

FINANCIAL OMBUDSMAN SERVICE



MEDIA RELEASE

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FINANCIAL OMBUDSMAN SERVICE SEES AVERAGE RISE OF 22.8% IN NEW DISPUTES

Highlighting impact of the global financial crisis

The Financial Ombudsman Service today released its first annual review of disputes across the financial services sector, reporting an average 22.8 per cent increase in the number of new disputes received up to 30 June 2008.

During the last financial year, the Banking & Finance division (which covers a very broad range of financial services providers) recorded a 22.7 per cent increase in new cases, while the General Insurance division handled a 12.6 per cent increase in new cases. The Investments, Life Insurance & Superannuation division experienced an increase of 33 per cent in new cases over the six month period from 1 January 2008 to 30 June 2008*.

The Chief Ombudsman of the Financial Ombudsman Service, Colin Neave, said there was little doubt that this year's global financial turmoil has had a significant impact on the number of disputes being brought by consumers and small businesses to the Ombudsman.

"There has been a considerable increase of 152 per cent in disputes about managed investments and a 55 per cent rise in financial planning disputes, involving allegations of inappropriate advice and standard of service," he said.

"We have also seen 26.7 per cent growth in cases relating to variable rate home loans, a 62.7 per cent rise in cases relating to fixed rate home loans and a 9.4 per cent rise in credit card cases. The General Insurance division meanwhile has dealt with an increased workload mainly resulting from significant weather events in the 2007-08 year, with an increase in home buildings insurance disputes of 50 per cent."

Mr Neave said such rises in dispute numbers were obviously having an impact on timelines for resolving disputes: "The Financial Ombudsman Service is doing all it can to deal with cases promptly. At this time it is essential that financial services providers continue to invest in staff and systems to deal with complaints because, in the short term, the trend of increasing numbers of disputes will continue."

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* The Investments, Life Insurance & Superannuation division, formerly the Financial Industry Complaints Service, reported only on the six months to 30 June 2008 as it operates on a calendar rather than financial year basis. For the period 1 July 2007 to 31 December 2007, the new case increase for this division was 4%.

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Notes to Editors

Financial Ombudsman Service

The Financial Ombudsman Service was created on 1 July 2008 by a merger of the operations of the three major financial services dispute resolution schemes: the Banking and Financial Services Ombudsman (now the Banking & Finance division), the Financial Industry Complaints Service (now the Investments, Life Insurance & Superannuation division), and the Insurance Ombudsman Service (now the General Insurance division).

The Financial Ombudsman Service provides independent dispute resolution services for most banking, insurance and investment disputes in Australia. The service is free to consumers and can make decisions which are binding on participating financial services providers. The Financial Ombudsman Service is approved by the Australian Securities and Investment Commission and membership of the Financial Ombudsman Service is open to all financial service providers operating in Australia.

Companies participating in the Financial Ombudsman Service include:

Banks, mortgage and finance brokers, general insurers, insurance brokers, credit and finance providers, credit card providers, financial planners, life insurers, stockbrokers, managed funds, and collection agencies, and other financial service providers.

THE STATISTICS IN DETAIL

Investments, Life Insurance & Superannuation (formerly Financial Industry Complaints Service)

Substantial increases in financial planning and managed investments disputes

The table below shows the increase in disputes across all Investments, Life Insurance & Superannuation product areas between 1 January 2008 and 30 June 2008:

	1 January 2008 – 30 June 2008	
	Percentage change	Number of cases
Financial planning	55%	257
Life insurance	9%	202
Managed investments	152%	126
Stockbroking	-23%	78
Complaints against non-members	48%	62
Other *	27%	14

Within financial planning and managed investments, which saw the most substantial rises in disputes, the main areas for disputes were: inappropriate advice; standard of service; misrepresentation; and redemption delay. Ombudsman – Investments, Life Insurance & Superannuation, Alison Maynard, said, “We are seeing a significant increase in disputes in the areas most affected by overall economic conditions. Volatile market conditions and falls in the value of investments will reveal inappropriate advice and highlight service and administration issues.”

* E.g. futures traders, contracts for difference

General Insurance (formerly Insurance Ombudsman Service)

Home building insurance disputes increase by 50% while Ombudsman expects travel insurance disputes to escalate

General Insurance handled a 12.6% increase in new disputes over the last financial year. The information hotline received 122,605 calls, up 9% from 112,442 in the previous year. Of the 2,170 general insurance disputes resolved during the year, the largest category was motor vehicle with 32% of the total.

Due to several significant and damaging weather events during the year, the biggest rise in disputes was in the home buildings category with a 50% rise in the number of disputes received to 604 from 403.

Ombudsman – General Insurance, Sam Parrino, said “It is interesting to note that, of the 604 home buildings disputes which came to us during the year, 79% involved disputes over the impact and nature of ‘exclusions or conditions’ in policies. Exclusions and conditions remain the single greatest cause of disputes across all categories and these statistics highlight once again how crucial it is that consumers read the policy document and that insurers more clearly communicate what is and is not covered.”

A further 360 disputes, or 16.5%, were travel related. This has fallen slightly from the previous year when this category provided 18% of the total, although travel insurance continues to prompt a high volume of disputes given the number of policies sold relative to other products. Mr Parrino added: “Travel is likely to continue to ‘punch above its weight’ given the increasing number of civil unrest and terrorism related incidents as well as more frequent severe weather related events.”

Banking & Finance (formerly Banking & Financial Services Ombudsman)

Housing finance cases increase

Banking & Finance recorded 7,911 new cases during the year, an increase of 22.7% compared with the previous year. During the year, there were 4,928 products recorded in respect of 4,332 cases closed after referral to a participating company. The following table shows the increase in cases closed according to product categories compared with the previous year:

	1 Jul 2007 – 30 Jun 2008	
	Percentage change	Number of cases closed
Consumer finance	7.7%	1,842
Housing finance	27.3%	1,041
Payment systems	2.3%	795
Deposit account	- 3.6%	687
Business facility	5.6%	373
Financial planning	24.0%	57
Other products	1.5%	57

Within the housing finance category, cases relating to variable rate home loans rose by 26.7% to 767 cases, while cases relating to fixed rate home loans rose 62.7% to 169 cases, compared with the same period in 2006–07. Within the consumer finance category, credit card cases rose by 9.4%. The financial planning category is not large for this area and this increase only reflects an additional 11 cases year on year.

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