



INSURANCE & FINANCIAL SERVICES
OMBUDSMAN

Annual Report 2016

The Insurance & Financial Services Ombudsman Scheme Inc.
is independent, impartial and free for consumers. We resolve
complaints about insurance & financial services.

Contact us now.

Phone: 0800 888 202

Website: www.ifso.nz



“ Very impressed with the knowledge and helpful approach provided by the case manager.”

“ The case manager was fantastic with her help and advice, kept me going when I was ready to give it all up.”

“ The case manager was excellent to deal with. Clear and concise.”

“ It is good that there is this method of solving the issues between clients and insurance/ financial providers as some matters are solved here before going to Court and wasting time and money.”

“ Ten minutes on the phone and all done. I was expecting to have to go to a hearing and argue some more with the complaint, a stressful idea, so very happy and relieved by process and outcome.”

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Canterbury Earthquake

This feedback relates to a complex and lengthy earthquake complaint investigation, which resulted in a settlement with the insurer.

“

[We] would also like to make a special thank you to our case manager for his easy and reassuring manner and his ability to remain unflappable no matter what happened... We would not have anticipated getting to this point a couple of months ago and we had mentally prepared ourselves for full legal action against the parties. Over the last 3 years these events have pretty much consumed our lives so this outcome now allows us to get back to normal.”

“

[We] would like to express how grateful we are to you... for your assistance in sorting this out. We are acutely aware how difficult this matter has been given the questions around the IFSO jurisdiction and the murkiness over responsibility for the problems. We appreciate your willingness to propose parking the jurisdiction question and offering to act as a mediator to find a solution. We also realise that a lot of what has been discussed is very technical in nature and applaud your decision not to flee in the face of it.”

The Insurance & Financial Services Ombudsman Scheme

For 21 years, the IFSO Scheme has provided an independent, impartial and free dispute resolution service for consumers.

On 1 November 2015, we changed part of our name from the “Insurance & Savings” Ombudsman Scheme to the “Insurance & Financial Services” Ombudsman Scheme (IFSO Scheme). This better describes our growth in membership across the financial services sector, and means that consumers will have a better understanding of the service we provide.

We resolve complaints and respond to enquiries about:

- Insurance: including house, vehicle, contents, health, life, travel and small business insurance
- Superannuation, investments and securities
- Financial advice and broking services
- Loans and credit
- Foreign exchange and money transfer services.

Since the IFSO Scheme was established in 1995, it has responded to over **52,000** complaint enquiries and investigated over **5,760** complaints.

Our work preventing complaints from arising is just as important as our complaint resolution work. The IFSO Scheme provides information for consumers to make informed choices, and extensive professional development for Participants.

4,299 Participants

The IFSO Scheme currently has 4,299 Participants, which provide financial services throughout New Zealand. We can only formally investigate a complaint if it involves a Participant of our Scheme.

ANZOA

The Ombudsman, Karen Stevens, is an Executive Member of the Australian and New Zealand Ombudsman Association (ANZOA). Established in 2003, ANZOA is a professional association and the peak body for Ombudsmen in Australia and New Zealand. ANZOA members are individual Ombudsmen working in not-for-profit industry-based, parliamentary and other statutory offices, which meet accepted high standards of independence, impartiality and effectiveness, and which observe the *Benchmarks for Industry-Based Customer Dispute Resolution (CDR Benchmarks)*. See: www.anzoa.com.au

INFO Network

The IFSO Scheme is a member of the International Network of Financial Services Ombudsman Schemes (the INFO Network), a worldwide association established in 2007. INFO Network members are Ombudsman schemes and offices operating as independent, out-of-court dispute resolution mechanisms in the financial services sector. INFO Network members provide dispute resolution services for consumers (and, in some cases, small businesses) who have not been able to resolve a matter directly with their financial service provider in the areas of banking, investments, insurance, credit, financial advice and pensions.



Dame Paula Rebstock

IFSO Scheme Commission Chair

Established in 1995, the Insurance & Financial Services Ombudsman Scheme has had another successful year.

The IFSO Scheme is a mature scheme with substantial experience in financial sector complaint resolution. Over 21 years, a dispute resolution scheme gains considerable knowledge and experience about the range of issues facing an industry.

This knowledge and experience is so valuable for financial service providers and their customers, because it is effectively an encyclopaedia of what can and does go wrong.

Together with providing a high quality dispute resolution process, the IFSO Scheme provides information for consumers and an extensive training programme for Participants.

We are fortunate to have a wide range of high calibre financial service providers among our 4,000+ Participants. Adding “financial services” to our name in November 2015 was an acknowledgement of our extended membership across the financial services sector.

The sector is always evolving: subject to changes in technology, legislation, customer expectations, and business practice.

The sector is always evolving: subject to changes in technology, legislation, customer expectations, and business practice. Complaint data is an essential indicator of business practice, and can give businesses a competitive advantage if they can use the information to learn from and map trends.

The IFSO Scheme Commission is pleased that prudent financial management has resulted in the building up of sufficient reserves. We are currently investing in a major upgrade of our technology, which will overhaul our database system that has been in place for 21 years. This is an investment in the future, and we look forward to sharing the benefits of more targeted, sector specific information.

We can also confirm that business efficiencies have enabled us to provide all IFSO Scheme Participants with a 10% sustainable reduction in annual membership fees since 2014. Our priority is to provide a high quality, cost-effective service for the benefit of all of our Participants and their customers.

On behalf of the IFSO Scheme Commission, we look forward to continuing to work with financial service providers and their customers to learn from our complaints experience and improve business practice across the financial sector.

Dame Paula Rebstock, DNZM

IFSO Scheme Commission Chair



Karen Stevens

Insurance & Financial Services
Ombudsman

This year, the IFSO Scheme came of age, marking 21 years' resolving complaints.

Nothing is better than knowledge gained through actual experience – with over 52,000 complaints enquiries and more than 5,700 complaints, we have gained extensive knowledge about complaints in the financial sector.

This year, the IFSO Scheme came of age, marking 21 years' resolving complaints. We are a mature scheme; we have learnt from experience. We share that experience with our Participants, so they can develop the skills to prevent customer dissatisfaction. In the event of a complaint, learning from other complaints published on our website can help to achieve an early resolution. Not only does this lead to more agreed outcomes between Participants and their customers, but also to improved business practices.

The statutory principles of accessibility, independence, fairness, accountability, efficiency and effectiveness guide the day-to-day management of the business.

When we were established in 1995, having a complaints resolution scheme was a new concept for the insurance industry. From 2010, when the Scheme expanded to include other financial service providers, we had a whole new section of our membership for whom a complaints resolution scheme was a new concept. In 2016, after 21 years in business, we have an established reputation; we have staff with a great deal of practical experience resolving complaints; and we understand the needs of our Participants and their customers when a complaint is made to us.

Another important part of our role is working with agencies to inform consumers generally about financial products and services and to increase financial literacy. Many complaints could be avoided if consumers better understood financial products and services and their contractual obligations. We take every opportunity to inform and educate consumers. Featuring regularly in the media, we have recently focused on issues such as sum insured in house insurance, "reasonable care", flooding and insurance, and staying safe and insured on holiday. Consumers need to know how to access our free service if they need assistance. It's pleasing to see that nearly 70% of our Participants' customers who made a complaint this year, and responded to our survey, believed that they received enough information from their financial service providers about the IFSO Scheme.

The statutory principles of accessibility, independence, fairness, accountability, efficiency and effectiveness guide the day-to-day management of the business. They are not simply esoteric concepts – they are essential components of good complaints handling. Today, the IFSO Scheme can be regarded as being fundamental to consumer confidence in the financial sector. We have come of age in every respect.

Karen Stevens,
Insurance & Financial Services Ombudsman

Complaint Summary 2016

The IFSO Scheme dealt with 270 investigated complaints, and responded to 3,193 complaint enquiries. This is an increase from 254 complaints and 3,057 complaint enquiries last year.

Effective dispute resolution is about bringing two parties together, listening to both sides and considering the law, the facts and the evidence as an independent third party. When investigating complaints, IFSO Scheme case managers apply negotiation, conciliation and mediation skills to reach agreement where possible. The process must always be fair, reasonable, transparent and impartial. Whether the complaint is resolved by agreement or decision, it is essential that both parties feel they have been heard and understood.

3,193
complaints
enquiries

786 in writing
2,406 by
telephone
1 “walk-in”

Complaint Enquiries are any questions or issues brought to the IFSO Scheme.

Complaints have been accepted by the IFSO Scheme for investigation and resolution, by agreement where possible (through negotiation, conciliation, mediation) or by decision.

In the year ended 30 June 2016, \$1.4 million was paid by Participants to consumers who had their complaints considered by the IFSO Scheme

(This does not include weekly disability benefit payments under income protection, superannuation or life policies).

Jurisdiction

In the 2015/2016 financial year, we received 710 complaint enquiries outside jurisdiction. Of these, 189 were written complaint enquiries and 521 were telephone complaint enquiries.

The most significant groups of complaint enquiries outside jurisdiction related to enquiries where the financial service provider was not a Participant (53%), third party insurance claims (34%), and commercial/underwriting decisions (11%).

Timeliness

The average time it took to close the 270 complaints was 85.1 days (down from 88.9 days last year), from the date we received the Participant's file through to closure.

Systemic Issues and Breaches

No systemic issues were identified.

Since the IFSO Scheme was established in 1995, it has responded to over 52,000 complaint enquiries and investigated over 5,760 complaints.

Status

2015/16

Complaints under investigation

329

Complaints carried over from previous year and completed

57

Complaints received for investigation

272

Complaints completed during the year

270

Complaints for investigation but incomplete at year end

59

2014/15

Complaints under investigation

311

Complaints carried over from previous year and completed

58

Complaints received for investigation

253

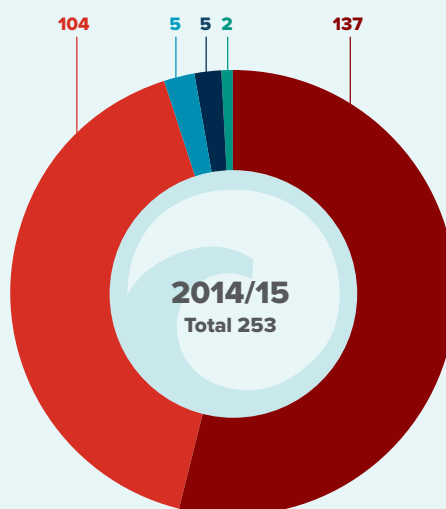
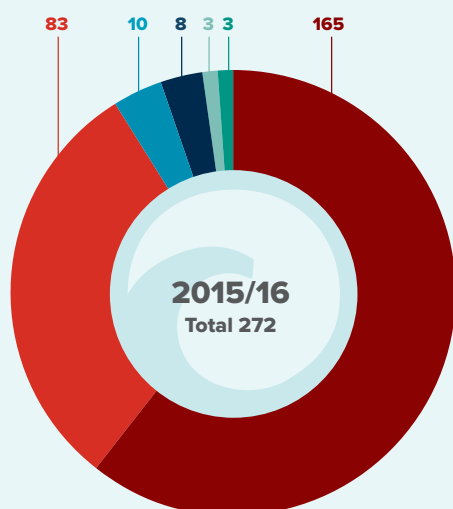
Complaints completed during the year

254

Complaints for investigation but incomplete at year end

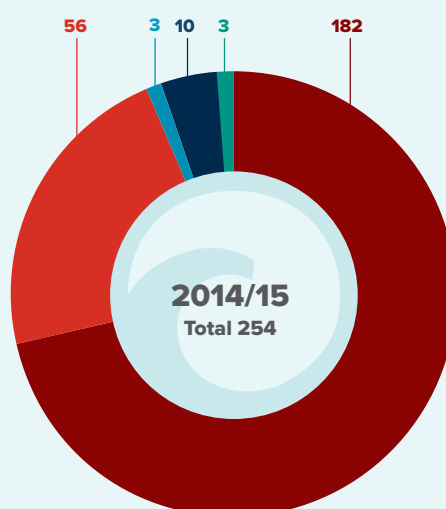
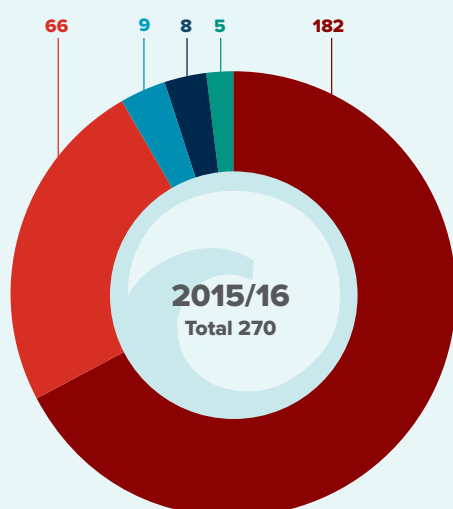
57

Received by sector



- Fire and General
- Health Life and Disability
- Credit Contracts
- Financial Adviser
- Superannuation
- Other financial services

Outcomes



- Complaints Not Upheld
- Complaints Settled
- Complaints Upheld
- Complaints Partly Upheld
- Complaints Withdrawn

Getting our message into the community

We want consumers to understand their options, be able to make informed choices and avoid future issues. The IFSO Scheme has been resolving complaints and responding to complaint enquiries for 21 years. Providing information and sharing knowledge with consumers is an important role for the IFSO Scheme, because preventing complaints is as important as resolving complaints.

In 2015/2016

3,193
complaint enquiries
were dealt with by the IFSO Scheme.

7,720
calls
were received on our freephone number:
0800 888 202

39
speeches, presentations
& webinars
were delivered nationwide.

2,500+
info sheets
& brochures
were distributed to consumer groups nationwide.

52,692
website visits
This is a monthly average of 4,391.
www.ifso.nz

66
media interviews
& responses
were provided by the Insurance & Financial
Services Ombudsman.

How do people rate us?

Questionnaires are sent to all those who have had complaints formally investigated. Their responses provide valuable feedback.

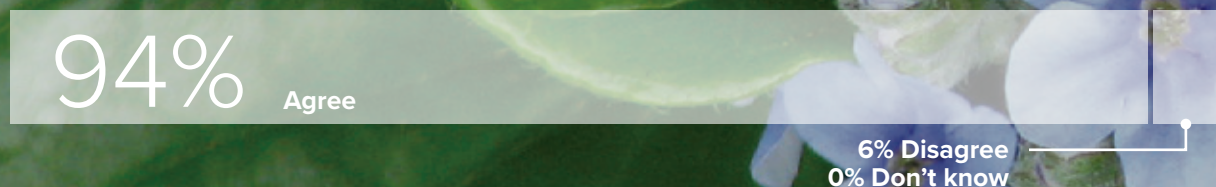
When you first contacted us, the IFSO staff member gave you a clear explanation about the IFSO Scheme's process



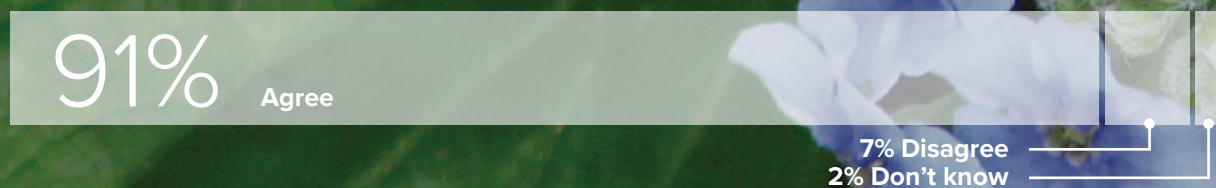
The IFSO Scheme's forms were easy to understand.



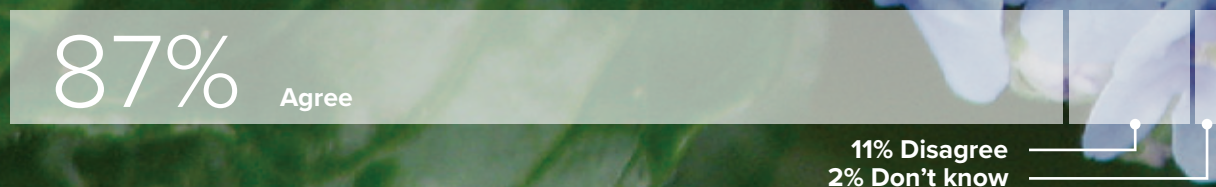
The Case Manager was helpful and easy to speak to on the telephone.



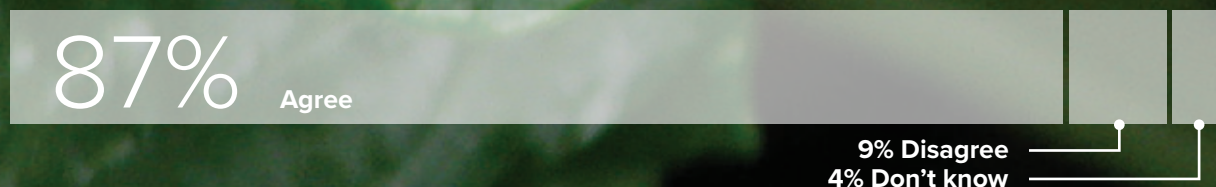
The IFSO Scheme kept you well informed about progress.



The reasons for the decision made about your complaint were explained clearly.



The IFSO Scheme's service is easy to use.

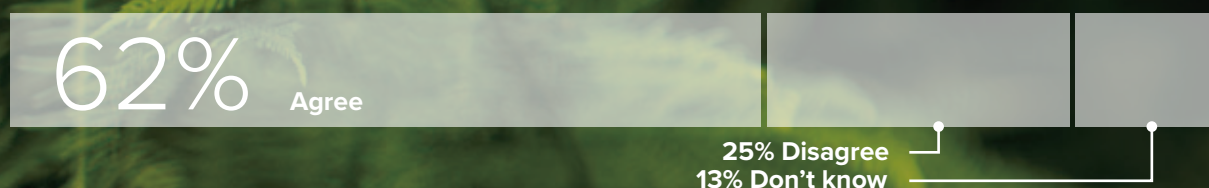


Informing customers about complaints processes

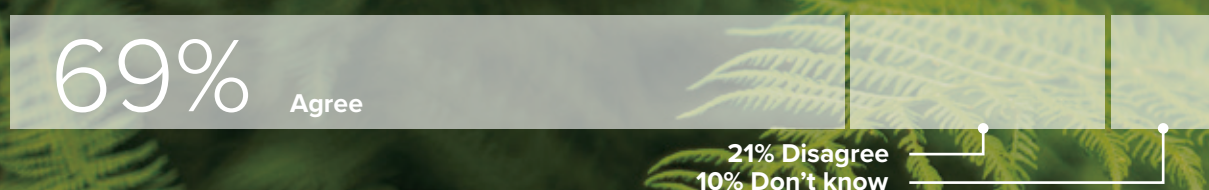
Financial Service Providers are required to have a complaints process and to publicise it to their customers. IFSO Scheme Participants must inform their customers that they are an IFSO Scheme member. Including this information on websites and other material promotes good business practice.

Questionnaires are sent to all those who have had complaints formally investigated. Their responses provide valuable feedback.

You received enough information from your financial service provider about its own internal complaints procedure.



You received enough information from your financial service provider about the IFSO Scheme.



“IFSO webinars give helpful tips on improving communication and client relationships. Although I’ve never had a complaint, the webinars focus on how to avoid future issues, which is important in our business. We believe IFSO are experts in their field and we value their input.”

Alan Jecks
Director,
AJIB Insurance Brokers

Membership

Membership of the IFSO Scheme has grown from about 50 insurance Participants to the current 4,299 Participants from across the financial services sector. IFSO Scheme Participants include providers of insurance, investments, loans and credit, superannuation, financial advice and foreign exchange.

As at 30 June 2016, IFSO Scheme Participants consisted of: 3,474 individuals; 756 adviser businesses and other financial service providers; 60 insurance companies; and 9 superannuation schemes.

We provide added value to our Participants, in a variety of different ways:

- an e-newsletter for Participants
- Participant-only web area and online resources
- webinar training focused on lessons learnt from complaints, data and trends
- face-to-face training on complaint handling and specific issues
- case studies on our website from 2000 to date.

The IFSO Scheme draws on 21 years' experience when delivering industry webinars, focusing on lessons learnt from complaints, data and trends. These opportunities provide Participants with the help they need to prevent disputes from arising, and to resolve any that do arise. Webinars are run in partnership with the Institute of Financial Advisers (IFA), and professional IQ College for IBANZ members. Karen Stevens also ran a negotiation series in partnership with Professional IQ.

450
people attended

our **9 webinars** in collaboration with the IFA.

330
people attended

our **13 webinars** and **4 workshops** in partnership with Professional IQ for IBANZ members.

Contact

0800 888 202 or
membership@ifso.nz

“IFSO staff have been a great addition to our team of presenters, with a professional approach in delivering relevant learning to financial advisers.”

Steve Wardley
Operations Manager,
Professional IQ College

“The webinar collaboration between the IFSO and IFA brings timely, relevant continuing professional development for not only the two memberships, but also the wider financial services profession. I believe the cumulative training from these webinars is leading to much better practice and client outcomes.”

Andrew Gunn
Manager, Member Learning & Development
Institute of Financial Advisers (IFA)

Case Studies

Financial Adviser – claims advice

Life insurance – insurer on enquiry

Credit card – provider's records and evidence

Liability insurance – consumer compromise

Credit contract – contractual and legal obligations

House insurance – assignment of EQ claim

Insurance Policies – exclusions

- House insurance – gradual damage
- Contents insurance – mechanical breakdown
- Health insurance – pre-existing condition

**Names have been changed to preserve anonymity*

Case Study 132703

Financial Adviser – claims advice

While there are still low numbers of complaints about financial advisers, we work with the industry to share the lessons learnt from complaints. Every IFSO Scheme decision is published as a case study on our website.

Mr and Mrs Collins* arranged a contract works insurance policy through their broker, for renovation work they were undertaking on a house that they were relocating. When the house was relocated, the foundations were not correctly built and, as a result, damage occurred to the floors, walls and roof framing.

The broker advised Mr Collins that the damage was outside the policy, as it occurred during relocation, rather than renovation, of the house and Mr Collins would need to pursue a claim against the builders. The broker did not refer the claim to the insurer.

A year later, Mr Collins made a claim directly to the insurer, which appointed a loss adjuster to assess the damage. The insurer agreed to a settlement of the claim.

Mr Collins complained that he had taken unnecessary legal action against the builders, on the basis of the broker's advice, which had caused a delay of 11 months in the renovation of the house. Mr Collins believed that the broker should compensate him approximately \$65,000 for his legal fees, extra rent payments and stress.

The broker believed that the advice he gave was correct and there was no cover under the policy for the damage to the house.

The case manager's assessment

The case manager considered whether the broker had carried out the service with "*reasonable care and skill*" under section 28 of the Consumer Guarantees Act 1993.

The insurer advised that the claim was settled outside the terms and conditions of the policy, but the insurer stated that it would expect all claims to be referred to it for consideration, regardless of the broker's opinion.

Although the broker's advice was not actually incorrect, the case manager believed the broker had failed to carry out the service with reasonable care and skill, by not referring the complaint to the insurer.

The case manager advised Mr and Mrs Collins that the broker could not be held responsible for the 11 month delay, or the majority of the legal costs. The broker offered a payment of \$5,000. The case manager recommended that Mr and Mrs Collins accept it, which they did.

Complaint settled

Case Study 125056

Life insurance – insurer on enquiry

The IFSO Scheme’s independent and inquisitorial approach can mean that the case manager investigates new issues, or takes a different approach to the circumstances of the complaint. Case managers utilise their experience to analyse all the issues presented in a complaint.

In 2001, Mr Roberts* arranged life insurance and income protection cover with an insurer, with the assistance of a bank adviser. When Mr Roberts completed the application, he did not declare any medical conditions, but advised he had recently had a medical for his work.

In 2009, Mr Roberts made a claim on his income protection policy, advising that he had ceased work in 2007 due to a chronic medical condition.

During its investigation of the claim, the insurer obtained Mr Roberts’s medical records which contained a number of consultations relating to a history of chronic headaches. The life insurer avoided the policy and retained all premiums paid, because it believed Mr Roberts had not disclosed his full medical history when he arranged the policy.

The case manager’s assessment

Three independent underwriters advised that, based on the information provided, they would have requested additional information on the cause and nature of Mr Roberts’s headaches and they would have likely deferred income protection cover. As such, the cover would not have been provided on the same terms as those offered. The case manager believed that the non-disclosure was material.

In this case, the bank adviser was the “*representative of the insurer*” under section 10 of the Insurance Law Reform Act 1977. As an employee of the bank, any information he obtained was knowledge of which the bank and the insurer were deemed to have notice.

The bank confirmed that, when the policy was arranged, Mr Roberts told the bank adviser that he suffered from regular headaches, and had recently had an MRI scan as part of an employment medical assessment.

The insurer was deemed to have notice of all matters known to the bank adviser regarding Mr Roberts’s regular headaches requiring an MRI scan at the time of application.

The common law duty of disclosure is satisfied if the insured discloses sufficient information to reasonably put the insurer on enquiry, provided that what is conveyed fairly indicates to the insurer there is more information to be obtained, if it chooses to ask for it, or to have it.

In this case, at the time of application, Mr Roberts disclosed to the insurer’s representative that he had regular headaches requiring an MRI scan. The 3 independent underwriters advised that they would have requested further medical information.

Therefore, the insurer was not entitled to avoid the policy on the basis of non-disclosure relating to Mr Roberts’s regular headaches. It waived its right to do so when it chose to accept the risk on the basis of the information disclosed on the application, and the information of which it was deemed to have notice.

The insurer reinstated Mr Roberts’s policy and arranged to assess his income protection claim.

Complaint upheld

Case study 131318

Credit card – provider’s records and evidence

When investigating complaints, IFSO Scheme case managers gather information to piece together what was likely to have occurred regarding the facts of the complaint. In many cases, financial service providers have clear records which allow them to demonstrate that they acted in accordance with their agreement with their customer.

Ms Connor* held a credit card with a lender. In November 2014, Ms Connor complained that 35 unauthorised transactions were made in New Zealand with her credit card during a period between September and October 2014, when Ms Connor was overseas.

The lender discovered that 32 of the 35 unauthorised transactions were made with the credit card and were a combination of either PIN number entry or contactless PayWave payments. The remaining 3 transactions were made online, using the CVV number on the back of the card.

The conditions of use stated that Ms Connor would be liable for any unauthorised transactions if she had acted negligently or failed to safeguard the card, or had disclosed the PIN number, selected an unsuitable PIN number, or allowed someone else to use the card.

The lender believed that Ms Connor had failed to protect her card from unauthorised use and failed to protect her PIN number from disclosure, which was a breach of the conditions of use. Therefore, Ms Connor was responsible for the unauthorised transactions.

The case manager’s assessment

Ms Connor said that the lender had mistakenly added the transactions from another account to her account. However, the lender advised that the transactions required the specific card linked to the account. It was not possible to misapply purchases from another account, nor was it possible for the credit card to have been subject to skimming fraud.

The chip in the card was required for PayWave purchases and the CVV number was required for online purchases. Neither the chip nor the CVV numbers could be copied.

Because the actual card had to have been used for the unauthorised transactions, it seemed likely that the credit card was left in New Zealand while Ms Connor was overseas. It seemed equally likely that whoever used the credit card had to have had access to Ms Connor’s house, to both obtain and replace the card.

It also seemed likely that Ms Connor had either selected an unsuitable PIN number that someone who knew her was able to guess, or which had been previously disclosed, because the PIN was used in the majority of the transactions. As this was a breach of the conditions of use, Ms Connor was responsible for the unauthorised transactions.

However, the lender advised that it would reverse all interest charges made on the unauthorised transactions and would make the remaining balance on the card interest-free for a further 6 months, which the case manager believed was a fair and reasonable resolution of the complaint.

Complaint not upheld

Case study 133948

Liability insurance – consumer compromise

IFSO Scheme case managers work with the parties to resolve complaints. Sometimes, customers want to have the assurance of an independent review before they are prepared to consider a compromise.

Building Ltd* had liability cover and made a claim, because it had damaged a third party’s louvers when it had been using its hiab to lower them onto a truck.

The policy excluded cover for sums that Building Ltd was liable to pay for “*damage in connection with [its] products*”. The policy’s definition of “*product*” included “*that part of any tangible property that [Building Ltd]... works on, but not any other separate component of that property.*”

The insurer declined the claim on the basis of the exclusion. Building Ltd argued that the exclusion did not apply and the claim was covered by the policy.

The insurer offered to settle the claim by paying 80% of the claim, which Building Ltd declined.

The case manager's assessment

Building Ltd did more than merely have the louvers in its control/ possession; it was lowering the louvers on a pallet onto a truck. This action meant it *"work[ed] on"* the louvers and, therefore, the insurer could rely on the exclusion to decline the claim.

However, the case manager considered the policy wording and discussed this with Building Ltd and the insurer. The insurer agreed to reinstate its previous offer of 80% of the claim which, after discussing with the case manager, Building Ltd agreed to accept.

Complaint settled

Case study 133805

Credit contract – contractual and legal obligations

The investigation of a complaint may involve the case manager explaining to the customer their obligations under a contract, as well as considering whether the financial services provider complied with its legal obligations.

Mr Brown* took out a loan to buy a car and agreed to make weekly payments. Mr Brown missed payments from the beginning and, 10 months later, after trying to make arrangements for Mr Brown to make the payments, the loan company repossessed the car.

Mr Brown complained to the loan company that it had not given him a pre-possession notice, so the loan company gave the car back to him.

Mr Brown continued to miss payments and, a year later, the loan company repossessed the car again. Mr Brown complained that the company had not given him a pre-possession notice. Mr Brown wanted the company to sell the car, wipe his debt and reimburse him for the bank fees he had incurred as a result of the dishonoured payments.

The case manager's assessment

The contract entitled the loan company to repossess the car, if Mr Brown missed payments.

Under the Credit Contracts and Consumer Finance Act 2003 the loan company was required to give Mr Brown a pre-possession notice in certain circumstances. This obligation is met by sending the notice to the customer's *"usual or last known place of abode... or at an address specified for that purpose in the agreement"*. Despite having 2 residential addresses listed for Mr Brown, the loan company had sent Mr Brown a pre-possession notice to his PO Box, which was not *"an address specified for that purpose in the agreement."*

In any event, under section 8 of the Credit (Repossession) Act 1997, the loan company was not required to provide Mr Brown with a pre-possession notice if the goods were *"at risk"*, which is defined as meaning *"the creditor has reasonable grounds to believe that the [car] ha[s] been or will be destroyed, damaged, endangered, disassembled, removed or concealed contrary to the provisions of the agreement"*.

The car was unregistered and unwarranted, voiding any potential insurance claims and, therefore, it was *"at risk"*. The loan company was not required to give Mr Brown a pre-possession notice. Mr Brown also complained that the company had begun the repossession process after it had sent him a hardship application to complete.

The case manager noted that the loan company had asked Mr Brown to complete and return the hardship application *"asap"*. By the time the car was repossessed 4 weeks later, Mr Brown had not returned the application. The company was entitled to repossess the car.

Complaint not upheld

Case study 133183

House insurance – Assignment of EQ claim

Consumer education plays an important role in the resolution of complaints by the IFSO Scheme. Although the majority of complaints are not upheld, case managers focus on explaining the decision to customers so that they understand and accept the decision.

Mrs White's* driveway, paths and fencing were damaged in the 2010 and 2011 earthquakes in Canterbury. Mrs White made a claim to the insurer and the insurer accepted the claim. However, Mrs White died in 2012.

In February 2015, Mr Hill purchased the property. The representatives of Mrs White's estate assigned all of the existing and residual rights, interest and title to Mrs White's insurance claims under the policy to Mr Hill.

In August 2015, the insurer advised Mr Hill that he was only entitled to a cash payment based on the indemnity value and not the full cost of repair.

Mr Hill believed he was entitled to all of the same policy rights as Mrs White. He asked that the insurer either project manage the repairs, or pay in full for the cost of the repairs.

The case manager's assessment

Under Mrs White's full replacement policy, if repairs were actually carried out, the insurer was obliged to pay the repair costs to restore the house to the same condition as when new. However, if the repairs were not done, the insurer would pay no more than the indemnity value, defined in the policy as the cost of repairs, less an allowance for depreciation and deferred maintenance. Under the policy, the insurer also had the option to make a cash payment or repair the damage.

The courts have held that a right to replacement, like other rights created by a policy, is "*personal to the insured*". Also, an insured person cannot assign to a purchaser "*more than whatever assignable rights had accrued to the insured before the assignment*".

The case manager explained to Mr Hill that he had not been assigned Mrs White's policy, but only the rights that had accrued under the claim at the time of the assignment.

The insurer had the option, under Mrs White's policy, to proceed by way of cash payment, based on indemnity value, as the repairs had not been done prior to the assignment.

Complaint not upheld

Insurance policies – exclusions

Case study 131857 – House insurance – gradual damage

Case Study 134646 – Contents insurance – mechanical breakdown

Case Study 133041 – Health insurance – pre-existing condition

Many complaints arise because consumers do not understand their insurance policies. An important part of our role is to provide consumers with information to help them to better understand financial products and services.

To increase consumers' financial literacy, information is provided on our website and through info sheets, and shared with consumer groups and the media.

However, complaints continue to demonstrate common misunderstandings, for example, exclusions in insurance contracts. Gradual damage, mechanical breakdown and pre-existing conditions are common examples of complaints to the IFSO Scheme.

Working with the industry, we will continue to find ways to help consumers understand these key concepts, and avoid future issues.

Case study 131857

House insurance – gradual damage

Miss Bean's* tenant told her that the floor was dipping in the doorway of the kitchen. Further inspection revealed the floor was spongy and soft and wet underneath the lino. Miss Bean made a claim to her insurer for the damage. The insurer declined the claim on the basis that the damage was gradual; but it was not within the scope of the limited cover for gradual damage under the policy, which required the damage to be hidden and *"caused by the leaking or unseen overflowing of any internal water system"*.

Miss Bean believed the damage was hidden, because the leak had come from a hose, which was behind the washing machine and could not be seen.

However, the hose connecting the washing machine to the wall was not *"permanently connected"* to the house and, therefore, was not part of the *"internal water system"*. As such, the case manager found the damage was not *"hidden gradual damage"* and the insurer was entitled to decline the claim.

Complaint not upheld

Case Study 134646

Contents insurance – mechanical breakdown

While Mr Jackson* was mowing his lawn with his ride-on mower, the belt which drove the blades snapped. Mr Jackson rode the mower to a repairer to have the belt changed. While the mower was being repaired, the engine was damaged.

Mr Jackson's repairer stated that the damage was a result of the con rod snapping, probably because of a lack of oil.

The insurer declined the claim, on the basis of the policy exclusion for mechanical damage. But Mr Jackson did not think the damage was caused by a "breakdown" or "failure".

Mr Jackson agreed that the damage was internal to the motor; the con rod snapped, possibly as a result of oil starvation. In other words, there was no outside influence which caused the con rod to snap, like a stone getting caught. Therefore, the case manager believed that, on a commercial commonsense approach, the damage was within the ordinary meaning of a *"breakdown, failure... of any mechanical or electrical equipment..."* and was excluded from cover.

Complaint not upheld

Case Study 133041

Health insurance – pre-existing condition

Ms Callum* applied for prior approval for surgery to have her wisdom teeth removed. Her insurer declined to pay, on the basis that the claim related to her pre-existing impacted wisdom teeth.

Ms Callum argued that the teeth had not caused her any problems until after she arranged the policy.

However, prior to arranging the policy, Ms Callum visited her dentist and he noted her impacted wisdom teeth on an x-ray. The dentist discussed this with Ms Callum, in relation to planned orthodontic treatment. The dentist's notes recorded that Ms Callum was told she would need her wisdom teeth removed for the orthodontic treatment.

Ms Callum's impacted wisdom teeth were a pre-existing condition and, because the claim related to those impacted teeth, the insurer was entitled to decline the claim.

Complaint not upheld

Summary Financial Report

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Directory

Insurance & Financial Services Ombudsman Scheme Inc.

For the year ended 30 June 2016

Nature of Business

The IFSO Scheme's principal powers and duties are:

- (a) to resolve Complaints arising out of the provision of Financial Services by a Participant in a way that is accessible, independent, fair, accountable, efficient and effective; and
- (b) to promote and publicise the Scheme to consumers and small businesses and to encourage and provide advice to Participants on the development and maintenance of good complaint-handling practices.

Address

Level 8, Shamrock House
79-81 Molesworth Street
Thorndon
Wellington

IRD Number

63-250-759

Incorporation Number

2541616

Incorporation Date

29 October 2010

Chartered Accountant

Grant Thornton New Zealand Limited

Auditors

BDO Wellington

Bankers

ANZ Bank Limited
Wellington

Statement of Comprehensive Revenue and Expense

Insurance & Financial Services Ombudsman Scheme Inc

For the year ended 30 June 2016

Revenue from Exchange Transactions	Notes	2016	2015
Complaint Fees		209,666	249,001
Interest Received		53,232	68,883
Levies – Existing Participants		955,555	977,496
Levies – New Participants		868,772	885,081
Levies – Other		80,000	80,000
Workshop Income		12,932	30,726
Total Revenue from Exchange Transactions		2,180,156	2,291,187
Total Revenue		2,180,156	2,291,187
Expenses			
Audit Fees		8,500	8,630
Administration		235,222	213,818
Commission		116,619	121,029
Depreciation and Amortisation		37,892	33,298
Occupancy		245,968	168,298
Professionals and Consultancy		92,113	39,378
Promotion		16,735	24,613
Staff Costs		1,402,237	1,523,531
Total Expenses		2,155,286	2,132,595
Total Expenses		2,155,286	2,132,595
Net Surplus (Deficit) before Tax		24,870	158,593
Taxation			
Income Tax Expense		14,160	18,323
Total Taxation		14,160	18,323
Total Surplus (Deficit)		10,710	140,270
Total Comprehensive Revenue and Expense		10,710	140,270
Total Surplus/(Deficit) Attributable to Members		10,710	140,270

The notes to the summary financial statements form part of and should be read in conjunction with the financial statements.

Statement of Changes in Equity

Insurance & Financial Services Ombudsman Scheme Inc

For the year ended 30 June 2016

Accumulated Comprehensive Revenue and Expense	2016	2015
Opening Balance	1,266,423	1,053,232
Comprehensive Revenue and Expenses		
Surplus for the Year	10,710	140,270
Total Comprehensive Revenue and Expenses	10,710	140,270
Transfers out		
Transfer out to Scheme Review Reserve	(20,004)	(40,008)
Total Transfers out	(20,004)	(40,008)
Transition Adjustments		
Recognition of Deferred Tax Asset on Transition	—	112,929
Total Transition Adjustments	—	112,929
Total Accumulated Comprehensive Revenue and Expense	1,257,129	1,266,423
Scheme Review Reserve		
Opening Balance	40,008	—
Transfers in		
Transfer in from Accumulated Revenue and Expense	20,004	40,008
Total Transfers in	20,004	40,008
Total Scheme Review Reserve	60,012	40,008
Total Equity	1,317,141	1,306,431

The notes to the summary financial statements form part of and should be read in conjunction with the financial statements.

Statement of Financial Position

Insurance & Financial Services Ombudsman Scheme Inc

As at 30 June 2016

Assets	Notes	30 Jun 2016	30 Jun 2015
Current Assets			
Cash and Cash Equivalents		430,700	1,288,016
Receivables from Exchange Transactions		2,859	2,503
GST Receivable		23,083	20,226
Income Tax Receivable		9,130	8,924
Deferred Tax		80,446	94,606
Prepayments		17,074	11,347
Term Deposit		800,000	–
Interest Accrual		1,013	–
Total Current Assets		1,364,305	1,425,622
Non-Current Assets			
Property, Plant and Equipment		57,495	16,426
Intangibles		192,194	88,994
Total Non-Current Assets		249,689	105,420
Total Assets		1,613,994	1,531,042
Liabilities			
Current Liabilities			
Trade and Other Payables		285,241	212,879
Income Invoiced in Advance		11,612	11,731
Total Current Liabilities		296,852	224,611
Total Liabilities		296,852	224,611
Net Assets		1,317,141	1,306,431
Net Assets Attributable to the Owners of the Controlling Entity			
Accumulated Revenue and Expense		1,257,129	1,266,423
Scheme Review Reserve		60,012	40,008
Total Net Assets Attributable to the Owners of the Controlling Entity		1,317,141	1,306,431

The notes to the summary financial statements form part of and should be read in conjunction with the financial statements.

The Chairperson and Ombudsman approved the full financial statements on 31/08/2016

Statement of Cashflows

Insurance & Financial Services Ombudsman Scheme Inc

For the year ended 30 June 2016

Cash from Operating Activities	2016	2015
Cash was provided from:		
Receipts from Subscriptions and Membership Fees	2,126,449	2,219,931
Interest and Dividends	52,219	68,911
Total Cash was provided from:	2,178,668	2,288,842
Cash was applied to:		
Payments to Suppliers and Employees	(2,053,616)	(2,070,605)
Taxation Paid	(206)	–
Total Cash was applied to:	(2,053,822)	(2,070,605)
Total Cash from Operating Activities	124,846	218,237
Cashflow from Investing Activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(72,464)	(68,580)
Purchase of Intangible Assets	(109,698)	(38,187)
Purchase of Investments	(800,000)	–
Total Cash was applied to:	(982,162)	(106,767)
Total Cashflow from Investing Activities	(982,162)	(106,767)
Net Increase/Decrease in Cash Held	(857,316)	111,470
Opening Cash Brought Forward		
Add Opening Cash Brought Forward	1,288,016	1,176,546
Total Opening Cash Brought Forward	1,288,016	1,176,546
Ending Cash to Carry Forward	430,700	1,288,016
Bank and Cash/(Bank Overdraft)	430,700	1,288,016

The notes to the summary financial statements form part of and should be read in conjunction with the financial statements.

Notes to the Summary Financial Statements

Insurance & Financial Services Ombudsman Scheme Inc

For the year ended 30 June 2016

1. Reporting Entity

The Insurance & Financial Services Ombudsman Scheme Inc ("the IFSO Scheme") is an incorporated society registered under the Incorporated Society Act 1908.

The IFSO Scheme's principal powers and duties are:

- (a) to resolve Complaints arising out of the provision of Financial Services by a Participant in a way that is accessible, independent, fair, accountable, efficient and effective; and
- (b) to promote and publicise the IFSO Scheme to consumers and small businesses and to encourage and provide advice to Participants on the development and maintenance of good complaint-handling practices.

On the 25 June 2015 the Insurance & Financial Services Ombudsman Scheme Incorporated changed its name from the Insurance & Savings Ombudsman Scheme Incorporated.

The full set of financial statements have been approved and were authorised for issue by the IFSO Scheme Commission on 31 August 2016

2. Statement of Compliance

These summary financial statements do not include all the disclosures provided in the full financial statements and cannot be expected to provide as complete an understanding as provided by the full statements.

Specific disclosures included in the summary financial statements have been extracted from the full set of financial statements. No information has been restated or reclassified in the preparation of the summary financial statements.

The IFSO Scheme's full set of financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). A full set of financial statements are available at request and are available by contacting info@ifso.nz.

The full set of financial statements comply with Public Benefit Entity International Public Sector Accounting Standards ("PBE IPSAS") and other applicable financial reporting standards as appropriate that have been authorised for use by the External Reporting Board for Not-For-Profit entities. For the purposes of complying with NZ GAAP, the IFSO Scheme is a public benefit not-for-profit entity and is eligible to apply Tier 2 Not-For-Profit PBE IPSAS on the basis that it does not have public accountability and it is not defined as large. The Commission has elected to report in accordance with Tier 2 Not-For-Profit PBE Accounting Standards and in doing so has taken advantage of all applicable Reduced Disclosure Regime ("RDR") disclosure concessions.

The full set of financial statements have been audited by BDO Wellington and a unqualified opinion was issued.

3. Effect of first-time adoption of PBE standards on accounting policies and disclosures

For the year ended 30 June 2015, the IFSO Scheme prepared its financial statements using the New Zealand Financial Reporting Standards ("NZFRS"). These have been restated to Not-For-Profit PBE IPSAS-RDR.

There have been no restatement of financial results except for the effect of deferred tax recognition (see note 6) and the main effects of the transition has been layout and disclosure.

Further commentary and explanation follows.

Exchange and Non-Exchange Transactions

Revenue from Non-Exchange Transactions

PBE IPSAS 23 prescribes the financial reporting requirements for revenue arising from non-exchange transactions. There is no equivalent financial reporting standard under NZ FRS.

A non exchange transaction is one in which the IFSO Scheme either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Revenue from Exchange Transactions

An exchange transaction is one in which the IFSO Scheme receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

4. Summary of Accounting Policies

The significant accounting policies used in the preparation of these summary financial statements as set out below have been applied consistently to both years presented in these summary financial statements.

4.1 Basis of Preparation

These summary financial statements have been prepared on the basis of historical cost, as modified by the fair value measurement of non-derivative financial instruments and land and buildings which are measured at fair value.

These summary financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

4.2 Functional and Presentational Currency

The summary financial statements are presented in New Zealand dollars (\$), which is the IFSO Scheme's functional currency.

5. Events after the reporting date

The Commission and management are not aware of any other matters or circumstances since the end of the reporting period, not otherwise dealt with in these summary financial statements that have significantly or may significantly affect the operations of the IFSO Scheme (2015: \$Nil).

6. Explanation of the transition to PBE IPSAS

The IFSO Scheme's summary financial statements for the year ended 30 June 2016 are the first annual financial statements prepared in accordance with NZ PBE IPSAS. The IFSO Scheme's transition date is 1 July 2014 and it has prepared its opening PBE IPSAS Statement of Financial Position from this date.

The new Accounting Standards Framework consists of a two-sector, multi-tier structure with different accounting standards applying to each tier. The two sectors are the For-Profit sector and the Public Benefit Entity (PBE) sector, the latter of which includes public sector entities, not-for-profit entities, and the subset of those; registered charities.

The new framework has resulted in PBEs shifting from old GAAP to the new PBE IPSAS regime. Recognition and disclosure differences between the two frameworks is outlined above in note 3.

6. Explanation of the transition to PBE IPSAS (continued)

Opening accumulated revenue and expense (as at 1 July 2014) under old GAAP	1,053,232
Recognition of Deferred Tax – on Accumulated Losses	112,929
Closing balance accumulated revenue and expense under PBE IPSAS RDR (as 1 July 2014)	1,166,161
Opening accumulated revenue and expense (as at 30 June 2015) under old GAAP	1,211,825
Initial Recognition of Deferred Tax – 1 July 2014 Movement	112,929
Recognition of Deferred Tax – 2015 Movement	(18,323)
Closing balance accumulated revenue and expense under PBE IPSAS RDR (as 30 June 2015)	1,306,431
PPE Reconciliation	
Opening PPE (as at 30 June 2015) under old GAAP	67,232
Less Transferred to Intangibles	(88,994)
Work In Progress – CRM	38,187
Closing PPE under PBE IPSAS RDR (as 30 June 2015)	16,425
Intangible Reconciliation	
Opening Intangibles (as at 30 June 2015) under old GAAP	0
Plus transferred from PPE	88,994
Closing PPE under PBE IPSAS RDR (as 30 June 2015)	88,994



INSURANCE & FINANCIAL SERVICES
OMBUDSMAN

The IFSO Scheme

Website: www.ifso.nz

Information email: info@ifso.nz

Freephone: 0800 888 202