Financial
Ombudsman
Service

our plans and budget for 2012/2013


a consultation paper

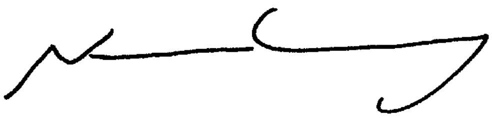
January 2012

our plans and budget for 2012/2013: a consultation paper

Each year at the Financial Ombudsman Service we consult our stakeholders on our *plans and budget* for the coming year. This consultation is important to us. As a "demand led" service, funded by the financial services industry, we need to ensure that we use the insight of our stakeholders to help us plan for the challenges ahead.

In preparation for this consultation, we have already spoken with trade associations and financial services practitioners about the plans in this document, and we will shortly be speaking with consumer groups as well. And we will continue to consult with our stakeholders before finalising our budget for 2012/2013 in March 2012.

This consultation document explains our plans for the 2012/2013 financial year against the background of what has happened so far in the *current* financial year (2011/2012). We look forward to hearing your feedback on what we are doing and how we are planning to meet the significant challenges that lie ahead.



Natalie Ceeney CBE
chief ombudsman and chief executive

January 2012

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responses

We welcome your feedback on our *plans and budget for 2012/2013*.
Please send your views and comments – to reach us by Monday 20 February 2012 – to: adrian.dally@financial-ombudsman.org.uk. Or write to:

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We may want to publish the responses we receive to this consultation paper. In the interests of openness, we encourage *non*-confidential responses.

Information provided in response to this consultation, including personal data, may be subject to publication, disclosure or release to third parties – in order to comply with the *Freedom of Information Act 2000*, to which we are subject.

It would be helpful if you could tell us why you might consider the information you have provided us with to be confidential, so that we can take this into account before deciding whether to release it. We cannot guarantee that confidentiality can always be maintained. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the service.

“settling disputes, without taking sides … ”

“… using our insight to help prevent future problems”

The Financial Ombudsman Service was set up by law to resolve individual disputes between consumers and financial businesses – fairly, reasonably, quickly and informally.

We can look at complaints about a wide range of financial and money matters – from insurance and mortgages to investments and credit.

If a business cannot resolve a consumer’s complaint, we can step in to settle the dispute. We are independent and impartial. When we decide a complaint we look carefully at both sides of the story and weigh up all the facts.

If we decide a business has treated a consumer fairly, we will explain why. But if we decide the business has acted wrongly – and the consumer has lost out – we can order matters to be put right.

We are constantly looking for ways of improving how we can resolve cases to the highest professional standards.

Best practice in complaints handling includes learning lessons when dissatisfaction and disputes arise. This means we have a crucial role in sharing insights from the complaints we see. This gives consumers greater confidence in financial services and helps businesses prevent future problems, by learning from situations where things have gone wrong.

In the chapters that follow, we would like our stakeholders to see:

- what we have been doing, and are planning to do, to meet the demands on our service;
- that we are committed to providing value for money; *and*
- how we plan to continue to improve the service we provide.

chapter 1: executive summary

In this consultation paper we set out:

- how we are dealing with the current demand on our service – and the operational and financial implications for the current year (2011/2012);
- our plans for the future, as we look ahead to 2012/2013;
- the expected demands on our service in 2012/2013; *and*
- the operational and financial implications for 2012/2013.

The Financial Ombudsman Service continues to see significant volatility in its caseload – and in particular in the volume of payment protection insurance (PPI) disputes, which we expect to increase significantly.

Chapter 2 of this document gives an overview of the current financial year, outlining how the different types of financial products involved in the complaints we see has continued to change over the last year. It also explains how other trends are likely to affect our future workload, such as the continued shift towards more complex and harder-fought cases.

Chapter 2 also explains how dealing with the volatilities in the volume of PPI cases has had a financial – as well as operational – impact on our service over the past year. These volatilities are the latest example of the impact that so-called "mass claims" can have on our service, requiring us to deliver solutions that deal with the particular issues that these cases present.

In last year's *plan and budget* we set out ambitious plans for the future, to ensure that we continue to develop our levels of service in line with the expectations of our users and stakeholders.

Chapter 3 provides an update on how we have been implementing these plans. At their heart, these plans focus on our delivering a trusted, fair and high-quality service, that is open to everyone and committed to the professional development of our people, with enhanced knowledge-management systems, and a better capability to share our insight and information with our stakeholders.

We expect the demands on our service in 2012/2013 and beyond to be challenging.

In Chapter 4 of this document we set out the levels of demand we expect to deal with in the next financial year (2012/2013) – in terms of the numbers of enquiries and new cases, and the types of financial products involved.

The chapter also explains the particular challenges of our PPI caseload, which accounts for more than half our workload. PPI case volumes are volatile and difficult to predict – as are the responses of financial businesses and consumers. We believe we need to increase substantially our current and future capacity, so that we are able to maintain our service to users in these challenging circumstances.

Chapter 5 gives more detail about our financial plans for 2012/2013. These plans are based on our aim to freeze the amount of the standard case fee – and the total underlying levy – for the third year running. Given inflationary and other pressures, this is likely to be the last year in which we can achieve this.

This chapter also sets out further details of a new supplementary case fee for PPI complaints that we propose introducing from April 2012. This is to enable us to gear up to deal with a substantially increased PPI caseload next year – while ensuring that those *not* involved in selling PPI do not have to meet the costs that large volumes of PPI disputes will generate.

We are keen to hear from all our stakeholders on:

- Our plans for developing our service (as set out in chapter 3) – and what stakeholders believe our priorities should be in the coming period.
- The volumes of new cases that stakeholders expect to be referred to us – and whether the assumptions we have made for volumes of new cases seem reasonable.
- The volumes of complaints about PPI sales that stakeholders believe we will receive, and whether our plans for dealing with these cases are realistic.
- Our proposals to freeze the levy and standard case fee – and to introduce a supplementary PPI case fee.

We would like to hear your feedback on our *plans and budget* for 2012/2013. Your views, thoughts and comments on this consultation paper will help us to finalise the budget we put to the Financial Services Authority (FSA) – for its approval in March 2012.

Please send responses to us by Monday 20 February 2012. Our contact details are on page 3.

chapter 2: overview of the current financial year so far (2011/2012)

In this chapter:

- We look at how we are dealing with the current demands on our service – and the operational and financial implications nine months into the current financial year (2011/2012).
- We provide stakeholders with details of the trends we are seeing so far – and how we anticipate these trends are likely to continue into 2012/2013.

overall case volumes so far in 2011/2012

We are a "demand led" organisation. This means that forecasting the volumes of complaints likely to be referred to us is a crucial part of our planning. This is why we consult stakeholders each year on the number of new cases we expect to receive, and whether the assumptions we propose to make seem reasonable.

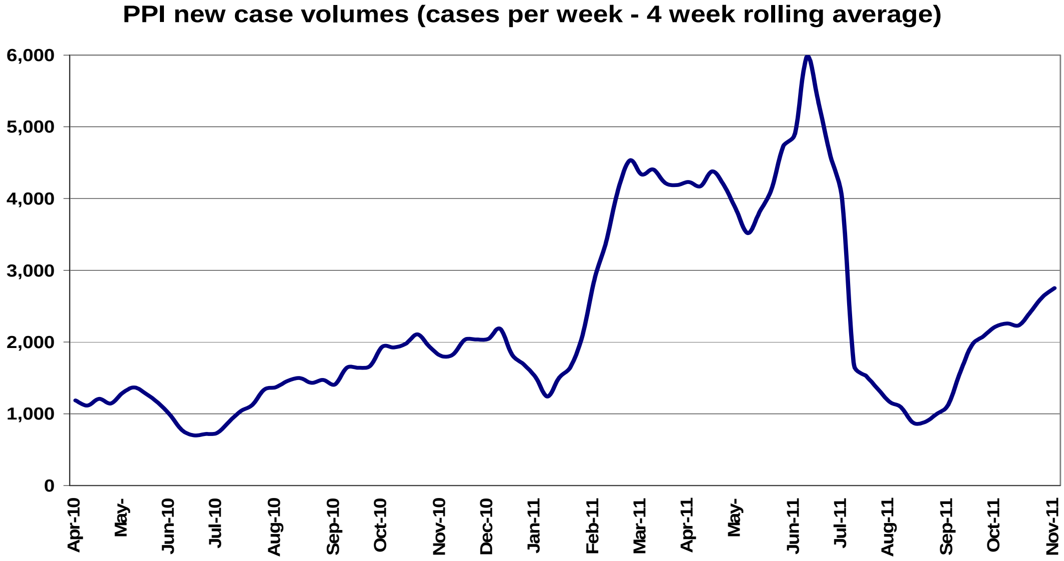
When we consulted on our plans for 2011/2012, we proposed working on the assumption that the "base" number of new cases we would receive in the year – other than PPI cases – was likely to be similar to the previous year. This number was 105,000 cases *plus* or *minus* 15%.

Almost everyone from the financial services sector who responded to our consultation said that this was a reasonable assumption on which to work. But they also said – and we agreed – that there was an element of uncertainty in this area.

Nine months into the year, it looks as if this was indeed a reasonable assumption on which to work. On current trends, we expect to receive around 114,200 new cases in the year (other than PPI cases) – 9% more than our central assumption but within our *plus* or *minus* planning tolerance.

However, there have been significant changes in the *types* of financial products involved in our *non*-PPI casework. For example, general insurance cases are up a third on last year – while current-account complaints are down by 20%. There are more details about these numbers at *annex A.*

There has been substantial volatility in the number of PPI cases we have received so far during the year.



In October 2010 the British Bankers Association (BBA) issued judicial review proceedings – principally against the FSA in relation to its PPI complaints-handling guidance, but also involving the ombudsman service in relation to guidance on our website. Some financial businesses with substantial numbers of PPI complaints stopped considering these cases, while waiting for the outcome of the judicial review.

This led to a very sharp increase in the number of PPI cases being referred to the ombudsman service. However, the judgment in the High Court in April 2011 upheld the position that we and the FSA had taken. Following this clear judgment, the BBA decided not to continue with its legal proceedings.

With any legal uncertainty resolved, the FSA gave the businesses concerned a deadline for resolving the backlogs of cases that they had not progressed during the judicial review. Some businesses were also given more time by the FSA to resolve *new* cases that they had received *after* the judgment.

This initially led to a significant decrease in the number of cases referred to the ombudsman service. But that decrease has now been reversed, as businesses have started making progress in dealing with their backlogs of complaints – and increasing numbers of consumers, unhappy with the outcome of those complaints, have subsequently referred their cases to us. This number of cases referred to us looks set to rise further.

Based on current trends, we expect to receive around 145,000 new PPI cases during 2011/2012. This is more than double the number we assumed when we set the budget for 2011/2012 – on the basis that we would receive 60,000 PPI cases. However, as we pointed out last year, the key uncertainty at that stage was what would happen to complaint volumes, and how businesses and consumers would respond, once the outcome of the legal challenge was known.

trends in product type so far in 2011/2012

During the year the types of issues and financial products involved in the cases we see (the so-called "case mix") have continued to change – and in many cases have become more complex. And while the overall case volumes are within the "*plus* or *minus* 15%" budget that we set, there have been significant movements within the different categories of complaint, which have added to our operational challenge.

complaints involving banking and credit

Apart from PPI, complaints involving banking and credit (including mortgages) continue to make up our largest area of work. There has been some improvement in the way some financial businesses are handling these types of complaints. We believe this may be a response both to our publishing complaints data naming individual businesses *and* to regulatory action taken by the FSA. However, there has still been a 9% increase in the number of these types of cases, compared to 2010/2011. This increase is within the tolerance we had planned for. And on current trends, we expect to receive around 71,000 new cases relating to banking and credit in 2011/2012.

A key factor in this increase is the rise in cases where consumers are experiencing financial pressures – and expect additional help and flexibility from their lender, in particular in relation to mortgages. With lenders focused on reducing their overall costs, this is leading to a widening gap in terms of finding common ground for informal settlements. This is likely to make these types of cases increasingly complex to resolve.

We have also seen a reduction in the number of cases referred to us involving so-called "default charges" on credit cards. As these cases are generally more straightforward and quicker to resolve, this has had a negative impact on our productivity and financial position (see chapter 5).

complaints involving motor and general insurance

Complaints about motor and general insurance have increased significantly so far during 2011/2012. Based on current trends, we expect to receive around 28,100 new cases during the year – an increase of 34% compared to 2010/2011 – and well beyond the tolerance we had planned for.

Reasons for this increase include a rise in complaints about home and domestic emergency insurance and more disputes about the way that major motor-insurers handle claims. We have also seen growing tension between the expectations of consumers and the drive by insurers to minimise costs. Because this tension cannot be resolved easily, an increasing proportion of deeply-entrenched disputes are being escalated to an ombudsman for a final decision – as the final stage of our complaints process.

complaints involving investments

The number of cases relating to investments – including pensions and mortgage endowments – has declined slightly against a backdrop of volatile market conditions. By the end of the year we expect to have received around 15,100 investment-related cases – a decline of 3% compared to 2010/2011.

As in some other areas, a factor in this decline has been evidence of improved complaints handling on the part of some businesses – which is resulting in fewer complaints being referred to us.

However, we also continue to see a significant number of investment-related complaints involving consumers who found they had invested in products which carried greater levels of risk than they had anticipated – sometimes involving the sale of highly unsuitable products to elderly or inexperienced investors. In these cases the complaint is typically that the underlying investments did not match the descriptions the consumer was given. These cases tend to be complex and take time to assess and resolve.

resolving cases in 2011/2012

Over the year we have continued to work hard to reduce the length of time that consumers and businesses wait to have their cases resolved. As the table below shows, we have found it challenging to build on the significant improvements we made last year.

This is largely because of the changes in the types of cases referred to us. Improvements by some businesses in the way they handle cases themselves, as well as a decline in more straightforward cases involving credit-card charges, have also reduced the number of cases that we can expect to resolve promptly. On the other hand, we have seen an increase in volumes in some specialist complaint areas, where we have needed to recruit more staff.

During the year we experienced significantly higher levels of staff turnover, as banks and others recruited large numbers of contractors to handle their own PPI complaints. Regrettably, this affected our levels of service at a time when incoming case volumes were increasing. Our work to recruit and train new staff, to replace these leavers, has placed a significant challenge on our service – but has been successful. We expect our staff-retention and productivity rates to improve in 2012.

We have also continued with our plans to eradicate the small number of cases that take more than 18 months to resolve. We should come close to meeting this target by the end of the 2011/2012 financial year. These plans have become more challenging, as cases have typically become harder fought both by businesses and consumers – with more entrenched disputes now being escalated to an ombudsman for a final decision.
We have increased the size of our panel of ombudsmen to deal with this.

our timeliness *(excluding PPI cases)*	resolved within 3 months	resolved within 6 months	resolved within 12 months
2009/2010	36%	62%	81%
2010/2011	47%	75%	88%
so far in 2011/2012	41%	73%	86%

The increasing volumes of PPI cases continue to present us with a significant challenge. During 2011/2012 we have received PPI complaints at more than double the rate that was budgeted for – and the numbers referred to us continue to rise. PPI cases now account for three fifths of our total workload.

We expect the current levels of PPI complaints to continue over the medium term.
This has both a financial and operational impact on our service. It is the latest example of how so-called “mass claims” can impact on us, requiring us to deliver solutions that have to be specially adapted to the particular circumstances (see chapter 5 below).

our financial performance in 2011/2012

We are currently anticipating an operating surplus of around £6.6m at the end of our 2011/2012 financial year. However, this surplus masks significant volatility in our costs and funding during the year.

The key financial volatility came from the fluctuations in our PPI caseload. During the second quarter of 2011/2012 we were able to close a large number of cases, as businesses agreed to settle complaints that had been delayed by the judicial review.

However, this was a temporary situation. The current position – and the forecast for 2012/2013 and beyond – is considerably less favourable, as the costs of dealing with our PPI caseload significantly exceed the income we expect to receive on the basis of the current charging structure. Chapter 5 explains how we plan to use the forecast surplus to invest in solutions that deal with the unique characteristics of the PPI issue – and to levy a new PPI supplementary case fee, to make these solutions sustainable.

We have continued our cost-cutting programme during 2011/2012. This has involved reducing our underlying cost base by 10%. We have done this through a variety of measures across both our PPI and *non*-PPI areas, including re-negotiating contracts, developing a new system of procurement, internal restructuring, and introducing a new framework for recruiting a proportion of our adjudicators as contractors.

As part of our programme of three-yearly external reviews, we invited the National Audit Office (NAO) to carry out an independent review of our efficiency. We expect this review to be published early in 2012.

our people

Our people are our primary resource. We rely on their skills, expertise and professionalism to decide cases in ways that are, and are seen to be, fair and reasonable in the unique circumstances of each case.

We have needed to recruit and train a significant number of new adjudicators during the year. In doing so, we have used a new framework for recruiting some adjudicators on a contractor basis. This has given us greater flexibility to deal with the volatilities in the numbers and types of cases referred to us. We have also invested heavily in the professional development of our adjudicators.

Inevitably, the skills of our adjudicators have made them very attractive to a number of financial businesses who are dealing with PPI challenges of their own. We have found it challenging to compete against the remuneration packages offered by some of those businesses. The higher levels of adjudicator turnover during 2011/2012 as a result of this have added to our recruitment and operational challenges.

This has also had a significant impact on both our productivity and our costs – as there is an inevitable time-lag between our recruiting an adjudicator and their “graduation” into a fully effective case-handler. High levels of recruitment have an impact on the productivity of *existing* experienced adjudicators too, as their focus is diverted onto developing and mentoring newer colleagues.

other initiatives and achievements in 2011/2012

In our *plans and budget* for 2011/2012, we set out five priorities for developing the Financial Ombudsman Service – to help us meet our ambitions to provide standards of service that would be considered excellent in any sector. During 2011/2012 we began a broad programme of improvement activities to meet these priorities. There are more details about these activities in chapter 3.

These activities include the "e-enablement" of our work, "lean" process improvements to our case-handling systems, better procurement processes, stronger professional development of our people, and more extensive feedback to stakeholders on the lessons learned from our work. This is an extensive "change programme" which we envisage delivering over two to three years.

We have now largely completed the initial planning phases and are increasingly engaging with our people, and a wide range of users and stakeholders, to help us ensure that the programme is delivered successfully. As we note in chapter 3, in 2012/2013 we will start to see these projects implemented and we will begin to secure the benefits.

We have also engaged with the government and Parliament on proposals to reform the system of financial regulation, which include a continued and enhanced role for the ombudsman service. We have also continued to engage at an international level – particularly with the institutions of the European Union, as plans are developed for comprehensive "alternative" dispute-resolution arrangements across the single market.

chapter 3: our plans for the next financial year (2012/2013)

In this chapter:

- We set out how our plans for developing our service are progressing.
- We also set out further initiatives we are taking to develop the service further.

We are committed to developing the Financial Ombudsman Service and constantly improving our organisation. We want to offer excellent service when compared with customer-service standards in *any* sector. The plans we set out last year in the *plans and budget* for 2011/2012 reflected these ambitions.

In those plans we outlined five key priorities. We update below on the progress we have made against each of those priorities. We also explain the further initiatives we are taking to support these priorities.

to deliver a trusted, fair and easy to use service – for everyone

We are committed to visibly putting "quality" at the heart of our approach. In order to do this, we are currently introducing a new framework for measuring quality. This includes a further commitment to training. It also involves ensuring that feedback from customers and users is given *direct* to the individual case-handler who worked on their case.

We want to make ourselves as accessible as possible – to all types of business and all kinds of consumer. This has included developing proactive partnerships with front-line advice agencies and working collaboratively with consumer groups and businesses to re-design our consumer leaflet and complaint form, to make them clearer and easier to use.

We also want to make our service easier to use – through closer technical integration with businesses and advice agencies. During 2011/2012 we began the "e-enablement" of our service, which included creating or enhancing online and electronic channels for communicating with our users. We began work to exchange the majority of case information electronically with some of the major banking groups – eliminating the current costly and cumbersome "bulk mail" processes.

This is a major "change programme" which will continue into 2012/2013 and beyond. Our immediate priority for 2012/2013 is to reduce our reliance on paper files – particularly in areas like PPI. The successful implementation of this work in partnership with our larger users and our people will be crucial to our ability to improve the efficiency and quality of our service – and meet the challenges of PPI complaints. The programme will also complete our transition to entirely electronic case files.

to share our experience and insight – helping to prevent future problems

Our work in resolving disputes has a significantly greater impact if the lessons learned can be fed back to prevent future problems. This is why we have continued our work to make the activities and decisions of the ombudsman service more open and transparent.

We completed our work to prepare for our coming under the *Freedom of Information Act* from November 2011. This built on our existing commitment to openness, both in terms of our corporate governance and the way we share information about the outcome of cases and our general approach.

We also consulted stakeholders on our proposals for publishing ombudsman decisions in the light of the draft *Financial Services Bill*. We will publish feedback on that consultation, outlining the work we intend to do in 2012/2013 on publishing ombudsman decisions.

To help feed back more effectively the lessons learned from what we see, we have enhanced the work we do with financial businesses and consumer groups to help improve the way complaints are handled and prevented.

We have focused our engagement with the financial services industry where feedback is most needed – sometimes by targeting our resource operationally at front-line complaints-handling teams and sometimes by engaging strategically at executive level. We have also developed our partnerships with front-line advice agencies, to build effective relationships with a wider and deeper range of community organisations. We have supported our more strategic engagement with industry and consumer bodies with new and more focused liaison groups.

We continue to put a strong emphasis on effective working relationships with the FSA and with other statutory bodies with whom our work overlaps. We have ongoing close dialogue with the FSA and the Office of Fair Trading (OFT) through the formal *Co-ordination Committee.* Focusing on emerging specific and thematic issues, this committee enables us to work together to resolve issues quickly.

Our priority in 2012/2013 is to work closely with the FSA to ensure that a similarly close and effective working relationship is established with the proposed Financial Conduct Authority (FCA).

to put knowledge and expertise at the heart of everything we do

Professionalism should be at the heart of everything we do – and this professionalism depends on our people having the right knowledge and expertise to do their work to the highest standards.

To support this, we introduced a range of measures in 2011/2012 to make sure our values are central to everything we do. We want our values embedded in our approach to recruiting, training and developing our people. This includes putting our values at the heart of our new professional career-structure, strengthening our arrangements for "continuous professional development" and reinforcing our commitment to professional leadership by our ombudsmen.

Our aim is to ensure our managers and senior professionals "live" our values, acting as positive role models and helping to build an organisation that is engaged and knowledge-based. This is a multi-year "change programme" which will continue to be developed during 2012/2013.

We have also invested in our “knowledge infrastructure” – with new tools for ensuring that our people have the knowledge they need at the time they need it. In 2011 we won a national award for the innovative way in which we use online forums, blogs and wikis on our in-house intranet – to encourage knowledge-sharing and collaborative working.

We also remain committed to sharing our knowledge with external stakeholders – and the online technical resource on our website now covers our approach to complaints about 90% of the financial products and services we cover. We will continue to build on this material in 2012/2013, including publishing material that was originally available only internally within the ombudsman service.

We have also invested in a new training programme, accredited by Queen Margaret University, that we will be introducing for our adjudicators during 2012/2013. The programme has been designed to build and maintain the professional skills of our people.

In addition, we are expanding the scale of our ombudsman panel, to ensure that our ombudsmen can be actively involved in the development of our people and in the professional leadership of our case-handling. By doing this, we will continue to ensure that quality and consistency remain at the heart of our work, as we face the challenges of a workload that continues to grow and change significantly.

We have put considerable effort into securing a high level of staff engagement as we introduce our extensive “change programme”. Given the scale and scope of this programme, we will of course need to continue to focus on engaging our people to maintain impetus and enthusiasm.

to be flexible, reliable and effective

Our ambition is to have service standards that would be seen as excellent in any sector. Clearly this challenge is made more difficult to deliver given the volatility of our caseload – and the increasing complexity and mix of the cases referred to us.

To support our aim to reduce the time it takes to resolve cases, we have carried out “lean” process improvement of our case-handling systems – and we will develop this work further in 2012/2013. We have also recruited more ombudsmen – to reduce waiting times at the final decision stage of our process, as well as to support the role of ombudsmen as professional leaders across the service. We will be recruiting more ombudsmen throughout 2012/2013.

During the year we also reviewed the balance between our permanent adjudicators and those we recruit on a contractor basis. Following a tender exercise, we subsequently awarded a contract to deliver a new “adjudicator recruitment-framework”, with adjudicators working as contactors managed in-house by our own managers. This framework will help us to manage better the volatilities in our caseload during 2012/2013 and beyond.

Reflecting these volatilities, we have started a multi-year programme to strengthen our operational planning capability and our “demand and capacity” management process. We will be looking in more depth at the underlying costs of handling different types of cases in varying circumstances, to better understand the costs and efficiencies involved.

The relative complexity of different cases depends on a wide range of difficult-to-forecast factors – including the extent of the factual issues that are in dispute, the complexity of the technical issues, the novelty of any legal issues and the extent to which the parties involved co-operate. The initial analysis supports our view that the conduct of the two sides in each dispute is a key driver in determining our costs.

Our costs of handling cases are also affected by issues *beyond* the complexity of the cases concerned. For example, a sudden sharp increase in a particular type of case may involve additional costs through having to recruit and train additional staff – as well as the relatively-higher cost of employing contract staff to bridge the gap.

to operate a "lean" and efficient infrastructure

We believe it is possible to provide an excellent service *while* delivering value for money – reducing both our own costs and those faced by users when dealing with us.

During 2011/2012 we have delivered our programme to reduce our costs by 10%. We will continue to scrutinise and control our underlying costs in 2012/2013 and beyond – aided by our procurement function which is now fully resourced and functioning. We have used this resource for a number of our significant contracts and will continue to focus on this in the coming year.

Our "e-enablement" programme is intended to deliver not only service improvements, but also more cost-effective processes and lower transaction costs for users. The programme includes plans for centralised printing – which we introduced in 2011/2012 – and for better electronic-file management and scanning of incoming post. Work is also under way on developing online portals both for businesses and consumers. Delivering these benefits successfully will require close work with our stakeholders, to ensure that end-to-end case-handling costs remain controlled.

We expect our operational response to the increasing volumes of PPI cases – and the early outcomes of our "continuous improvement" programme – to deliver initial benefits during 2012/2013. This work will help ensure we have a more robust operational platform on which we can handle future challenges efficiently and effectively.

chapter 4: forecast volumes and product mix for 2012/2013

In this chapter:

- We set out the levels of demand we expect to deal with in the next financial year (2012/2013) – in terms of the numbers of enquiries and new cases, and the mix of product types involved.
- We also separately set out the number of PPI cases we expect to have to deal with. This is the key challenge and uncertainty currently facing the service.

case volumes in 2012/2013

Our workload is inherently difficult to forecast with any degree of certainty – and is subject to significant volatility. A wide range of external factors can affect the volumes we receive, their timing and the mix of the cases we see.

These external factors include the standards of complaints handling by businesses, the extent and timing of any regulatory action or litigation, the economic climate and the behaviour of consumers. Sudden surges in complaints about the same product or topic – such as we are currently experiencing with PPI – have a substantial impact on our workload and costs.

In our *plans and budget* for 2011/2012 we recognised that these uncertainties and volatilities were likely to be a permanent feature which we had to build into our operational and financial planning. We therefore set out plans to strengthen our operational capability to respond quickly and effectively to changeable demand levels – including ensuring we had sufficient financial reserves to deal with unexpected future volatilities.

Effective forecasting of future case volumes and trends therefore remains essential. We are keen to hear the views of our stakeholders on our likely workload in the 2012/2013 financial year – and whether the volumes and trends we set out below seem reasonable.

expected enquiries in 2012/2013

Our front-line customer-contact division is the first point of contact for customers with problems and complaints. We can sort out around 80% of these enquiries *without* needing to take on the matter as a formal case.

We do this by explaining the formal procedures that financial businesses have to follow – and confirming the details of the person consumers should complain to at a business, if they have not already done this. We also give consumers the facts and information they need, to be able to resolve problems themselves at the earliest stage possible.

front-line consumer enquiries	*actual* 2010/11	*forecast* 2011/12	*budget* 2012/13
phone calls	461,613	602,000	670,000
written enquiries	550,758	620,000	730,000
total	**1,012,371**	**1,222,000**	**1,400,000**

We expect the volume of front-line enquiries we will receive next year to be higher than this year – perhaps substantially so, if more consumers pursue PPI complaints themselves rather than using a claims-management company to do it for them.

However, this area of our operation is particularly sensitive to the impact of internet campaigns, media coverage and promotional activity by claims-management companies. These can all result in raised consumer awareness of specific issues – and substantial surges of enquiries.

expected number of new cases in 2012/2013

Subject to feedback from stakeholders as part of this consultation, we propose to work on the assumption that the base number of new cases we will receive in 2012/2013 – other than PPI cases – is likely to be around 5% higher than our forecast for the current year (2011/2012). This will result in an expected 120,000 *non*-PPI cases *plus* or *minus* 15%.

new cases	*actual* 2010/11	*forecast* 2011/12	*budget* 2012/13
banking	57,786	62,800	71,000
consumer credit	7,250	8,200	8,900
insurance (not including PPI)	20,967	28,100	26,000
investments and pensions	15,521	15,100	14,100
PPI (payment protection insurance)	104,597	145,000	165,000
total	**206,121**	**259,200**	**285,000**

It is very difficult to forecast the volumes of PPI cases we will receive in 2012/2013 – given the substantial volumes of complaints being received by financial businesses and the uncertainty as to how and when they will handle them. Our initial discussions with businesses, the FSA and other interested parties all suggest that the current level of cases being referred to the ombudsman service (between 2,500 and 3,000 cases a week) is likely to continue– and in the short term at least may increase. Some suggest the current high level of complaints may now be at its peak – but forecasts are very uncertain.

Given the range and extent of the variables involved, we have concluded that we should focus on the steps we can take to increase our capacity to handle PPI cases – rather than try to make accurate forecasts at this stage of the exact number of new cases that might be referred to us. So we propose to plan on the assumption that we will receive around 165,000 PPI cases in the next financial year – basing this figure on the current level of new cases. We discuss this challenge in more detail in the section on PPI in chapter 5.

expected number of resolved cases in 2012/2013

Forecasts for the number of PPI cases we will settle are particularly difficult to make this year. Our ability to resolve PPI cases this year has been constrained by the response of the larger financial businesses. Some have shown little co-operation with our enquiries, while others have settled large numbers of cases without our always needing to set out our views on each individual case.

This means that much will depend on the co-operation we receive from *both* sides to complaints; on the action of the regulators – both in relation to financial businesses and to claims managers; and on the number and type of PPI cases we receive.

For example, if large volumes of cases are pursued to the final stage of our complaints process and require an ombudsman decision, then our ability to settle cases in 2012/2013 will be reduced.

In our planning for next year, we have assumed that – with guidance from the FSA in place – the PPI complaints that reach us will be genuine disputes, with increasingly finely-balanced judgements requiring careful investigation and analysis.

In relation to our *non*-PPI work, our priorities for 2012/2013 are to continue to reduce our stock of cases to be resolved – and to build on the improvements we have made to our timeliness in handling cases. We will also continue with our plans to eradicate the number of cases that take more than 18 months to resolve. We should come close to meeting this target by the end of the 2011/2012 financial year.

The table on the next page shows the number of cases we expect to resolve in the 2012/2013 financial year. There are more details about our caseload assumptions for 2012/2013 at *annex A*.

cases resolved	*actual* 2010/11	*forecast* 2011/12	*budget* 2012/13
banking and credit	67,693	62,000	86,500
insurance (not including PPI)	19,281	26,500	28,500
investments and pensions	20,168	15,500	15,000
PPI (payment protection insurance)	57,757	109,500	130,000
total	**164,899**	**213,500**	**260,000**

chapter 5: our proposed budget for 2012/2013

In this chapter:

- We set out our financial plans for 2012/2013.
- We explain how these plans take into account our aim to continue developing our service for the future, as well as to deal with the challenges of our 2012/2013 caseload, including the expected increased volumes of PPI cases.

With the exception of the impact of PPI, our caseload and financial out-turn in 2011/2012 have been broadly in line with the assumptions we made last year in our previous *plans and budget*. And though the number of PPI cases referred to us in 2011/2012 has been more than double the number we had assumed, we agreed with stakeholders last year that this number would be inherently difficult to forecast and plan for.

At this stage we are not assuming exceptional volatilities in case numbers during 2012/2013 – other than for PPI. So we are not proposing significant changes to our base funding-model. However, the volatile nature of our PPI caseload presents significant risks to our service standards and to our financial position – and we are proposing a specific solution for this.

total income and expenditure

Reflecting the expected workload covered by our three jurisdictions, our total budget expenditure for 2012/2013 is divided as follows:

- 97.8% relates to our compulsory jurisdiction (which covers financial businesses regulated by the FSA).
- 1.5% relates to our consumer-credit jurisdiction (which covers businesses with a standard consumer-credit licence issued by the Office of Fair Trading (OFT) – other than FSA-regulated businesses).
- 0.7% relates to our voluntary jurisdiction (which covers a small number of financial businesses that have *chosen* to be covered by the ombudsman service – but would not otherwise come under our other jurisdictions).

With the levels of demand we have forecast for 2012/2013, we expect to be able to set an expenditure budget of around £197.6m. In order to fund this, we propose to freeze the amount of the levy in the compulsory jurisdiction – as well as freezing the standard case fee in all three jurisdictions – for the third year running.

We are also proposing *no* increases in the levies for our consumer-credit jurisdiction and our voluntary jurisdiction. However, in order to enable us to fund our future PPI challenges, we propose to introduce a *supplementary* PPI case fee, which would be payable by those businesses making a significant contribution to our PPI caseload.

We have not called upon our financial reserves during 2011/2012, and we do not propose to add to those reserves for 2012/2013. However, as we note below, there remain very significant challenges and uncertainties in our funding model. While we plan to retain the absolute level of our reserves, these will fall significantly as a proportion of expected total operating costs in 2012/2013.

In the current year our reserves would have provided for approximately three months of operating costs. In 2012/2013 they will cover less than two months of costs. We will need to keep this under review as the picture on PPI develops. Our plans for a supplementary case fee in relation to complaints involving PPI sales help mitigate some financial risks, but they do not deal with scenarios where case volumes fall dramatically.

PPI challenge

The challenges of our PPI caseload are unprecedented. The number of cases we are assuming we will receive in 2012/2013 – 165,000 – will account for the majority of our incoming caseload. But the number of PPI cases we actually receive could be materially higher or lower – and there is considerable uncertainty about the volume of these cases in future years.

This leaves us with a planning dilemma. If we assume that the current large volumes of PPI cases will rapidly decline, it may be best not to try to meet what would be a peak demand next year. But in contrast, if this expected level of demand is to continue, we need to build up our capacity to that level as soon as practicable. The operating and employment models in both cases would also vary.

Our initial dialogue with stakeholders suggests that most believe significant volumes of PPI cases will continue for another two or three years. Given the number of PPI sales – and the potential extent of detriment to consumers – this seems a sensible basis on which to plan. But clearly there is a risk *either* that the costs we incur will be "stranded" if volumes fall rapidly – *or* that our capacity will be insufficient if we do *not* gear up quickly enough.

In order to deal with the challenge of continuing high levels of PPI cases – and to ensure that our service standards are the best that can reasonably be achieved – we will manage our PPI caseload as a single unit. Given the scale of additional resources that are required, and the speed at which they need to be mobilised, the unit cost of handling PPI cases will be significantly higher than the cost of handling other cases.

However, we do not believe that it would be fair for these higher costs to be met by those businesses *not* involved in mass claims about the selling of PPI. This is why we are proposing a supplementary case fee of £350 – in addition to the standard case fee of £500 – for cases involving the mis-sale of PPI.

To reflect the fact that we will be incurring a significant proportion of these extra costs *before* we resolve individual PPI cases (for example, by recruiting additional adjudicators), we are proposing that this PPI supplementary case fee should be payable when a case is "converted" (*ie* when we formally take it on) rather than when it is resolved. This will help us better manage the significant financial risks around our PPI caseload.

unit cost

There are various ways in which our underlying costs could be measured. We currently use our "unit cost" as the measure of our efficiency. Our unit cost of resolving a complaint is calculated by dividing our total running costs (less financing costs and bad debts) by the total number of cases we resolve and close in the year.

Based on this measure, we expect our unit cost to be around £530 for 2011/2012. This is lower than the unit cost of £644 in 2010/2011 – but it includes the benefit of significant PPI case closures in the summer of 2011. Without this benefit – and as we gear up to deal with the volatility and substantially increased workload caused by PPI – we expect our unit cost to rise to around £759 in 2012/2013.

The expected rise in our unit cost also reflects a number of other factors. These include the shift towards more entrenched and harder-fought disputes – and general inflationary pressures. It also reflects a significant change in the types of financial products involved in the complaints referred to us – and in the overall complexity of our caseload – for example, in the reduction in the number of more straightforward credit-card cases involving "default charges".

We are mitigating these rising cost pressures through our extensive "change programme", which includes making further efficiency savings (beyond the 10% cost-base reduction we have already achieved) and investing further in the "e-enablement" of our processes and systems.

investment in developing our service

We have set aside £6m in the proposed budget for continuing investment.
This investment will be focused on:

- increasing the number of our ombudsmen (to help deliver existing and projected workload, and to meet our service standards);
- continuing and developing our "e-enablement" programme; *and*
- further enhancing our continuous improvement programme.

our people

Over 80% of our cost base relates to staffing costs. As we explained in chapter 2, we recruited and trained a significant number of new adjudicators and ombudsmen in 2011/2012, in particular to deal with our rising PPI caseload. We expect further recruitment to continue in 2012/2013 – predominantly, again, in relation to handling PPI cases.

The table below shows the number of staff we forecast we will need by the start of the 2013/2014 financial year. However, we are likely to have to increase or decrease these numbers in response to changes in levels of demand throughout the year.

staffing	*budget* March 2012	*forecast* March 2012	*budget* March 2013
ombudsmen	70 to 90	90	125
our front-line customer-contact staff	110 to 140	150	220
casework divisions (including adjudicators)	920 to 1,360	1,490	2,000
support staff	140 to 170	150	200
total	**1,240 to 1,760**	**1,890**	**2,545**

reserves

Following our consultation last year on the *plans and budget* for 2011/2012, we increased our reserves for our compulsory jurisdiction. We believed this was prudent in order to manage our financial risks in the year ahead. Although we have not used those reserves during 2011/2012, our financial risks have not reduced. In fact, they have clearly risen in relation to our PPI caseload.

In order to manage our financial risks, we believe we should maintain a level of reserves for our compulsory jurisdiction of around £30m. This is equivalent to less than two months' expenditure – although the relative decrease in the level of reserves is off-set in part by our proposed supplementary fee.

Mindful of the impact on financial businesses, we have concluded that we should *not* increase our reserves. This means we will not need to supplement the general levy, to keep the amount of our reserves at £30m at the end of 2012/2013. We also propose to maintain similar reserves in the consumer credit jurisdiction and voluntary jurisdiction (see below).

funding our service in 2011/2012

The majority of our funding comes from case fees. The rest of our funding comes from annual levies.

case fees

For all three of our jurisdictions (see below), the amount of the case fee is set by the Financial Ombudsman Service and approved by the FSA.

Each business has *three* free cases a year. For the fourth case – and any subsequent case – we charge a case fee of £500, once the case is resolved. We propose to freeze the amount of the case fee at £500 in 2012/2013 – for the third year running.

PPI supplementary case fee

As explained above, there are particular circumstances around our PPI caseload that have significantly increased the costs of handling these cases. This is why we propose to introduce a supplementary PPI case fee, to enable us to deal with our PPI caseload in the coming period. This will ensure that those *not* involved in the selling of PPI do not have to meet the costs that large volumes of PPI disputes are generating.

We propose to set the supplementary PPI case fee at £350 for each PPI mis-sale case. We propose that it should be chargeable when we "convert" (*ie* formally "take on") the case – and that the first 25 PPI mis-sale cases referred to us in the year, in relation to each business, should be "free". The purpose of introducing a higher number of "free" PPI supplementary fee cases is to ensure that the additional fee is focused on those financial businesses that are involved in the mass PPI claims that are driving the costs of our having to "scale up" to deal with the increased volumes of cases.

The proposed changes to the FEES chapter of the FSA Handbook, to provide for this PPI supplementary levy, are set out at *annex C*.

compulsory jurisdiction levy

The levy payable by FSA-authorised businesses is set by the FSA. The FSA also collects the levy – as part of a combined invoice that includes the levies for the Financial Services Compensation Scheme (FSCS) and for the FSA itself. The FSA will consult on the total amount of the levy – and on how it should be allocated among industry blocks – as part of its wider consultation that also covers the FSA and FSCS levies. This consultation is expected to be published in February 2012.

Broadly, allocation of the total levy among regulated businesses involves two stages:

- The total levy is divided among industry blocks (based on activities) according to the number of case-handling staff we expect to need for cases from that sector.
- The levy for each industry block is divided among the businesses in that block, according to a tariff rate (relevant to that sector) which is intended to reflect the scale of the business's activities.

This means that the share of the levy allocated to a particular industry block may change, even though the *total* levy remains the same. The funding mechanism (in the FEES 5 section of the FSA's *Handbook*) requires the total levy to be allocated in this way. It does not allow the levy to be allocated differently. For example, the levy cannot be targeted on particular financial businesses.

consumer credit jurisdiction levy and case fees

The amount of the consumer-credit jurisdiction levy is set by the ombudsman service and approved by the FSA. The amount payable by individual businesses with a consumer-credit licence is set by the Office of Fair Trading (OFT) – and collected with the licence fee from businesses that take out or renew a standard consumer-credit licence during the year.

As these levies are collected every *five years* from businesses holding a licence – rather than annually – we aim to take a five-year view of the budget for the consumer credit jurisdiction. This is so that businesses paying in different years are more likely to pay the same amount.

The initial five-year period finishes at the end of our 2011/2012 financial year. Because the volume of cases under the consumer credit jurisdiction has been lower than anticipated in 2006 (at the start of the five-year period), we expect to finish the period with a surplus of approximately £2.5m. As income in each of our three jurisdictions is "ring-fenced" by law, we propose to roll this amount forward into the next five-year period.

Retaining this surplus reflects the uncertainty around the future funding arrangements, both in relation to regulatory changes for consumer credit and to potential changes to our case fee following our case fee review (see below). No decision has been made by the government about the future regulatory framework (and its funding) for consumer credit. As licenses will therefore continue to be issued and renewed every five years for the foreseeable future, we intend to plan on a continued five-year basis.

The number of cases we have received under the consumer credit jurisdiction rose steadily over the first five-year period, before beginning to level off. Assuming that the current trends continue – and given the publicised rise in the use of consumer credit products such as short-term lending – we believe it would be prudent to plan on the basis that expenditure under the consumer credit jurisdiction will be an average of £3m each year over the next five-year period.

To cover the expenditure of £3m in 2012/2013 we have, with the approval of the FSA, agreed that £1.5m should be recovered by the OFT from businesses with a standard consumer-credit licence – through the levy covering the consumer credit jurisdiction. The OFT will set the amount of the levy in due course. However, we anticipate that it will be close to the current amount of £150 for each business. We anticipate that a further £1.4m will be recovered through case fees, with the remaining £0.1m drawn from the surplus from the previous five-year period.

Of the £2.4m remaining from the surplus, we propose that £0.75m will go into a new reserve for the consumer credit jurisdiction. In line with our reserves policy for the compulsory jurisdiction, we plan to maintain reserves equivalent to three months of expenditure.

We propose that the remaining £1.65m be held in a special reserve. This will cover the temporary uncertainty around future funding arrangements, resulting from regulatory changes for consumer credit and from our case fee review. We intend this special reserve to be available to mitigate the impact of any significant changes to the consumer credit jurisdiction levy or case fee that these changes may bring.

In line with the other jurisdictions, we also propose to maintain the case fee at £500 in 2012/2013 (with the first three cases continuing to be "free").

voluntary jurisdiction levy and case fees

The voluntary jurisdiction levy payable by participating businesses is set by the ombudsman service and approved by the FSA. It is collected by the ombudsman service. The rates proposed for 2012/2013 are set out at *annex B*. We intend to maintain the levy rates at the same level as in 2011/2012, and also to maintain the case fee at £500 (with the first three cases continuing to be "free").

The exception to this is the levy rates for electronic money issuers, where (in parallel with changes being made by the FSA for electronic money issuers in the compulsory jurisdiction) we are introducing a new fee block, tariff basis and tariff rate. This will lead to a reduction in the amount paid by electronic money issuers participating in the voluntary jurisdiction.

In line with the reserves policies that we have introduced for the compulsory jurisdiction and the consumer credit jurisdiction, we propose to operate a similar reserve in the voluntary jurisdiction. As in the other jurisdictions, the reserve would cover three months' expenditure under the jurisdiction. We are not proposing an additional levy or case fee to create this reserve.

review of case fees for 2013/2014 and beyond

We are mindful that some businesses have strong – and sometimes contradictory – views on the case fee. Some would like to see more "free" cases; others would like to see a greater proportion of our funding raised through the case fee; and some businesses would like to see more administratively straightforward ways of collecting the case fee.

Our own analysis has shown that the impact of the case fee affects businesses differently depending on the scope and scale of their operations – with ten financial groups accounting for over 70% of our work and 30,000 smaller businesses together making up only 5% of our workload.

We also recognise that a number of factors make it unlikely that we will be able to hold the standard case fee at its present "frozen" level of £500 beyond 2012/2013. These factors include general inflationary pressures and the rising cost base – as well as a significant change in the product mix and in the complexity of our caseload – for example, the reduction in the number of more straightforward credit-card cases involving "default charges".

In our *plans and budget* for 2011/2012 we offered stakeholders the opportunity to give their views on the way the case fee is applied. Feedback from stakeholders showed there was a strong interest in reviewing the case fee arrangements as a whole- and we said we were open to the possibility of a review. So we have published a consultation paper – in parallel with this paper – on how case fees might be applied from 2013/2014 and beyond.

what this means for our overall income and expenditure plans – our proposal for 2012/2013

With the levels of demand we have forecast for 2012/2013, we expect to set an income budget of around £191.2m. The table on the next page has more details about our overall income and expenditure plans.

our income and expenditure

	2010/2011 *actual*	2011/2012 *budget*	2011/2012 *forecast*	2012/2013 *budget*
income (£m)				
compulsory jurisdiction levy	18.4	17.7*	19.9*	17.7
consumer-credit jurisdiction *and* voluntary jurisdiction levy	2.5	2.8	2.4	2.0
case fees	77.1	82.7	97.8	119.8
supplementary case fees	-	-	-	52.4
other income	0.3	0.2	0.2	0.2
provision for bad/doubtful debt	-0.6	-0.5	-0.6	-0.8
total	**97.7**	**102.9**	**119.7**	**191.2**
expenditure (£m)				
staff and staff-related costs	89.2	84.2	81.7	149.4
professional fees	2.6	2.0	3.3	8.5
IT costs	2.1	2.0	2.8	6.0
premises and facilities	8.7	6.7	9.0	18.1
other costs	1.5	3.0	2.9	6.7
depreciation	2.1	2.1	2.4	2.9
Investment	0.0	2.9	11.0	6.0
total operating costs	**106.2**	**102.9**	**113.1**	**197.6**
financing costs	0.0	0.0	0.0	0.0
surplus/deficit	**-8.5**	**0.0**	**6.6**	**-6.4**
estimated case closures	164,899	180,000	213,465	260,346
unit cost (£)	644	571	530	759
case fee (£)	500	500	500	500
number of free cases	3	3	3	3
supplementary case fee (£)**	-	-	-	350
number of supplementary free cases**	-	-	-	25

* *plus* a further £25m in relation to the special reserves levy
** supplementary case fee applies only to PPI sales disputes

your feedback

We want to hear from all our stakeholders on:

- Our overall aims – how we are implementing our plans for developing our service, and where you believe our priorities should be.
- What volumes of new cases stakeholders expect us to receive – and whether the assumptions we have made for case volumes seem reasonable.
- What volumes of complaints about PPI sales stakeholders believe we will receive – and whether our plans for dealing with these cases are realistic.
- Our proposals to freeze the levy and standard case fee – and to introduce a supplementary PPI case fee.

We welcome your feedback on our *plans and budget for 2012/2013.*
Please send your views and comments – to reach us by Monday 20 February 2012 – to: adrian.dally@financial-ombudsman.org.uk. Or write to:

Adrian Dally
Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR

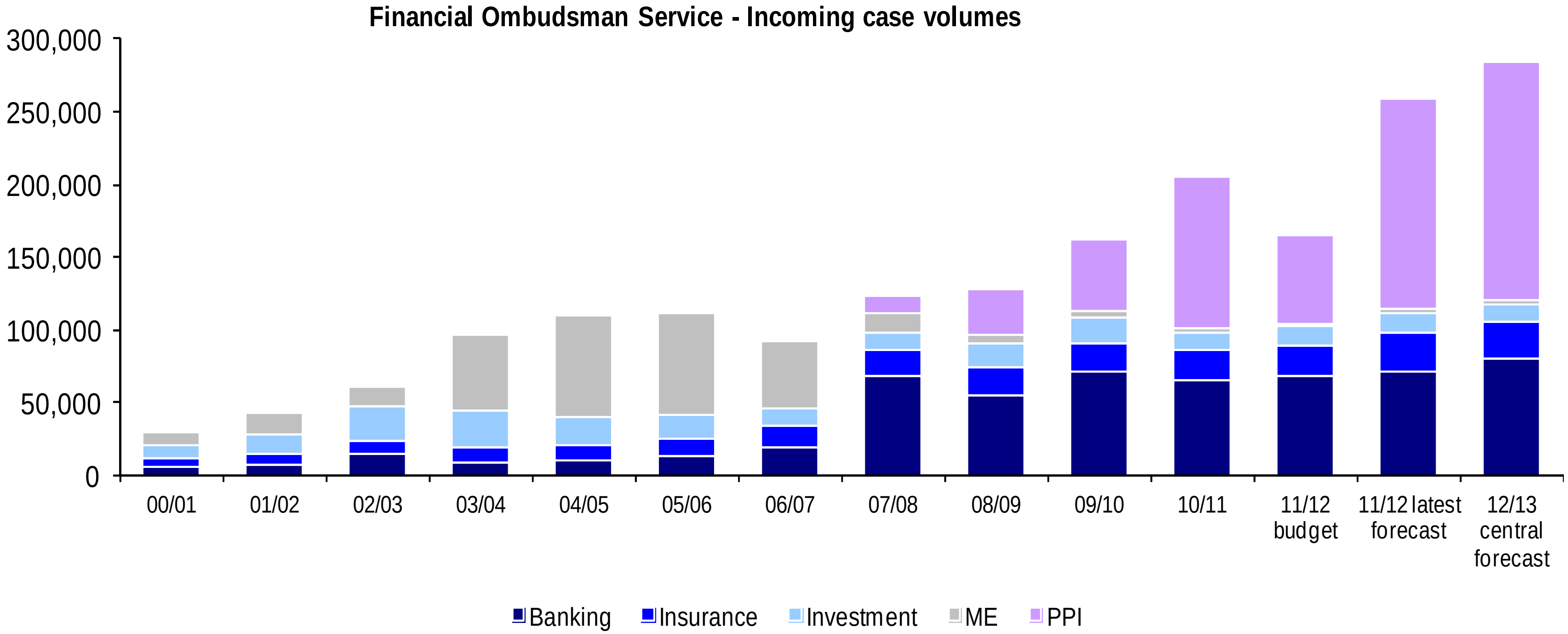
We may want to publish the responses we receive to this consultation paper. In the interests of openness, we encourage *non*-confidential responses.

Information provided in response to this consultation, including personal data, may be subject to publication, disclosure or release to third parties – in order to comply with the *Freedom of Information Act 2000*, to which we are subject.

It would be helpful if you could tell us why you might consider the information you have provided us with to be confidential, so that we can take this into account before deciding whether to release it. We cannot guarantee that confidentiality can always be maintained. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the service.

annex A

historic case volumes – and assumptions for new cases in 2012/2013



our latest projections for volumes of new cases in 2011/2012 and 2012/2013

	2010/11	2011/12		2012/13
	Actual	Plan	Latest view	Central view
Current accounts	19373	20000	16000	22000
Credit cards	17466	17000	22000	20000
Mortgages	7082	7000	10300	13000
Other banking	13865	16000	14500	16000
Banking	57786	60000	62800	71000
Motor insurance	5784	5000	7800	8000
Other general insurance	15183	15700	20300	18000
Insurance (exc. PPI)	20967	20700	28100	26000
Mortgage endowments	3048	2500	2900	2800
Pension products	2702	2500	3500	2900
Other investment	9771	10800	8700	8400
Investment	15521	15800	15100	14100
Consumer credit	7250	8500	8200	8900
Total non-PPI	101524	105000	114200	120000
Payment protection insurance	104597	60000	145000	165000
Total	206121	165000	259200	285000

Central forecast subject to +/- 15% margin

Central forecast subject to considerable uncertainty

annex B

voluntary jurisdiction – proposed levies for 2012/2013

FEES 5 Annex 2R
annual levy payable in relation to the voluntary jurisdiction for 2012/13

industry block and business activity		**tariff basis**	**tariff rate**	**minimum levy**
1V	deposit acceptors, *mortgage lenders* and *mortgage administrators* and debit/credit/charge card issuers and merchant acquirers	number of accounts relevant to the activities in DISP 2.5.1R	0.0278	£100
2V	*VJ participants* undertaking general insurance activities	per £1,000 of relevant annual gross premium income	0.103	£100
3V	*VJ participants* undertaking life insurance activities	per £1,000 of relevant adjusted annual gross premium income	0.025	£100
6V	intermediaries	not applicable	n/a	£75
7V	freight-forwarding companies	not applicable	n/a	£75
8V	National Savings & Investments	not applicable	n/a	£10,000
9V	Post Office Limited	not applicable	n/a	£2,000
10V	persons not covered by 1V to 9V undertaking activities which are: (a) *regulated activities* or (b) *payment services* or (c) *consumer credit activities*; or would be if they were carried on from an establishment in the *United Kingdom*	not applicable	n/a	£75
12V	persons undertaking the activity which is the issuance of electronic money or would be if carried on from an establishment in the *United Kingdom*	average outstanding electronic money as described in FEES 4 Annex 11R Part 3	£0.015 per £1000	£75

annex C

case fees for 2012/13 – proposed changes to FEES 5

FEES 5.5A

Insert the words underlined below and delete those struck-out –

5.5A.6 R A *firm* or *licensee* must pay to the *FOS Ltd* the standard case fee specified in FEES 5 Annex 3R part 1 in respect of each *chargeable case* relating to that *firm* or *licensee* which is closed by the *Financial Ombudsman Service*, unless a special case fee is payable or has been paid in respect of that case under FEES 5.5A.13 R to FEES 5.5A.22 R.

…

5.5A.8 G The standard case fee, which will be subject to consultation each year, will be calculated by dividing the *annual budget* for the *Compulsory Jurisdiction*, less the amount to be raised by the *general levy* and the supplementary case fee, by the estimated number of *chargeable cases* which the *Financial Ombudsman Service* expects to close in the relevant *financial year*.

5.5A.9 G For the purposes of the *Consumer Credit Jurisdiction*, the standard case fee, which will be subject to consultation each year, will be calculated by dividing the *annual budget* for the *Consumer Credit Jurisdiction*, less the amount to be raised by the sum to be determined by the *FOS Ltd* under section 234A (Funding by consumer credit licensees etc) of the *Act* and the supplementary case fee, by the estimated number of *chargeable cases* which the *Financial Ombudsman Service* expects to close in the relevant *financial year*.

…

Supplementary Case fee

5.5A.23A R A *firm* or *licensee* must pay to the *FOS Ltd* the supplementary case fee specified in FEES 5 Annex 3R part 2 in respect of each *chargeable case* relating to that *firm* or *licensee* which:

(1) is referred to the *Financial Ombudsman Service*; and

(2) in the *Ombudsman*'s opinion, falls wholly or partly within the scope of DISP App 3.1.1 G (PPI missale cases);

as well as any standard case fee under FEES 5.5A.6 R or any special case fee under FEES 5.5A.13 R to FEES 5.5A.22 R.

5.5A.23B R FEES 5.5A.23A R applies to *payment service providers* and *electronic money issuers* in the same way as it applies to *firms*.

…

Case fee exemptions

…

5.5A.25A R Notwithstanding the above, a *firm*, *payment service provider*, *electronic money issuer* or *licensee* will only be liable for, and the *FOS Ltd* will only invoice for the supplementary case fee in respect of the 26th and subsequent cases that fall within FEES 5.5A.23A R in any *financial year*.

…

5.5A.28 R A *firm* or *licensee* must pay to the *FOS Ltd* any standard case fee or special case fee or supplementary case fee which it is liable to pay under FEES 5.5A.6 R, FEES 5.5A.13 R, FEES 5.5A.15 R, FEES 5.5A.18 R, FEES 5.5A.20 R, ~~or~~ FEES 5.5A.22 R or FEES 5.5A.23A R, as appropriate, in respect of *chargeable cases* for which it is invoiced by the *FOS Ltd* within 30 calendar *days* of the date when the invoice is issued by the *FOS Ltd*.

…

5.5A.30 R A *firm* or *unauthorised person* which is subject to the *Compulsory Jurisdiction* in relation to a *relevant complaint* must pay any standard case fee or special case fee or supplementary case fee within 30 calendar *days* of the date when the invoice is issued by the *FOS Ltd*.

FEES 5 Annex 3R

Delete the existing FEES 5 Annex 3R and insert –

Case fees payable for 2012-13

Part 1 – Standard case fees		
	Standard case fee	Special case fee
In the: Compulsory jurisdiction; Consumer credit jurisdiction; and Voluntary jurisdiction	£500	£500

Notes

1	The definitions of standard case fee and special case fee are in FEES 5.5A (Case fees). The definition of *chargeable case* is in the Glossary to the *Handbook*.
2	The standard case fee or special case fee will be invoiced by the *FOS Ltd* on or after the date the case is closed.
3	A *firm, licensee* or *VJ participant* will only be invoiced a case fee for the fourth and subsequent *chargeable case* in each *financial year*.

Part 2 – Supplementary case fees

		Standard case fee	Special case fee
In the: Compulsory jurisdiction; Consumer credit jurisdiction; and Voluntary jurisdiction	For the 26th and subsequent PPI missale cases	£350	£350

Notes

1	The definition of supplementary case fee is in FEES 5.5A (Case fees). The definition of *chargeable case* is in the Glossary to the *Handbook*.
2	'PPI missale cases' means any case where, in the *Ombudsman*'s opinion, the complaint fell wholly or partly within the scope of DISP App 3.1.1 G.
3	The supplementary case fee will be invoiced by the *FOS Ltd* on or after the date the case is referred to the *Financial Ombudsman Service*.
4	The supplementary case fee will be invoiced for the 26th and subsequent PPI missale *chargeable cases* against any *firm*, *licensee* or *VJ participant* referred to the *Financial Ombudsman Service* in each *financial year*.