

# CONCLUSIONS OF THE COMPLAINTS STAKEHOLDER GROUP CONVENED BY THE FINANCIAL OMBUDSMAN SERVICE

July 2009

This note sets out the conclusions reached by the Complaints Stakeholder Group (the Group) – including representatives from trade bodies, consumer groups and the FSA – on how it might be possible to contextualise business-specific data about the number of new cases referred to the Financial Ombudsman Service, which will be published by the ombudsman service from September 2009.

## ***Overall conclusion***

The Group (including both industry and consumer members) agreed that there was no readily available benchmark or metric, which would fairly compare the number of new cases against the market share of individual financial businesses on the basis of the ombudsman service's format for publication. This was true both across sectors, and within sectors.

The Group was supported in its considerations by anonymised complaints data from the FSA showing how various benchmarks would look in practice when related to numbers of ombudsman service complaints. Additionally, the ombudsman service and the FSA had access to the full data, including names of firms.

## ***Background***

The Financial Ombudsman Service will publish the volume of new complaints in a six-month period of businesses in scope, as well as the uphold rate for cases closed in the same period. The uphold rate will be expressed as the percentage of cases where the outcome was changed in favour of the consumer as compared to the decision by the financial business.

Chapter 5 of the ombudsman service's September 2008 discussion paper *Publication of complaint data: next steps* [[http://www.financial-ombudsman.org.uk/publications/policy-statements/complaint\\_data\\_sep08.html](http://www.financial-ombudsman.org.uk/publications/policy-statements/complaint_data_sep08.html)] explained the problems of contextualising business-specific complaint data, but said that if all relevant stakeholders (including industry bodies, consumer bodies and the FSA) could agree amongst themselves how market-share could be measured and published, the ombudsman service would then be happy to talk to them about how this could be used to give context to the published complaint data.

Following an invitation to a wide range of industry and consumer bodies, the Group was convened – with the Association of British Insurers providing the secretariat. The ombudsman service's March 2009 policy statement *Publication of complaint data: what we will do* [[http://www.financial-ombudsman.org.uk/publications/policy-statements/complaint\\_data\\_mar09.html](http://www.financial-ombudsman.org.uk/publications/policy-statements/complaint_data_mar09.html)] indicated that, to give the Group time to progress its work, the first data would not be published before 1 September 2009.

Publication of the uphold rate provides a degree of contextualisation in itself. For example, regardless of whether a financial business has had 100 or 1,000 closed complaints, expressing the uphold rate in percentage terms makes a clear statement regardless of the financial business's size – where the uphold rate is very low, this means that the ombudsman service agrees with the decision of the financial business in the vast majority of cases, regardless of whether the business is very large or quite small. However, the ombudsman

service's Board decided that it would publish the volume of new complaints in addition to the uphold rate.

The volume of new complaints is significantly affected by the size of the financial business involved. A very large business will have relatively high numbers of customers and transactions and therefore may experience higher numbers of complaints than a small business. Looking at the raw volume of new complaints, some users of the information might think that a large business experiencing a large number of complaints is invariably "worse" than a smaller business with a smaller volume of complaints.

The Group was convened to see if it was possible to find a benchmark or metric which would enable a fair comparison between financial businesses, irrespective of market share. The Group agreed that the metric should be readily available to, and auditable by, the FSA and/or the Financial Ombudsman Service and it should be in the public domain.

### ***Approach***

The Group considered a range of metrics and tested whether they should deliver a fair comparison:

- across all sectors;
- within a sector; *and*
- within the 5 broad categories of complaint data being published by the ombudsman service.

In determining whether the metric delivered a fair outcome, the Group used existing knowledge of complaint outturns and industry issues and were also informed by anonymised data by the FSA and insights on the anonymised data by the ombudsman service.

### ***Detailed conclusions***

#### **Across all sectors**

It is inherently difficult to compare the market share of financial businesses active in different fields, for example, the market share of a bank against that of an intermediary, as their business models are very different.

In order to find a common metric for market share, the Group considered financial businesses' contributions to the ombudsman service's levy as a potential metric. For example, the metric might be number of complaints per £100 of levy paid by a firm.

However, the ombudsman levy is calculated on the basis of different criteria in different sectors, and includes a sector-specific weighting, which is driven by the ombudsman service's projections of the share of complaints volume expected for the sector. The contribution to the ombudsman levy can therefore not be compared between sectors, because the complaints experience between different sectors varies. In addition, the Group concluded that the contribution to the ombudsman levy was difficult to communicate to the public as a benchmark.

The Group also considered number of complaints per £1 million revenues. It was agreed that revenue, as an accounting measure, did not provide a useful basis for comparison. Similarly, the Group rejected using complaints per £10m of assets as a metric. Assets are not appropriate for life insurance because they do not reflect open and closed books of business, and for insurance companies more generally, because they fail to take account of reinsured business. Complaints per numbers of staff who advise were also rejected owing to the different business models of companies, which made it impossible to compare them on this measure.

The Group did not see any other metric that would allow a fair comparison between different sectors.

More broadly, the Group did not think it was that useful to compare businesses in different sectors. Users of the data would rightly be more interested in comparing businesses in the same field, for example one mortgage and home finance provider against another mortgage and home finance provider.

### **Within sectors**

To compare financial businesses within the same sector, the Group considered the contribution of individual sectors to the ombudsman levy, based on an anonymised table of firms showing their complaints numbers against £100 of ombudsman levy. However, the ombudsman indicated to the Group that the resulting figures are not a fair reflection of firms' complaints handling performance as they create a number of extreme outliers – in view of the different levels of complaints generated by different financial products within the same sector.

In terms of sector-specific metrics, the Group rejected annual gross premium income as a measure for insurance. This is because the profile of an insurer with open funds is different from an insurer which only has closed funds. This manifests itself in extreme outliers when complaints are related to £1million of adjusted gross premiums (with a spread from 0 to over 3,800).

### **Within ombudsman service complaint-categories**

More generally, the Group also felt that it would be difficult to compare the firms' complaints volumes given the five broad classes of business the ombudsman service will publish. These are banking & credit, decumulation life & pensions, general insurance / pure protection, investments, and mortgages & home finance. This means that a large number of products are captured in each category. For example, the general insurance / pure protection category includes such diverse products as buildings and contents insurance, car insurance, loan protection insurance (PPI), travel insurance and critical illness insurance.

Consequently, depending on the product(s) offered by a financial business in this category, its complaints experience might not be comparable to that of financial businesses offering other product(s) in that category. For example, in general insurance, higher volume premium products are likely to show better complaints performance than mass volume low premium products. Similar effects exist in other categories.

Many members of the Group felt that a more granular breakdown of the published data by product line would be clearer and less misleading, but the ombudsman service said that the data would not be useful if too complex.

Some members of the Group also have outstanding concerns about the wide spectrum of decisions that will be classified as a "changed" outcome. These will include cases where referral to the ombudsman service had no, or negligible, impact on the final outcome; for example, where the case was settled by the ombudsman service after the financial business had offered a very small increase in compensation.

### ***Next steps***

The group will continue to meet to discuss implementation issues, the FSA's consultation paper [CP 09/21], and broader contextualisation by trade associations.

### ***Membership of the Group***

Representatives invited from:

Association of British Insurers  
Association of Independent Financial Advisers  
Banking and Loans Liaison Group  
British Bankers Association  
Building Societies Association  
Citizens Advice  
Consumer Focus  
Finance and Leasing Association  
Financial Ombudsman Service  
Financial Services Authority  
Financial Services Consumer Panel  
Financial Services Smaller Businesses Practitioner Panel  
Insurance Liaison Group  
Investment Liaison Group  
Which?