CENTREPOINT ALLIANCE

COSTLY MISSTEPS: REDUCING THE IMPACT OF ERRORS

FEBRUARY 2025

LEARNING OUTCOMES

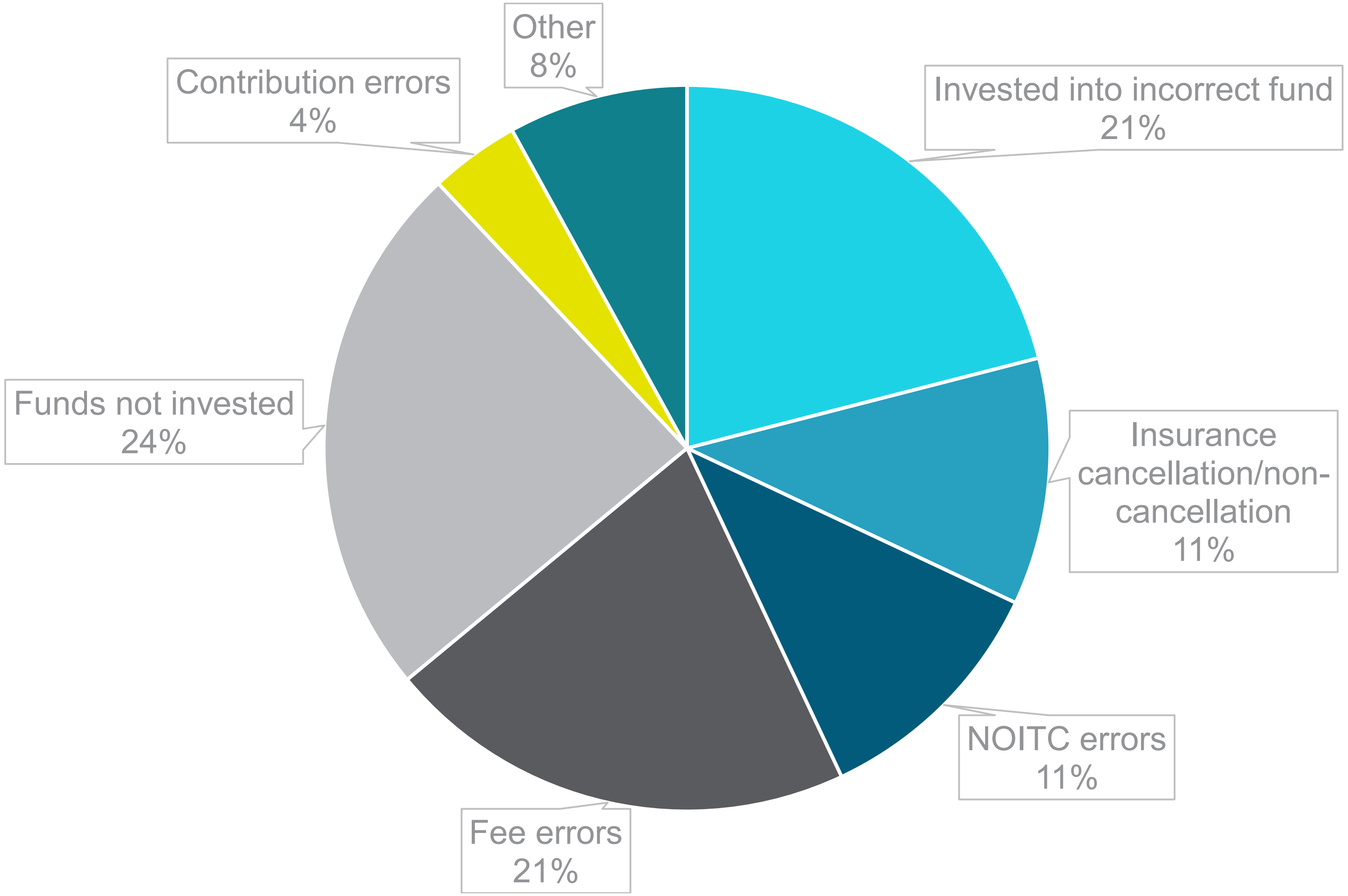
- List common implementation and administration errors
- Examine the root causes of these errors
- Describe the potential consequences of these errors
- Be able to respond to errors
- Develop procedures to detect and prevent errors and client losses

POLLING QUESTION

What is the most common implementation and/or administration error?

A. Incorrect or duplicate fees charged
B. Investment in the incorrect fund
C. Failure to invest funds (funds remaining in cash)
D. Failure to lodge a notice of intent to claim with the super fund

IMPLEMENTATION AND ADMIN ERRORS



THE IMPORTANCE OF ERROR PREVENTION

Protects clients from financial losses

Improves customer satisfaction and loyalty

Protects reputation

Improves compliance and strengthens processes

Improves efficiency and profit

Causes financial losses for clients

Erodes client trust

Damages reputation

Regulatory consequences, reporting and penalties

Time and cost of remediation

IDENTIFICATION

ASIC Reportable Situations

- 28% of reports with customer losses were identified by the customers
- Breaches are taking 1 year+ to identify
- Monitoring needs to be strengthened for proactive and early identification

- Centrepoint is seeing firms self-reporting with errors are commonly identified during the annual review process
- Client complaints at tax time, claim time etc.

ROOT CAUSES

Staff negligence and/or error was identified as the root cause of 60% breaches reported to ASIC in 2023/24 FY

ASIC urges licensees to consider underlying causes such as process, policy or systems failures that may be contributing.

Factors identified by advisers/licensees as contributing to errors include:

- Workload – more prevalent in single AR firms
- Lack of support / resourcing
- Limited supervision of staff
- Lack of clear processes or failure to follow
- Lack of training
- Staff unaware of risks
- Advisers completing unfamiliar tasks
- Personal/mental health and stress
- Rushing

CASE STUDY

Recommendation was to make a concessional contribution to super to reduce a capital gains tax liability.

A NOITC form was completed by the client but not sent to the super fund.

When they completed their tax returns it was discovered the form had not been lodged.

Other examples:

- NOITC form lodged in error for a non-concessional contribution
- NOITC form submitted before the contribution was made
- Did not confirm the NOITC was received before withdrawal
- Rollover completed before the NOITC lodged

POLLING QUESTION

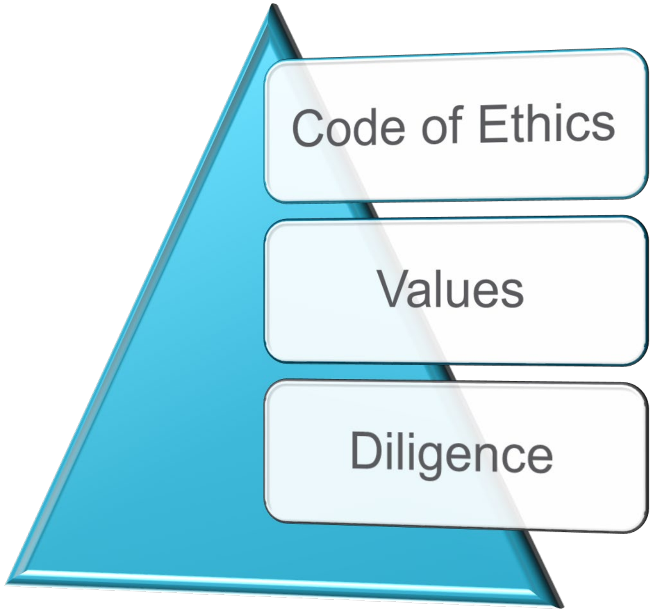
When is an implementation or administration error reportable to ASIC?

A. Always
B. If there is material loss or damage to clients
C. If there is a financial loss to clients
D. Never

REGULATORY CONSEQUENCES

- If the breach results in material loss or damage to the client the matter is reportable to ASIC.
- Reportable breaches must also be disclosed to prospective licensees as part of reference checking requirements
- ASIC may refer matters to the Financial Services and Credit Panel (FSCP) such as:
  - Misconduct - failure to act in the client's best interests
  - Compliance failures e.g. not providing an SoA
  - Breaches of the Code of Ethics
- The FSCP can direct advisers to undertake training, undergo additional monitoring, suspend or prohibit registration, issue infringement notices, warnings or reprimands.
- In serious cases, the FSCP may publish the adviser's name or add details to the FAR.
- 26 matters have been referred to the FSCP since 2023.

CODE OF ETHICS



- Exercise due care and skill in everything that you do for clients
- Manage your time and resources to deliver services in a timely, efficient and cost-effective way
- Ensure processes are efficient and performed adequately and competently

COSTS

- Compensate clients/rectify errors
- Potential legal costs to respond to ASIC or FSCP
- Remediation costs including licensee compliance improvement programs and/or FSCP directions
- Lost revenue and/or clients
- Cost of lost time
- PI excess or Adviser contribution towards claims

There was financial loss to customers in 28% of all breaches reported.

In over a quarter of all reports, losses were $10,000 or more.

30% of implementation / admin errors resulted in a material loss to clients

COMPENSATION

$7,400
Switched advice fees from bank account to product and did not cancel DDR

$5,800
Funds not invested as recommended and remained in cash for 12 months

$27,000
Failed to cancel insurance. 7 years of premiums repaid.

$6,000
Refund of fee overcharged. Annual fee was entered instead of monthly on consent form.

$30,000
NOITC not lodged before rollover.

$21,000
Non-OFA client. Recommendations from advice given 3 years ago was not implemented.

$19,000
Recontribution strategy where funds were not invested. Discovered 9 months later

$49,500
Excess contributions tax Support staff ticked that the member intended to claim. Was supposed to be NCC.

CASE STUDY

Super rollover and replacement IP insurance was recommended. Applications were made for insurance which was declined by the insurer.

The adviser then recommended retaining the existing insurance and a partial rollover.

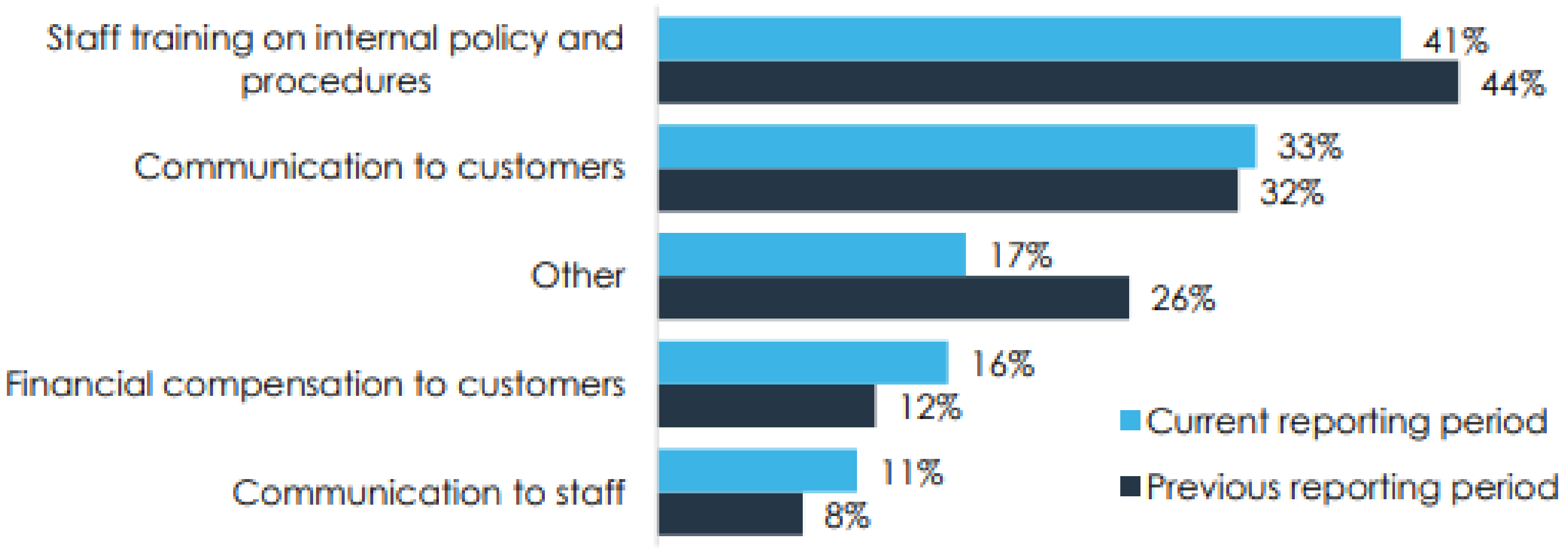
However, the support staff had already requested the full super rollover. The insurer declined to reinstate the insurance.

How would you calculate the loss?

- It is unknown if or when the client might make a claim
- It is unknown how long the client may be on claim
- Options may include negotiating a payment now or undertaking to pay in future.
- Pros and cons to both options for all parties – client, adviser, licensee

RECTIFICATION

Figure 10: Top-five rectification methods as a percentage of total reports, by reporting period



Note 1: More than one rectification method can be selected in a report.
Note 2: For the data shown in this figure, see Table 23 (accessible version).

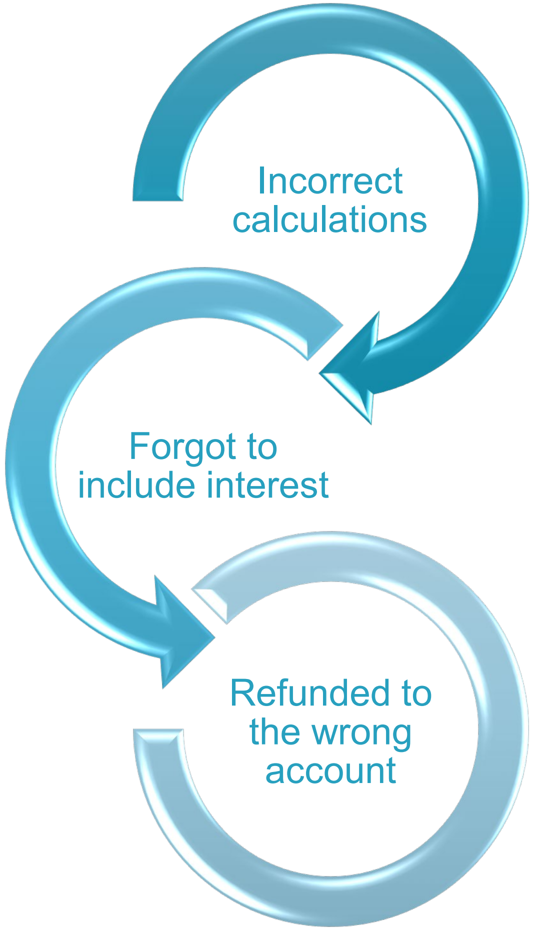
POLLING QUESTION

If you discover an implementation or admin error, what should you do?

A. Apologise to the client for your error
B. Immediately compensate the client for the loss
C. Contact the licensee
D. All of the above

TIPS

- Do contact your licensee
- Don’t take action before the licensee has investigated
- Don’t compensate the client before you speak to your licensee
- Do confirm calculations with the licensee



CASE STUDY

The client was advised to rollover their super to a new fund. The rollover was completed by the practice.

At the client's next review, a portfolio review was conducted and the practice discovered that the funds had not been invested and had remained in cash since the rollover.

What would be the appropriate rectification?

- Contact the licensee
- Invest the funds
- Calculate the position the client should have been in if the funds had been correctly invested.
- Compensate the client – payment into super

PREVENTION / DETECTION

- 2 person checks for high-risk transactions
- Implementation checklists
- Technology/workflows
- Staff training
- Increased supervision
- Monitor revenue
- Client education

CASE STUDY

At the client's annual review, they agreed to an increase in their ongoing fee. A new direct debit was set up through Ezidebit for the new fee.

12 months later when the FDS was prepared, it was discovered that the old fee had not been cancelled and there were 2 direct debits each month.

What could have prevented this error?

- Staff training on the Ezidebit
- Procedure or checklist etc that reminds you to cancel the existing direct debit

How could the practice have identified this error sooner?

- Monitoring revenue to identify unusual revenue
- Post implementation check

Why has the risk of this error increased?

- Removal of FDS

SUMMARY

Incidents and breaches are increasing

Costs can be significant

Consequences can be serious

Prevention and early detection is critical

Thank you