly to a merchant to seek a remedy to a matter, if that is warranted. This has, on occasion, resulted in a refund to a customer by means other than a chargeback where the card has already been cancelled.

While cost is always a factor, the institution is prepared to expend funds to recover money through the chargeback arrangements and will certainly do so where there are multiple transactions for one merchant on a customer's card that are disputed.

Some examples of the institution's approach are:

A customer complained about \$1,600 in charges after their card was stolen overseas. In preparation for possibly seeking a chargeback the institution requested vouchers for the transactions as it could see there had been multiple attempts to have charges debited to the card. When the request for vouchers was unsuccessful the matter was taken to pre-compliance arbitration and the institution successfully recovered \$1,400 of the charges.

A customer complained about a \$6,319 charge from an overseas hire car company. A copy of the voucher was obtained along with documentation from the company which it said supported its actions in imposing the charge on the customer's card. An investigation established that chargeback rights existed and the institution insisted these were honoured. While it took the maximum 120 days to successfully resolve the matter on behalf of the customer it was only through a process of consistent contact with its sponsoring institution that a successful outcome was achieved.

A customer complained about a total of 79 internet related transactions amounting to in excess of \$9,000. While the effort involved in pursuing each of the charges was significant, the institution was able to successfully recover over \$8,000 through the chargeback process.

In the course of investigating one matter on behalf of a customer, other unauthorised, but yet to be processed, charges were identified. The future charges were discussed with the customer and they denied liability. Contact was made directly with the merchant raising the customer's concerns and the charges were reversed prior to being debited to the card.

Compliance Activities for 2014

In the forthcoming year the CCC will continue its emphasis of actively working with its key stakeholders to improve code compliance and industry standards of practice and service.

Code Transition

The 2013-14 ACS process will continue to emphasise and support improvements to compliance monitoring and breach reporting and remediation and transition requirements to the revised Code.

Transition to revised Code.



Own Motion Inquiry into compliance with financial difficulty provisions.

Regulatory developments which influence code compliance frameworks.

Email:
info@codecompliance.org.au

Phone: 1300 78 08 08

Address:
PO Box 14240
Melbourne Vic 8001

Website:
www.cccmutuals.org.au

Investigations and own motion inquiries

An Own Motion Inquiry dealing with compliance with the Code's financial difficulty provisions is planned to commence in early 2014.

The CCC is conscious that in its four year existence it has yet to receive a complaint from a customer or their advocate alleging a breach of the Code.

It may be the case that customers are satisfied with the complaints handling processes in institutions. Alternatively, customers and their advocates may not be aware of the CCC's investigative powers and functions. The CCC intends to research this issue in 2014 and undertake an awareness raising program with consumer advocates.

Industry developments

The CCC will assess the impact of emerging regulatory developments that have implications for institutions and their code compliance frameworks. These include the introduction of:

- more comprehensive '*positive credit reporting*' from March 2014
- new Australian Privacy Principles from March 2014, and
- a new risk management standard being developed by APRA from January 2015.

Contacting the CCC

If you have a general enquiry or want to provide feedback –

You can write to, call or email the CCC using the details to the left.

If you have a media enquiry –

All media inquiries regarding the CCC should be referred to Dr June Smith, Executive Manager, at jsmith@codecompliance.org.au.

Copies of the Code and information about the Code are available on the [CCC's website](#) and the Customer Owned Banking Association ([COBA](#)) website.

