

Financial Ombudsman Service Limited

MINUTES

MINUTES of the meeting of the directors, held at Exchange Tower, 1 Harbour Exchange, E14 9SR on Wednesday 18 March 2015, at 09.00

Present	Nick Montagu (NM)	chairman
	Gerard Connell (GC)	director
	Alan Jenkins (AJ)	director
	Maeve Sherlock (MS)	director
	Pat Stafford (PS)	director
In attendance	Caroline Wayman (CW)	chief executive and chief ombudsman
	Julia Cavanagh (JC)	chief finance officer
	Chris McDermot (CMcD)	chief operating officer
	Alison Hoyland (AH)	board secretary & head of CEO's office (minutes)
	Mike Harris (MH)	head of strategic analysis (for item 5)
	Caroline Wood (CWo)	chief of staff (for item 6)
	Paul Mills (PM)	head of governance and risk (for item 7)

Apologies for absence

Apologies were received from Gwyn Burr.

1-4/1503 Board minutes

The Board approved the note of the meeting held on 18 February 2015.

Matters arising

Matters arising were picked up in the substantive business before the Board.

Chairman's opening remarks

The chairman provided an update on ombudsman business in which he had been engaged since the last Board meeting, including:

- his meeting with the chairman of FCA, John Griffith-Jones, and on the same day, his and the chief executive and chief finance officer's meeting with the FCA oversight committee, as part of the budget approval cycle;
- finalising the non-executive recruitment arrangements (since advertised in the Sunday Times on 8 March); and
- his participation in the service's inclusion week, including his talk at the opening session

Chief ombudsman and chief executive's update

The chief executive updated the Board on a number of organisational developments since the last meeting, including:

- a wide range of external engagement activities, including attendance at the FCA oversight committee (with the chairman and the chief finance officer) and meetings with relevant government departments;
- the current status of litigation cases of note; and
- her participation in the service's inclusion week, including opening and closing the event

At its February meeting, the Board reviewed the latest budget assumptions, including in the light of consultation feedback and the view some held that packaged bank account (PBA) case volumes could be higher than forecast. Respondents were unable to quantify the likely level of PBA cases, however, so it was agreed that an analysis of a range of different PBA complaint volume scenarios would be helpful in finalising the budget and plans.

The analysis supported a central assumption which anticipated the ombudsman receiving around 30, 000 PBA cases next year, up from 18, 000 cases in the consultation. The Board noted, though, that there remained a degree of uncertainty about the forecasts here, not least as much would depend on external factors such as the behaviour of claims management companies and how financial businesses themselves handled the complaints.

These uncertainties aside, the ombudsman service was confident that at the level anticipated in the central assumption for new PBA cases, it would be able to deal with the increased demand without having to increase its budget envelope, through a combination of its policy and engagement work (including with businesses and CMCs) and by ensuring that its operational response was effective and responsive.

The Board sought assurance about the service's ability to respond to higher volumes still, and was satisfied that even if volumes were such that the ombudsman service concluded that it needed to increase its resources, it would be able to do so within the budget envelope set for 2015/16 through robust cost management, and effective prioritisation of spend to meet areas of demand as they arose. Ultimately, of course, the ombudsman also had its reserves that it could draw on in circumstances where the volumes of new cases were significantly higher, and cost management and demand prioritisation were not enough.

While increasing the volumes of expected PBA cases would not impact the cost base, it would have an effect on the contribution that group fee payers would need to make to the ombudsman's income. As some of the group fee participants were not involved in PBA sales, the group-fee arrangements would now include an increase in the number of free cases to ensure that these businesses were not unfairly impacted.

In other areas, the Board noted the upcoming pension changes, and the work the ombudsman service was doing to ensure that it was able to best anticipate what work might come its way as a result, including engaging with relevant stakeholders in the industry.

The Board was satisfied that the final preparations had been robust and supported the proposed plans and budget for 2015/16, and so, subject to approval by the FCA where relevant, it approved:

- the final budget for 2015/16;
- the associated FEES rules; and
- publication of the budget, our feedback statement and 'our plans for the year ahead'.

At its February meeting, the Board had reviewed a high level framework for the way in which the ombudsman service would assess how it was doing against its key commitments (central to which was the level of service it was providing to its customers), to ensure that there was a shared understanding internally of the commitments and what was required to achieve them, as well as to provide assurance to the Board.

Following the Board review, the executive undertook to develop the detailed measures and underlying analysis further and bring the performance framework back to the March Board for a final review and sign-off in time for the beginning of the next financial year.

In reviewing the final framework, the Board noted that the reality of the current PPI caseload (volumes and an increasing number of more complex cases), together with the

uncertainties created by external factors, meant that people would still be waiting far longer for an answer to their PPI case than anyone would like, including the ombudsman service itself. The ombudsman service was determined though to do all that it could to reduce waiting times, and the Board would continue to monitor consumers' experiences here, further detail on which would be provided in the detailed supporting analysis.

Subject to one or two refinements to some of the specific measures and the provision of some additional analysis in the supporting management information, the Board was content to sign-off the final performance framework.

7/1503

Risk

fos/15/03/07

As part of its annual review of the corporate/strategic risks, the Board had asked that a framework be developed for monitoring unforeseen events that might give rise to significant organisational damage, including to reputation. While the Board recognised that poor management of, and ineffective mitigation measures for, the key corporate risks themselves could give rise to such a risk, a discrete framework would provide an additional means by which the ombudsman service could seek to make sure that it was able to respond flexibly and thoughtfully to such an eventuality.

A framework had been developed for these purposes, therefore, to supplement the day to day steps the ombudsman service already took to assess and guard against such risks. The framework looked at external events, including where other organisations had been effected, and provided a basis against which the ombudsman was able to assess its own susceptibility and ability to respond.

The Board agreed that the framework was a useful means by which the ombudsman service could satisfy itself that it had appropriate controls and response measures: it thought that it was also an effective check and balance on an organisation's culture and value-set and that it had highlighted the need to ensure that such risks were not only seen through the lens of whether or not rules or procedures had not been followed, but whether an organisation had acted 'fairly' and 'done the right thing'.

In concluding its discussion, the Board suggested that it might undertake a similar exercise again as part of a future away day.

8/1503

Board sub-committees

fos/15/03/08

The Board reviewed proposals to establish:

- a task-specific ad hoc committee to sign-off the 2014/15 directors' report and financial statements
- separate remuneration and nomination committees

On establishing a board sub-committee to sign-off the 2014/15 directors' report, the timing of the Board meetings, together with the timetable for laying the report in Parliament, supported such an approach: it was also consistent with the Board's last effectiveness review and recommendations around ensuring a good use of Board time and an appropriate balance between strategic and assurance Board business.

A key consideration, however, was whether or not the Board could be satisfied that this approach would not reduce the level of scrutiny that would normally be applied. The Board noted that as part of the annual cycle for signing off the directors' report and financial statements, the Board relied on a detailed review by the audit committee and its recommendations for approval. The audit committee would continue to undertake its detailed review, and was due to do so in June. The Board had also previously agreed to delegate final sign-off to the chairman following the Treasury's review and again, this would be a step that would need to be taken this year. Lastly, the papers for the meeting would be sent to all Board members, and all

Board members would have the opportunity to comment, including on the text of the report and financial statements themselves.

On splitting the nominations and remuneration committee, the Board had already agreed to this in principle, partly in response to the last Board effectiveness review; and that the chairman should chair the Nominations, but not the Remuneration, Committee.. The main impetus for acting now was that ombudsman service was going through a period of considerable change. This placed a heightened emphasis on organisational culture, attraction, retention and succession, as well as on securing the right skills and expertise and ensuring the right training and development support - at all levels, from the Board, to the executive and senior management, to the rest of the service. Separating the committees would allow sufficient time for focussed discussions on these and other areas, and a better balance between remuneration and nominations business.

In the light of assurances that the level of scrutiny would not be diminished, the Board agreed to the establishment of an ad-hoc committee to sign-off the 2014/15 directors' report and financial statements.

It also agreed to the establishment of separate remuneration and nomination committees, satisfied that this would provide for a better balance between remuneration and nominations business and more focussed discussions.

The terms of reference for the committees were also agreed, subject to some minor amendments, and the membership of the committees would be finalised in due course.

Any other business

The Board noted that it may need to convene additional meetings, including by telephone conference, to facilitate the rule making process, in circumstances where the timing of its and the FCA's Board meetings were incompatible.

The meeting ended at 12.00.