our plans and budget for 2015/2016

a consultation paper

January 2015

ombudsman

our plans and budget for 2015/2016

Every year, we see the huge range of disputes, complaints and concerns that arise from everyday lives and livelihoods. And where lives and livelihoods are concerned, nothing is easy to predict.

It is the variety and impact of our work that makes what we do so important – and so rewarding. But the other side of variety and impact is uncertainty and scale. The problems and choices that life presents are often unforeseeable. And so too is the extent of their consequences for people's personal and financial circumstances.

We need to bear this uncertainty in mind when we think about our future. But to be ready and able to respond to everyday life, we need to run on a business-like basis – carefully planning and managing our operations and resources.

To do this effectively, it is crucial that we take into account the views and insight of the people who use, fund and have an interest in our work. This includes, every January, consulting them on our plans and budget for the year ahead.

This consultation looks at what has happened during the first nine months of the current financial year (2014/2015) – and sets out our emerging plans for 2015/2016 against that background.

We know that we have a number of challenges to meet. The extremely large number of payment protection insurance complaints we have already received – and the 4,000 or so we continue to receive each week – will continue to place heavy demands on our service for a long time to come. But we also have to look towards the next phase of our development – establishing new ways of working that will meet our customers’ changing expectations of a quick and informal service.

We have discussed our plans with financial businesses and trade associations, consumer groups, claims management companies and the Financial Conduct Authority. And we will continue to talk to a full range of stakeholders before we finalise and publish our budget in March 2015.

We look forward to hearing your views.

Caroline Wayman

chief ombudsman and chief executive

January 2015

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We would welcome your feedback on our *plans and budget for 2015/2016*.

Please send your views and comments – to reach us by Monday 16 February 2015 – to debbie.enever@financial-ombudsman.org.uk. Or write to:

Debbie Enever

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We plan to publish the responses we receive. However, if there is a particular reason you think your response should be kept confidential, please let us know.

“listening, thinking and explaining … ”

“… honest answers to help people move on”

The Financial Ombudsman Service was set up by law to resolve individual disputes between consumers and financial businesses – fairly, reasonably, quickly and informally. These principles also underpin the new EU Directive on alternative dispute resolution (ADR), which comes into force in July 2015.

We look at complaints about a wide range of financial and money matters – from banking and insurance, to pensions and investments, and from mortgages to payday loans.

If a business can’t resolve a complaint to a consumer’s satisfaction, we can step in to settle the dispute. Independent and unbiased, we look carefully at both sides of the story and weigh up all the facts.

“… where things aren’t fair, we use our power to put them right”

If we decide a business has treated a consumer fairly, we will explain why. But if we decide the business has acted unfairly – and the consumer has lost out – we use our power to put things right.

We understand that a fair outcome for one person might not seem fair for someone else. It's our job to listen – and help both sides move on. For that to happen, it's not enough just to make decisions that are fair. We also need to make sure people *feel* that our decisions are fair.

We step into a huge range of problems and disputes – and we see the real impact of things going wrong on people's lives and livelihoods. So it is vital that we share our insight. Used effectively, this can help prevent future problems – and help give consumers greater confidence in financial services.

The chapters that follow set out:

- what we have been doing – and are planning to do – to meet the demands on our service;
- our commitment to providing value for money – and how we plan to deliver our services as cost effectively as possible; *and*
- how we plan to further develop and enhance our service over the coming year.

chapter 1: summary

In this consultation we set out:

- how we are dealing with the current demand on our service – and the operational and financial implications for the current year (2014/2015);
- the expected demands on our service in 2015/2016;
- our plans for the future as we look ahead to 2015/2016; *and*
- the operational and financial implications for 2015/2016.

The Financial Ombudsman Service carries out a statutory role and provides a public service. But it is a private company limited by guarantee – and funded by the financial services industry. This means our service has a range of different stakeholders who all have an interest in how we carry out our work. A key part of being accountable to our stakeholders is being open about how we are using the money we receive – and managing our resources thoughtfully and efficiently.

We are a demand-led service – which means our job is to deal with each individual problem that consumers bring to us. We can sort out many of these problems through a phone conversation – or by giving a people the information they need to sort things out themselves. But where we can't do this, we take on the problem as a case – which we will need to investigate thoroughly.

Understanding the volume of cases we are likely to receive is critical to our financial planning. Our plans involve managing uncertainty about the numbers and nature of complaints that we will receive – and the extent to which the two sides will cooperate with us in resolving them.

This willingness to cooperate is even more essential when it comes to establishing new and different ways of working – as part of our commitment to meeting changing expectations of a quick and informal service. These new ways of working include improving the ways that we gather and share knowledge – and making sure that we have the right resources in the right places.

Looking at the number of complaints we have received so far, 2014/2015 is proving to be another challenging year. We have continued to receive very high volumes of new payment protection insurance (PPI) complaints. We have seen a decline from a peak of 12,000 cases each week in late 2012 to current levels of 4,000 a week. But this is still twice as many as all other areas of complaint put together.

During the year, we have continued to increase capacity to deal with the ongoing consequences of PPI mis-selling. The investment we have made – primarily in the recruitment, development and retention of our people – means that we expect to resolve around 320,000 PPI cases this year.

Even so, as we work through the unprecedented number of PPI cases we have received over the last few years, it is clear that we will still be dealing with the fallout of PPI for several more years yet.

In **chapter 2**, we give an overview of the current financial year. We describe how the volume of PPI complaints that we have already received – and are still receiving – continues to dominate our workload. Resolving these complaints fairly and as quickly as possible remains our biggest operational and financial challenge.

We also explain some other important considerations about the cases we receive. Although the overall volume of cases people refer to us has remained relatively stable so far this year, some have declined – while some, like packaged bank accounts, have increased.

In **chapter 3**, we look at the challenges we will face next year. This involves understanding the levels of demand we expect in the next financial year (2015/2016) – and how we plan to deal with them. We also set out some of the other priorities for our service.

Chapter 3 also includes details of the numbers of enquiries and new cases we expect to receive, and the types of financial products that are likely to be involved. We discuss in particular the ongoing challenges of our PPI caseload, which currently accounts for 87% of our work.

As a result of a number of factors – including regulation, claims managers' activities, and how businesses themselves are dealing with complaints – future PPI volumes are very hard to predict. So we need to ensure that we have a financial and operational framework that is flexible enough to deal with a range of circumstances. This approach extends to our work to develop our service – to keep pace with the changing expectations of both businesses and consumers.

In **chapter 4**, we give more detail about our financial plans for 2015/2016. At this stage – for the second year running – we think that we can deal with the likely range of challenges ahead without increasing the amount of the general levy or the level of our standard case fee. And for the second year running, we are not proposing to charge a supplementary case fee for PPI complaints.

As part of our financial plans, we intend to keep the current group-account case fee arrangements for the eight financial business groups that account for the majority of our casework. In chapter 4, we also explain our approach to managing our reserves.

Based on these plans for 2015/2016, we will cost the financial services industry 13% less compared with 2014/15 – following a 26% reduction from the previous year.

We would welcome your views on:

- our overall aims – how we are implementing our plans for developing our service, and where our priorities should be.
- what volumes and varieties of complaints about mis-sold PPI we will receive – and whether our plans for dealing with these cases are realistic.
- what volumes of new cases and enquiries we will receive *other than* PPI – and whether the assumptions we have made for case volumes seem reasonable.
- what volumes of complaints about mis-sold packaged bank accounts we will receive – and any possible new areas of complaints we might see.
- our proposals to freeze the levy and standard case fee; our plan to keep the PPI supplementary case fee at zero; to maintain the number of "free" cases at 25; to keep the current group-account fee arrangements; and our approach to managing our reserves over the coming period, including not returning any

at this time.

Your views, thoughts and comments on this paper will help us to finalise our budget before we put it to the Financial Conduct Authority (FCA) for approval in March 2015.

Please respond by Monday ,16 February 2015 using the contact details on page 5.

chapter 2: overview of the current financial year so far (2014/2015)

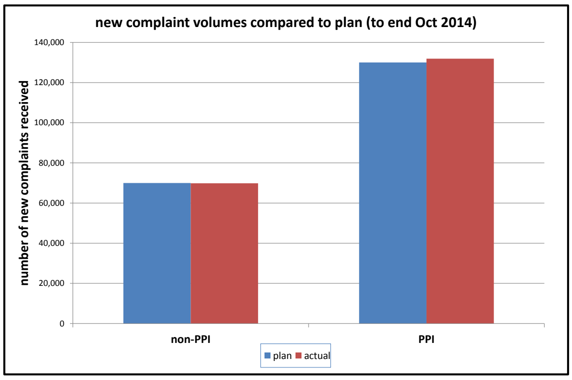
In this chapter:

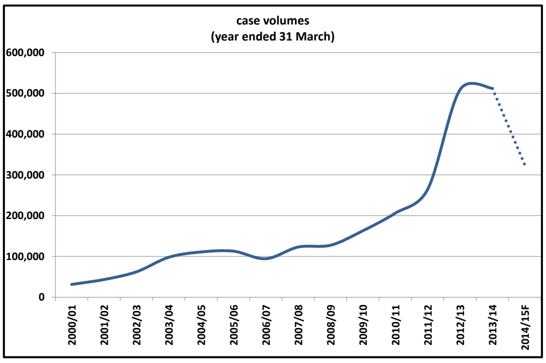
- we look at how we are dealing with the current demands on our service – the operational and financial implications nine months into the current financial year (2014/2015); *and*
- we set out details of the trends we are seeing so far – and how we anticipate these trends developing in 2015/2016.

overall case volumes so far in 2014/2015

Our workload has grown significantly since 2000 – from 25,000 new cases in our first year to more than half a million new cases in the last financial year (as shown in *annex A*). While bearing that in mind, following feedback from stakeholders our 2014/2015 budget was based around an assumption that we would receive 120,000 new cases *other than* PPI, and 200,000 new PPI cases.

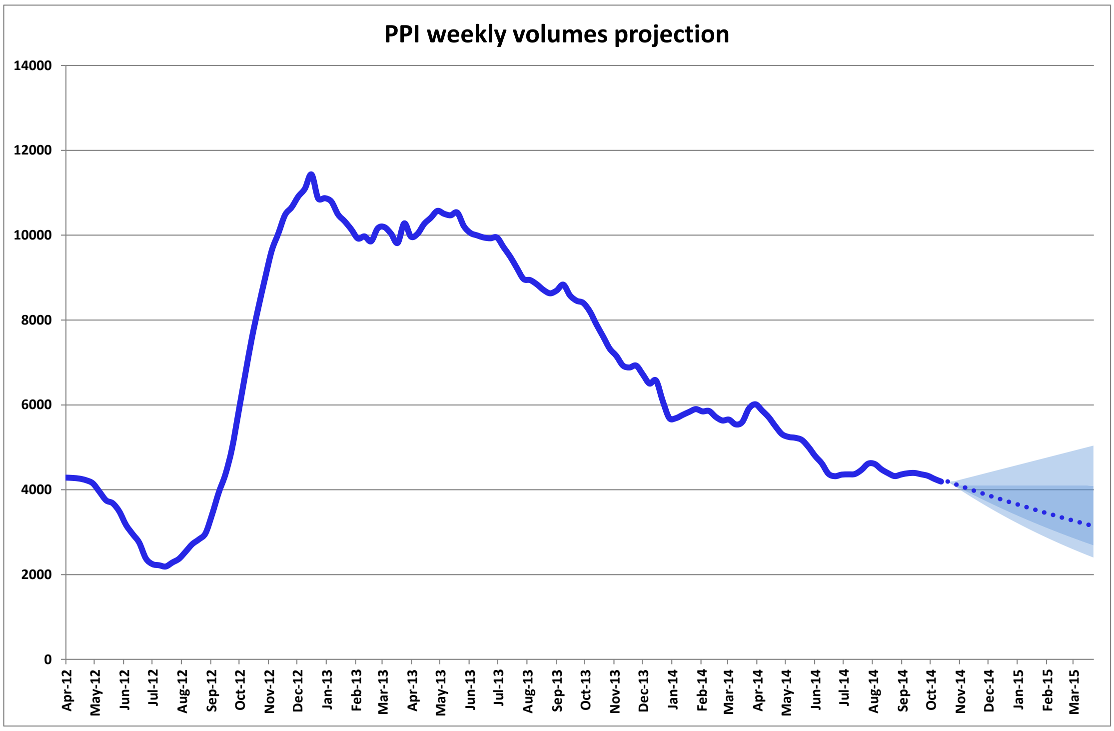
The tables below compare how many cases we have received so far this year (2014/2015) – with how many we had planned to receive. We also show how our caseload has grown since 2000/2001.





The chart shows that, based on current trends, we expect our "general caseload" – that is, cases about things other than PPI – to reach 125,000 by the end of March 2015. This is slightly higher than the 120,000 cases we had forecast. Complaints about packaged bank accounts are responsible for much of this increase – which, along with a rise in consumer credit complaints, offset decreases we have seen in other areas of banking and credit.

The situation with PPI is very different. The graph below shows the number of cases we have been receiving and expect to receive in the year ahead.



When we consulted in January 2014 on our plans for 2014/2015, we had initially suggested that we would receive around 150,000 new PPI cases. Following feedback from our stakeholders, we revised that assumption up to 200,000 cases – and the number of complaints we are currently receiving is in line with that. A significant trend this year is that the volume of new PPI cases has not fallen as quickly as we or our stakeholders expected – indicating that we will continue to receive high volumes of complaints into next year.

We are currently receiving around 4,000 new PPI cases a week. Although this is a steep decline from the 12,000 cases a week we were receiving at the end of 2012, it still represents a significant operational challenge. In total, we have now received around one and a quarter million PPI cases.

To manage this workload, we continue to invest significantly in recruiting, training and developing our people; developing our IT and case management systems; and improving our customer service, including the way we update and communicate with people.

At the start of 2014/2015, we had 400,000 PPI cases to resolve. Our aim is to reduce this by around 30% this year – meaning we will have 280,000 unresolved PPI cases by March 2015. Next year we plan to resolve 100,000 more PPI cases than we receive. This means that by March 2016, we will have around 180,000 cases remaining.

Dealing with numbers of complaints on this scale has been unprecedented for the ombudsman service. We have received more than one and a quarter million PPI complaints in total – most of which have arrived in the last two years alone.

Our PPI workload is particularly challenging because of the uncertainty involved. Changes to the rules, the activities of claims managers and the way major banks approach PPI all have a significant impact of on the number and type of PPI cases we receive.

We know that many consumers and businesses have had to wait far longer than we would like for us to resolve their case. Over the last two years, we have doubled the number of our staff – adjudicators and ombudsman – enabling us to make substantial headway. However, we recognise that the further we make inroads into our PPI caseload, the more complex and challenging it is likely to become.

For this reason, the expertise and experience of our people will be even more critical. In a job market where our staff could be paid much more by another employer, we need to work hard to retain them.

trends in product type

During the year the types of issues and financial products involved in the cases we see has continued to evolve. And in some areas, the cases have become more complex – adding 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. Although the 65,077 complaints we received about banking and credit in 2013/2014 was lower than the 77,176 we received in 2012/2013, volumes have risen again this year. We expect to receive around 76,000 new cases relating to banking and credit by the end of 2014/2015.

Many of the cases we are receiving involve consumers who are experiencing financial pressure and have asked for extra help or flexibility from their lender – often in relation to their mortgage. With lenders facing cost pressures too, these cases are often difficult to resolve.

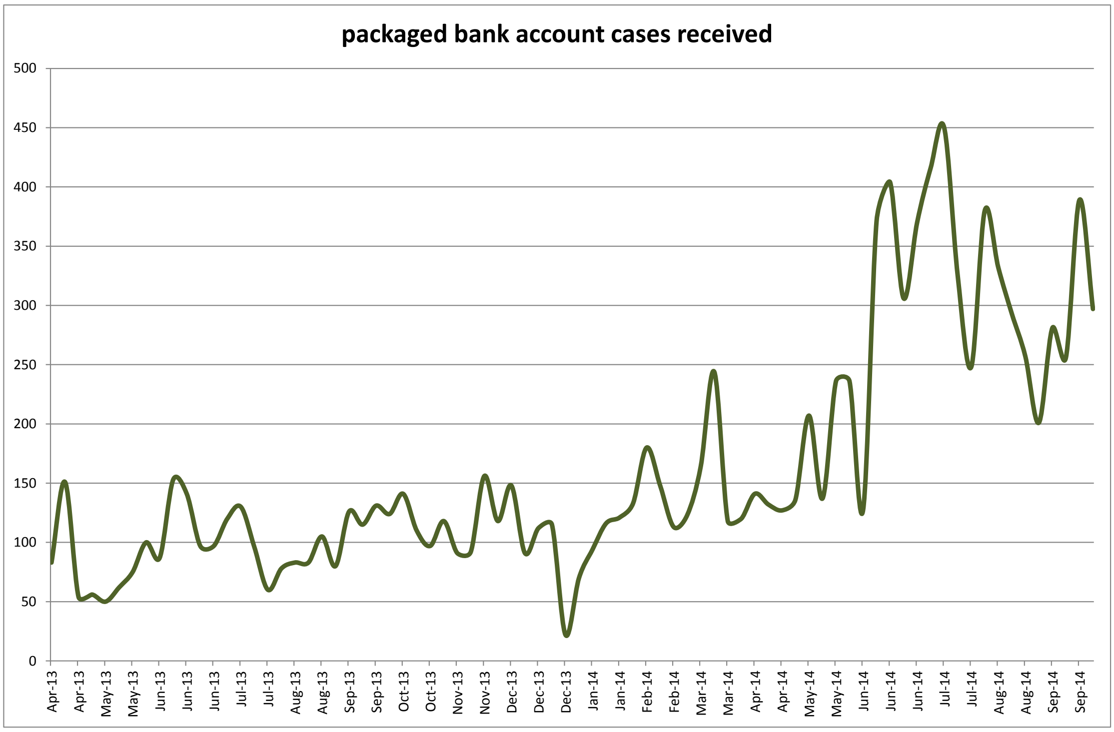
For similar reasons, we have seen an increase in the number of cases about various types of short-term credit, including payday loans and credit broking – especially since the FCA took over the regulation of these providers from the Office of Fair Trading (OFT) in April 2014.

As well as publishing our insight report into payday lending in August 2014, we have also been exploring how we can help people and businesses resolve problems in this area more quickly. We recognise that the current regulatory process – where we can only "officially" step in once a business has had eight weeks to resolve the complaint – does not seem appropriate where the products involved can be taken out in a matter of minutes.

And eight weeks can be a very long time to wait for someone in vulnerable financial or personal circumstances. The FCA is currently consulting on new complaints-handling rules that aim to address some of these issues.

We have continued to see cases involving changes to mortgage interest rates. Consumers have complained that they were not made aware that their interest rates could rise, even if bank base rates stayed the same. We have also started to see more cases where consumers haven't been able to port their mortgage or renew on a fixed term basis because of changes to businesses' lending criteria.

One area where we have seen volatility this year is in complaints about “packaged” bank accounts, as the graph below shows.



Over the summer of 2014, the number of new cases increased from around 50 cases a week to 500. We are currently receiving around 300 packaged bank account complaints each week. If volumes remain at this level, we anticipate receiving around 16,000 new cases about packaged bank accounts this year – and 18,000 in 2015/16.

However, even though we expect the number of packaged bank account complaints to grow, we do not expect it to reach anything like the scale of PPI.

In some ways, packaged bank accounts might appear to be a very similar issue to PPI – but so far, we have seen as many differences as similarities. Compared with PPI, it is often less clear whether a consumer has actually lost out.

This is because a particular package may offer many consumers a fair deal – but be unsuitable for others because of their particular circumstances.

Working out what is fair can be complicated. So in the coming year, we will continue to work both with businesses and claims managers to help them more easily identify which consumers have, or haven't, been treated fairly. This will involve our listening and responding to their questions and concerns – and helping them to understand our approach through the answers we give.

complaints involving insurance

Based on current trends, we expect to receive around 33,000 new insurance complaints by the end of this financial year – not counting PPI complaints. This is around 3% more than we had assumed in our budget for 2014/2015.

A key trend in the complaints we receive across different areas of insurance is consumers feeling something has not been explained to them – or at least, not in a way that they can understand. We see this regularly in complaints about "non-disclosure" – where consumers feel that insurers have not been clear about exactly what they wanted to know. Another typical complaint is that consumers do not feel they are kept informed while their claims are being considered and settled.

Rejected insurance claims also lead to a significant number of complaints. Many of the cases we see involve consumers feeling a claim has been turned down on the basis of a term or condition in the policy that they believe is not relevant or significant to the claim.

complaints involving investments

Based on current trends, we expect to receive around 16,000 new cases about investments and pensions this year – which is in line with what we had assumed in our budget for 2014/2015.

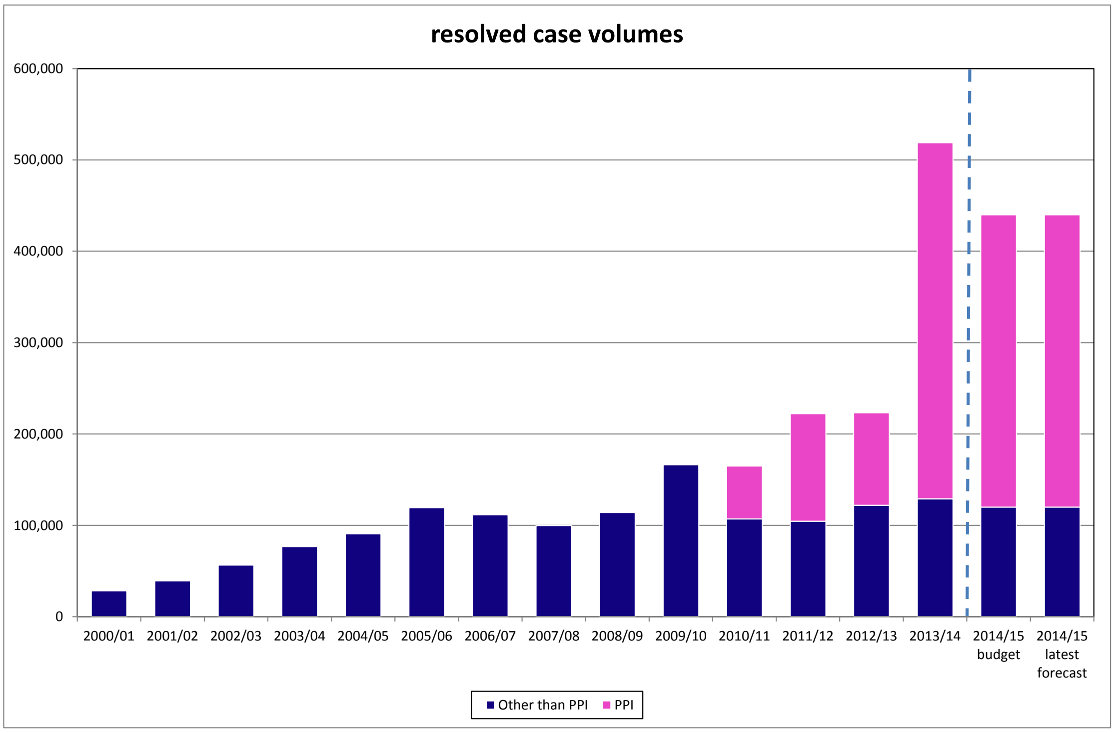
In many investment cases, consumers complain that what they bought did not match the description they were given. These cases may be complex – so they can take more time to assess and resolve than other cases.

We have seen an increase in complaints about unregulated collective investment schemes. Last year the FCA banned the promotion of these investments to the vast majority of retail investors in the UK. These complaints are particularly challenging – often involving numerous parties and overseas investments.

Although the number of complaints about mortgage endowment policies has reduced this year, they still remain one of the most complained-about investment products – which reflects consumers' concerns about the shortfall that can be left when these policies mature.

resolving cases in 2014/2015

Last year we resolved over half a million cases – more than ever before. This year, we expect to resolve slightly fewer – reflecting the fact that we have already dealt with many of the more straightforward PPI cases, and will increasingly be working on more complex cases which take longer to resolve.



Our aim has been to make sure that handling our PPI caseload should not affect how we deal with all the other cases we receive. So while the large number of PPI complaints may take years to resolve, we want to make sure other complaints are sorted out much more quickly. The table below shows our "timeliness" this year, compared with last year.

our timeliness (excluding PPI cases)	resolved within 3 months	resolved within 6 months	resolved within 12 months
2013/2014	44%	71%	90%
so far in 2014/15	54%	78%	89%

The table shows that we have already made significant progress in resolving more cases within three or six months. We know we need to reduce these waiting times even more – and are looking at new ways of doing this.

We are also continuing to develop new, more streamlined ways of handling complaints – that meet the changing expectations of consumers and businesses in a way that builds both on our underlining statutory principles and on the new European directive on alternative dispute resolution (ADR). This will significantly improve our timeliness and the quality of our service – which we know is important both to businesses and consumers.

However, the scale of the PPI challenge means that PPI cases will continue to take substantially longer to settle than other disputes. As the chart on page 14 shows, we received a particularly high volume of complaints towards the end of 2012. This means that – even though we are making strong headway and settling about 6,200 complaints each week – these cases are now over eighteen months old.

We expect that by March 2015, 28% of our remaining cases will be more than 18 months old. We have always been very clear and open about this with consumers and businesses – so that they have realistic expectations about how long it is likely to take to resolve their case.

our people

The work we do involves bringing two sides together – listening, weighing up evidence and reaching a decision. This means that our people are by far our most important resource. We rely on their skills, expertise and professionalism to resolve complaints in a way that feels fair to everyone involved.

Over the past two years we have doubled in size, having recruited and trained nearly 2,000 new staff to help work through and resolve cases. Following a 50% increase in the number of ombudsmen in 2013/2014, we have continued to recruit more in the current year. Our investment in ombudsmen has helped us resolve the rising number of hard-fought disputes that are “appealed” for a binding decision. It also strengthens the professional leadership role that our ombudsmen have in helping to train and support all our adjudicators.

We now have more than 150 ombudsmen working on PPI complaints. Recognising the extensive costs associated with recruiting and training staff, it is vital that we continue to develop and retain expertise within our service.

We recognise that we operate in a competitive market where the skills of our people are highly sought after. This is why we are committed to keeping our staff engaged and enthusiastic about working at the ombudsman service – through providing rewarding work and through our approach to recognition, wellbeing and work-life balance.

chapter 3: our plans for 2015/2016

In this chapter:

- we set out the levels of demand we expect in the next financial year (2015/2016) – including numbers of enquiries, numbers of new cases, and the products involved;
- we set out separately the number of PPI cases we expect to receive – which remains by far the biggest challenge we face; *and*
- we set out how our plans for developing our services are progressing.

We know that the next year will be very challenging for our service. Our main focus will continue to be on resolving the problems that consumers bring to us – the vast majority of which will still be complaints about PPI. So understanding the volumes of likely complaints is the most important factor in our financial planning for next year.

But our priorities are broader – and more complex – than simply managing complaint volumes. We have a number of other challenges ahead. In addition to resolving hundreds of thousands of complaints, in 2015/16 we plan to:

- continue to modernise our IT and case-handling infrastructure to allow us to work more efficiently;

- develop and establish new ways of working that reflect our customers' changing expectations about a quick and informal service;
- further improve the speed at which we resolve cases other than PPI – working with businesses to ensure we have the information upfront that we need to progress complaints quickly;
- gather and share more of our insight to help prevent problems in the future;
- continue to develop our corporate governance, reflecting the increased scale of our organisation; *and*
- work further to make sure that everyone who needs our service knows about us and is confident to use us.

understanding the work we will need to do

Because so many factors can influence the number and type of complaints that consumers refer to us, forecasting our caseload is always difficult. Some of these factors are short-term – for example, complaints arising from a single incident, like an IT failure at a financial services provider. Others are longer term, and are connected with the way businesses and consumers respond to a changing economic environment. The impact of regulatory action can also play a part. So it is vital for us to get a broad range of considered views from our stakeholders on the volume and type of work that we should expect to receive.

It is also important that, as a service provider, we understand the changing environment in which we operate – and the changing needs and expectations of all our customers. Last year, we used the latest of our three-yearly external reviews as an opportunity to develop our understanding – asking the Future Foundation to work with our stakeholders to explore the changing world we need to plan for.

The Future Foundation's review (available on our website) has helped us to identify future challenges – as well as some issues that are already beginning to emerge. It gave an independent assessment of major future trends for our service to respond to, informed by background analytical work. It gathered insight in a way that allowed us to be sure that we had perspectives from consumers, the financial services industry and other sectors.

The themes identified by the review have been validated over the course of the year. For example, the review's analysis of the role of "intermediaries" has so far been confirmed by the shrinking size but growing sophistication of the claims management market.

We plan to develop different ways of working – challenging our existing processes, widening the accessibility of our service, and interacting differently with our customers to help resolve disputes at the earliest possible opportunity. This will build on the success of our work with customers with payday loan problems. By minimising formality and process in these cases, we were able to resolve issues straight away for people in severe financial hardship who needed immediate help and support.

But changing these ways of working will be demanding for us. And it will also require strong cooperation from the businesses we work with. We hope the financial services industry will play its part – and that businesses will shape their ways of working to help us meet these challenges. We have been very encouraged by the positive engagement we have had from businesses in some of the work we have trialled so far. In the meantime, we will also need businesses' cooperation to make sure that we handle cases other than PPI faster next year than we have done this year.

In 2015/2016, we also plan to start the process of replacing our case-handling system with a new IT platform and casework management system that will meet our future needs. We will shortly be introducing a digital platform to provide multi-channel access to our services. This means customers who want to will increasingly be able to interact with us digitally – including through online forms and web-chats.

At the same time, we will continue to meet our wider external responsibilities. As in previous years, we will share our knowledge and insight with the regulator, financial businesses and the public. Building on our first insight report into payday lending, we will look at other areas and topics where we have knowledge we should share.

We will also carry on making sure that our service is accessible to everyone who needs us; that we are working efficiently and organising ourselves effectively; and that we are making fair decisions in the right way.

your feedback 1

- Do you agree with how we are approaching the challenges ahead of us?
- Where do you think our priorities should be?

PPI case volumes in 2015/2016

Our biggest challenge remains the substantial volume of PPI complaints. Although the number of new PPI complaints has now started to decline, it has not done so as quickly as we and our stakeholders had originally expected. As in previous years, we cannot say for sure how many cases we are likely to receive in 2015/2016.

However, two things are reasonably clear. First, we will continue to have a large volume of *existing* cases to work through – while we continue to receive a high volume, but falling numbers, of *new* cases. And secondly, we know that managing our PPI workload over the next few years will present some very different issues to those we have previously faced.

The key to dealing effectively with our PPI workload is to build the capacity of our adjudicators so that they can deal with a wide range of cases – from the most straightforward to the most complex. Our ombudsmen play an important part in this by providing professional leadership. As well as resolving cases, the ombudsmen share their knowledge and experience – helping to ensure we are taking a fair and consistent approach to the cases we resolve.

Although we are likely to receive fewer new PPI cases next year, a high proportion of existing cases are complex – and are likely to be harder-fought than many we have previously settled. These complaints will need more involvement from more experienced adjudicators and ombudsmen and will take longer to resolve.

Of course, the volume of PPI cases referred to us in 2015/2016 will depend on the number of complaints that financial businesses themselves receive – and on how many of those complaints they resolve to their customers' satisfaction.

For planning purposes – following discussions with the FCA, the financial services industry and claims managers – we are projecting that we will receive on average around 3,000 cases each week, with more at the beginning of the year and fewer towards the end.

If our assumptions are right, this means we will receive around 150,000 new cases to add to the 280,000 unresolved cases we will take forward into the new financial year. But we cannot be sure about this. So far, only around 10% of the total complaints made to businesses about PPI have been escalated to our service.

We would welcome your thoughts on whether our assumptions about PPI case volumes are reasonable.

your feedback 2

- What volumes and types of complaints about mis-sold PPI do you think we will receive?
- Are our plans for dealing with PPI cases realistic?

case volumes other than PPI in 2015/2016

Looking at cases other than PPI, the number of complaints we are receiving is currently generally stable. Two exceptions are an increase in banking complaints – mainly due to complaints about packaged bank accounts – and in consumer credit, where case volumes may be more volatile.

However, the changing economic and regulatory environment can push different parts of our caseload either up or down – and can also affect the speed with which we can resolve complaints.

An improving economic outlook can lead to fewer people complaining – for example, because higher investment returns mean fewer people are unhappy with their investment products. We might also receive fewer complaints as a result of financial businesses handling complaints better in the first place. And where businesses cooperate with us, we can assess cases quickly and reduce waiting times.

But in conditions where consumers – and some instances, financial businesses as well – experience financial difficulties, we are likely to receive more complaints. This may be because there are more complaints involving debt – and harder-fought cases that are more likely to be appealed to an ombudsman.

Similarly, a low level of cooperation from businesses can create unhelpful delays – slowing down our levels of service. A growing economy can also lead to *more* complaints in some areas – for example, involving people buying and selling properties.

So although the total number of cases involving products *other than* PPI is likely to be broadly stable next year, the products involved in these cases is still likely to change. This means that we need to make sure we continue to have the right mix of fully-trained case-handlers.

At this stage, we are assuming that the only new or emerging issue where we will be dealing with higher case volumes in 2015/2016 is packaged bank accounts. But we would particularly welcome feedback from our stakeholders about any other emerging issues which they think we may see. For example, given the current attention on pensions, are we likely to receive more pension-related complaints?

For planning purposes, we are also currently assuming that we are likely to see an increase in *non*-PPI cases from 125,000 forecast in 2014/2015 to 132,000 in 2015/2016 (*plus or minus* 15%). We would welcome stakeholders' views on these figures – as well as on the likelihood of any new issues or areas of complaint that could emerge in 2015/2016, and that could have an impact on our work.

expected number of new cases in 2015/2016

The table below sets out the number of new cases that we are assuming will be referred to us in 2015/2016. There is a more detailed breakdown in *annex B*.

new cases	**actual 2013/2014**	**forecast 2014/2015**	**budget 2015/2016**
banking	57,419	66,500	74,000
consumer credit	7,658	9,500	11,000
insurance (not including PPI)	31,213	33,000	31,000

investments and pensions	15,938	16,000	16,000
PPI (payment protection insurance)	399,939	200,000	150,000
total	**512,167**	**325,000**	**282,000**

We will keep these assumptions under close review – and would welcome our stakeholders' observations on how our figures compare with their own expectations.

expected enquiries in 2015/2016

Over the last two years, we have seen a record number of phone calls and enquiries to the ombudsman service. Our consumer helpline is the first port of call for everyone who contacts us – and helps customers in many different ways.

As well as registering new complaints, our helpline can explain businesses' complaint procedures, reassuring any consumers who may feel intimidated by the formal process of complaining. We can also forward details of a problem on to a business if the consumer wants us to do so. At this stage, we can also provide a consumer with the information they need to resolve their problem themselves – perhaps by directing them to our website or other online resources. Where our service is not able to help, we will suggest other organisations that might be able to.

The decline in the number of frontline enquiries about PPI reflects the decrease in new PPI complaints overall. On the other hand, while the number of initial enquiries about packaged back accounts has stabilised, the actual number of complaints about these products has gone up. This reflects the fact that most complaints involving packaged bank accounts have been brought to us by claims managers – who generally have fewer general enquiries and frontline questions than individual consumers.

consumer enquiries to our helpline	actual 2011/2012	actual 2012/2013	actual 2013/2014	forecast 2014/2015	budget 2015/16
phone calls	673,999	1,067,607	1,150,002	800,000	650,000
written and online enquiries (including email)	594,799	1,093,832	1,207,372	750,000	700,000
total	**1,268,798**	**2,161,439**	**2,357,374**	**1,550,000**	**1,350,000**

We are assuming for planning purposes that this overall downward trend in calls to our consumer helpline will continue next year. This is likely to result in volumes similar to those we saw in 2011/2012.

The volume of calls we receive on our helpline is particularly sensitive to the impact of internet campaigns, media coverage and the activity of claims managers. In the past, this has affected our PPI work in particular.

We also need to bear in mind the impact of the launch of our online platform. We do not yet know how many people will choose to engage with us digitally – rather than contacting our helpline in more "traditional" ways.

expected number of resolved cases in 2015/2016

As we explained earlier in this chapter, the nature of the PPI cases we have to deal with is changing – with a shift to more complex and harder-fought complaints. We have planned for this change and adjusted our case-handling teams to reflect it.

Assuming the number of new cases received next year is within the range we have planned for, we expect to resolve around 250,000 PPI cases in 2015/2016. This would mean that during the year, we would reduce the number of people waiting for an answer on their PPI case from around 280,000 to around 180,000.

We also said earlier in the chapter that we are assuming the number of new cases other than PPI cases to remain stable – with the exception of packaged bank account complaints. So we can resolve the number of cases we want to, we will continue our work to retain our staff and recruit up to 200 more case-handlers in 2015/2016.

With these staff numbers, we should be in a position to resolve around 138,000 *non*-PPI cases in 2015/2016.

The table below shows the total number of cases we expect to resolve in 2015/2016.

cases resolved	**actual 2013/2014**	**forecast 2014/2015**	**budget 2015/2016**
banking and credit	72,728	65,000	88,000
insurance (not including PPI)	37,590	37,500	33,000
investments and pensions	18,730	17,500	17,000
PPI (payment protection insurance)	389,730	320,000	250,000
total	**518,778**	**440,000**	**388,000**

your feedback 3

- What volumes of new cases and enquiries do you expect us to receive – other than about PPI?
- Are the assumptions we have made for case volumes reasonable?
- What volumes of complaints about mis-sold packaged bank accounts do you think we will receive?
- are there any new areas of possible complaints that you think we might start to see?

chapter 4: our proposed budget for 2015/2016

In this chapter:

- we set out our financial plans for 2015/2016; *and*
- we explain how these plans will help us to deal with our 2015/2016 caseload.

Our financial plans for 2015/2016 are aimed at reducing the number of customers who are waiting for a response to their PPI case – and with establishing a new framework for our service for the future, including the launch of digital services.

With these objectives in mind, we are planning to set an operating income budget of around £220.7m for 2015/2016. We expect to end 2014/2015 with total operating income of around £253.7m. This would mean we would need around 13% less from financial businesses next year to support our budget – following a 26% decrease this year.

To do this, we believe we can once again freeze the standard case fee and levy (for the "compulsory jurisdiction"), maintain the current group-account fee arrangements, and retain the number of "free" cases at 25. We also plan to retain the zero rating of the PPI supplementary case fee.

We are confident that we can make these changes to our income and still be in a position to make the necessary long-term investments for our future.

However, we also have to bear in mind that the fallout of PPI mis-selling will take several more years to resolve – at a cost running into hundreds of millions of pounds. This means that – as we incur the anticipated costs of meeting the PPI challenge – we are in the unusual position of expecting to make a significant loss.

We also need to bear in mind the very high level of uncertainty that surrounds any forecast of future PPI volumes. We know from the experience of recent years that the eventual numbers of cases coming to the ombudsman has been much higher than anyone originally forecasted. As we have explained, any number of events could lead to an upsurge in complaints.

We have needed to significantly increase our office space over recent years – to accommodate the thousands of people we have recruited to deal with PPI complaints. This year, the lease on the building we had been in since 2000 came up for renewal. In preparation for this, back in 2011, we carried out a very detailed review of where we should be based – mindful of the impact of our location on recruiting and retaining appropriate staff, and of the importance of ensuring value for money for our stakeholders. So from summer 2014, the majority of our staff have moved to one building in Tower Hamlets in East London.

reserves and meeting future PPI-related costs

To ensure that the costs we will incur in dealing with out PPI workload are paid in a fair and stable way, we have built up our financial reserves in recent years. However, we began to draw on these reserves in the second quarter of the year, and we will not materially add to our reserves in 2014/2015.

We expect our operating losses to widen as we handle an increasing number of more complex PPI cases – and as we start to incur costs associated with winding down our PPI operation. However, although PPI will eventually no longer dominate our work, it is still likely to remain a significant part of it in the future – just as we continue to see more complaints about mortgage endowments than any other investment product, even though these complaints peaked in 2005.

It is difficult to forecast the future flow of cases and the pattern of costs we will incur several years ahead. But we still think that by the end of 2017/18, as a result of further operating losses, our reserves will have fallen significantly – probably to around four months' worth of operating expenditure.

At the same time, our total costs to the financial services industry may have fallen significantly – as case volumes reduce once existing PPI cases are finally resolved and volumes return to a more "normal" level.

This position is clearly not sustainable – which is why developing a new operating model is one of our key priorities. We will need to ensure that our charging structure for this reflects the true cost of the work we undertake – and also reflects what is fair between the different contributors to our workload. Against this background, we have given careful thought to whether we could reduce our reserves even further now.

The income that has built up the current level of reserves has come primarily from the supplementary PPI case fee that we charged in 2012/2013 and 2013/2014 (and the equivalent element of the group-account fee last year). More than 70% of this income has come from the four major retail banking groups (Lloyds, Barclays, HSBC and RBS) – and more than 90% of PPI cases have been generated from just ten businesses. Any reduction in reserves at this stage would need to be achieved by a rebate against supplementary case fees incurred between April 2012 and March 2014.

As we said in our budget consultation paper last year, we do not intend to retain reserves at their current levels in the long run. However, as we have explained – and many stakeholders have agreed – the long-term nature of the PPI challenge means that it would be appropriate to maintain reserve levels for the time being.

Our general approach is to keep reserves at a prudent level that is consistent with our operating in an economically and financially efficient way. But the current outlook remains uncertain. If we reduce the size of the reserves now by returning some money to supplementary case fee payers – before we have more certainty about how PPI will develop over the next year or so – then we create other risks.

In particular, if PPI case volumes turn out higher than we currently forecast, we could find ourselves having to increase fees in future years. Importantly, the people who would pay those higher fees in future years are likely to be different to those who have already paid the supplementary fee.

We do not think this would be a fair outcome – as businesses who generated the most PPI work would end up paying less – and the costs of the PPI work they generated would instead be paid for by other, smaller businesses who contributed much less to the overall problem.

We also need to bear in mind that we may have a lower caseload in the future. This would mean that the cost of closing any funding gap would be spread over fewer cases – and fees per case would rise above the current combined cost of a case plus the supplementary fee. Depending on how many cases we received involving PPI, it might not be possible to raise fees in relation to PPI cases alone – meaning we would need to rely, instead, on the levy or general case fees to secure sufficient income.

Last year a number of stakeholders responded to our plan and budget consultation with comments on the level of our reserves. None thought that we should return any reserves to the industry in 2014/2015. But some did recognise the possibility that – at a later date and if PPI cases significantly decreased – we might have excess unspent reserves. A majority of stakeholders said that, if that happened, the excess should be reinvested in developing the service further. Others suggested that the excess should be redistributed in a fair way among financial businesses.

Given the ongoing uncertainty – and having taken everything into account – we do not currently propose to return any of the reserves we are holding. Instead – in line with the majority of stakeholders' views we received last year – we will continue to invest in developing our service, as we carry on our work giving answers to customers with remaining PPI complaints.

We will keep an open mind on the issue – and return any "excess" as soon as possible to fee payers. We will certainly review the position again in the next budget cycle (2016/2017 budget). In the meantime, we will continue to focus on reducing costs and securing the most efficient resolution to the remainder of our PPI casework. We would particularly welcome stakeholders' feedback on this approach to handling our reserves.

group-account fee

In April 2013, we introduced a new group-account fee for our largest users – to reflect their contribution to our overall costs. We decided that this should – at least initially – be limited just to our very largest users. So it applied to the four major banking groups that, at the time, accounted for around 60% of our caseload. Last year we extended the arrangement to a further four businesses.

The group-account fee is calculated using the same general principles that apply to other case-fee payers. But rather than pay fees for *individual* cases once they are received, group-account fees are determined in advance – and a quarterly fee is set based on the overall level of expected work from each group.

If actual figures are markedly different, there can be some adjustment at the end of the year. This arrangement helps ensure that we receive our income in a timely and stable way – so that we can adjust our resources to respond to volatility in demand.

The first two years of the group-account fee have been a success. The financial businesses involved have welcomed its transparency and predictability. And we have benefited from a lower administrative burden, increased efficiency and steadier cash flow it has provided. Because these benefits are only realised with businesses that have significant volumes of cases with us, we do not propose to extend these arrangements to cover any more businesses in 2015/2016. But we will keep this position under review.

consumer credit jurisdiction

Our “consumer credit jurisdiction” covered businesses licensed by the former Office of Fair Trading (OFT). This part of our jurisdiction existed until 1 April 2014, when the regulation of consumer credit passed from the OFT to the FCA. Since then, consumer credit businesses have been covered by our existing “compulsory” jurisdiction.

Income relating to our jurisdictions is ring-fenced for each jurisdiction. Our consumer credit jurisdiction was closed with a surplus – held as deferred income of £1.7m and with an unused reserve of £0.75m. This level of reserves is in line with our reserves policy in the compulsory and “voluntary” jurisdictions, where we aim to maintain reserves equivalent to three months’ worth of expenditure.

Businesses that transferred from our consumer credit jurisdiction to our compulsory jurisdiction have always been subject to our usual case fee arrangement. But the FCA has said that it will not apply a levy to consumer credit businesses until 2016/2017, when its full regulatory regime for consumer credit takes effect.

As we explained in our consultation last year, we are using the £1.7m deferred income to offset the anticipated shortfall in income for our consumer credit work during 2014/2015 and 2015/2016. If some shortfall remains, we have told the FCA that it may need to be recovered through future levies paid by consumer credit businesses in 2016/2017 – and after that if necessary.

funding our service in 2015/2016

Our detailed proposals for funding the service in 2015/2016 are described below.

case fees

For both our jurisdictions (compulsory and voluntary), the case fee amount is set by us and approved by the FCA. Although each case is “chargeable”, each business outside the group fee arrangement has 25 “free” cases a year – where a case fee is not charged. For the 26th and each subsequent case, we charge £550 once the complaint is resolved.

The free case allowance is intended to ensure that our funding requirements have a fair and proportionate impact on every type of business. It reduces the number of businesses paying case fees, so that around 99% of businesses we cover do not pay any case fee at all each year.

We propose to once again freeze the standard case fee at £550 for 2015/2016, and to maintain the number of free cases at 25.

PPI supplementary case fee

Last year we set the supplementary case fee for PPI at £0 from April 2014. We propose to maintain this for 2015/2016.

group-account fee

We propose to retain the group-account fee arrangement for the same eight groups it currently applies to. We will set the relevant sum for each group at the start of 2015/2016 – on the basis that the total amount each group pays will be in line with individual case fees (according to our forecast of the group's usage).

compulsory jurisdiction levy

The levy payable by FCA-authorised businesses is set and collected by the FCA. The FCA 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 on the Financial Services Compensation Scheme, Money Advice Service and FCA levies, which is expected to be published in March 2015.

Broadly, allocating 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 arising from that sector; *and*
- The levy for each industry block is divided among businesses in that block according to a tariff rate (relevant to that sector) which is intended to reflect the scale of each business's activities.

We intend to ask the FCA to raise an overall levy for the compulsory jurisdiction of £23.3m in 2015/2016. This is the same as the amount of levy the FCA collected this year – so the overall amount of the levy would be frozen.

This means that most businesses are likely to pay a similar levy in 2015/2016. However, the exact amount a business will pay will depend on the fee block they are in – because of the tariff rates the FCA sets for each fee block.

voluntary jurisdiction levy and case fees

The voluntary jurisdiction levy paid by participating businesses is set and collected by the ombudsman service and approved by the FCA. As with the compulsory jurisdiction, the income we receive for the voluntary jurisdiction is ring-fenced. We also operate a reserve in line with our approach in the compulsory jurisdiction – covering three months' worth of expenditure.

The levy rates we propose for 2015/2016 are set out in *annex C*. These are the same as in 2014/2015. Together with the income we receive from case fees, we think these rates will be enough to fund our work under the voluntary jurisdiction in 2015/2016. Because there is no need to increase the voluntary jurisdiction reserve for 2015/2016, we will not be seeking any additional money to cover the reserve.

In line with the compulsory jurisdiction, we propose to freeze the standard case fee in the voluntary jurisdiction at £550 and to maintain the number of free cases for each business at 25.

what this means for our overall income and expenditure plans – our proposed budget for 2015/2016

split between jurisdictions

With the levels of demand we have forecast for 2015/2016, we expect to be able to set an operating income budget of around £220.7m. To reflect the caseload we forecast under the compulsory and voluntary jurisdictions, we expect our total budget expenditure for 2015/2016 to be divided as follows:

- 99.5% would relate to our compulsory jurisdiction (which covers businesses regulated by the FCA); *and*
- 0.5% would relate to our voluntary jurisdiction (which covers a small number of businesses that have *chosen* to be covered by the ombudsman service – but would not otherwise come under our compulsory jurisdiction).

unit cost

We calculate the "unit cost" of resolving a complaint by dividing our total running costs (less financing costs and bad debts) by the total number of cases we resolve in the year. Based on this measure, we expect our unit cost for 2014/2015 to be £567 (compared with a budget of £629) – rising in 2015/2016 to £706.

These unit costs are lower than in previous years. The unit cost in 2012/2013, for example, was £724. Our unit costs have fallen in recent years because of economies of scale in our PPI operation; our work with some of the major businesses to resolve large numbers of similar cases collectively; and our ongoing work to improve efficiency.

However, over the long term, our unit costs will remain under sustained upward pressure – because of general inflationary and cost pressures; the shift towards harder-fought disputes; and changes in the product mix of our caseload.

our feedback 4

- Do you agree with our proposals to freeze the levy and standard case fee?
- Do you agree with our plans to keep the PPI supplementary case fee at zero?
- Do you agree we should maintain the number of free cases at 25?
- Do you agree that we should not extend the group-account fee arrangements at this time?
- Do you agree with our approach to managing our reserves over the coming period? Do you think that we should return any money now?

overall picture

£m	14/15 budget	14/15 forecast	15/16 budget
income		**£m**	**£m**
compulsory jurisdiction levy	23.3	23.3	23.3
voluntary jurisdiction levy and release of deferred consumer credit jurisdiction levy	1.2	1.2	1.2
group fees	163.4	163.4	142.5
case fees	63.3	64.6	51.9
supplementary case fees	0.0	0.0	0.0
other income	0.5	1.1	1.6
total operating income	**251.7**	**253.7**	**220.7**
expenditure			
staff and staff-related costs	205.2	200.1	221.7
professional fees	11.4	7.0	7.0
IT costs	7.4	7.7	8.2
premises and facilities	26.0	24.7	25.4
other costs	1.6	1.6	3.8
depreciation	9.7	7.6	5.8
bad-debt write-off	0.8	0.8	0.7
contingencies	15.3	0.7	2.0
total operating costs	**277.4**	**250.3**	**274.6**
operating surplus/(deficit)	**(25.7)**	**3.4**	**(53.9)**
accounting adjustments			
deferred income [1]	0.0	0.0	0.0
deferred income release [1]	67.4	70.0	20.3
total accounting surplus/(deficit)	**41.8**	**73.4**	**(33.6)**
deferred income (at end of year) [1]	32.6	35.1	14.8
reserves (at end of year)	194.0	213.0	178.5
reserves + deferred income total (end of year)[1]	**226.6**	**248.1**	**193.4**
unit cost	**£629**	**£567**	**£706**

[1] Deferred income is subject to accounting policies (income should only be recognised as the w ork and costs relating to that income are incurred) and may be reduced.

	14/15 budget	14/15 forecast	15/16 budget
case fee	£550	£550	£550
free cases	25	25	25
supplementary case fee	£0	£0	£0
free cases	25	25	25
incoming cases			
other than PPI	120,000	125,000	132,000
PPI	200,000	200,000	150,000
resolved cases			
other than PPI	120,000	120,000	138,000
PPI	320,000	320,000	250,000

your feedback

We would welcome your views on:

- our overall aims – how we are implementing our plans for developing our service, and where our priorities should be.
- what volumes and varieties of complaints about mis-sold PPI we will receive – and whether our plans for dealing with these cases are realistic.
- what volumes of new cases and enquiries we will receive *other than* PPI – and whether the assumptions we have made for case volumes seem reasonable.
- what volumes of complaints about mis-sold packaged bank accounts we will receive – and any possible new areas of complaints we might see.
- our proposals to freeze the levy and standard case fee; our plan to keep the PPI supplementary case fee at zero; to maintain the number of "free" cases at 25; to keep the current group-account fee arrangements; and our approach to managing our reserves over the coming period, including not returning any at this time.

Please send your views and comments – to reach us by Monday 16 February 2014 – to debbie.enever@financial-ombudsman.org.uk. Or write to:

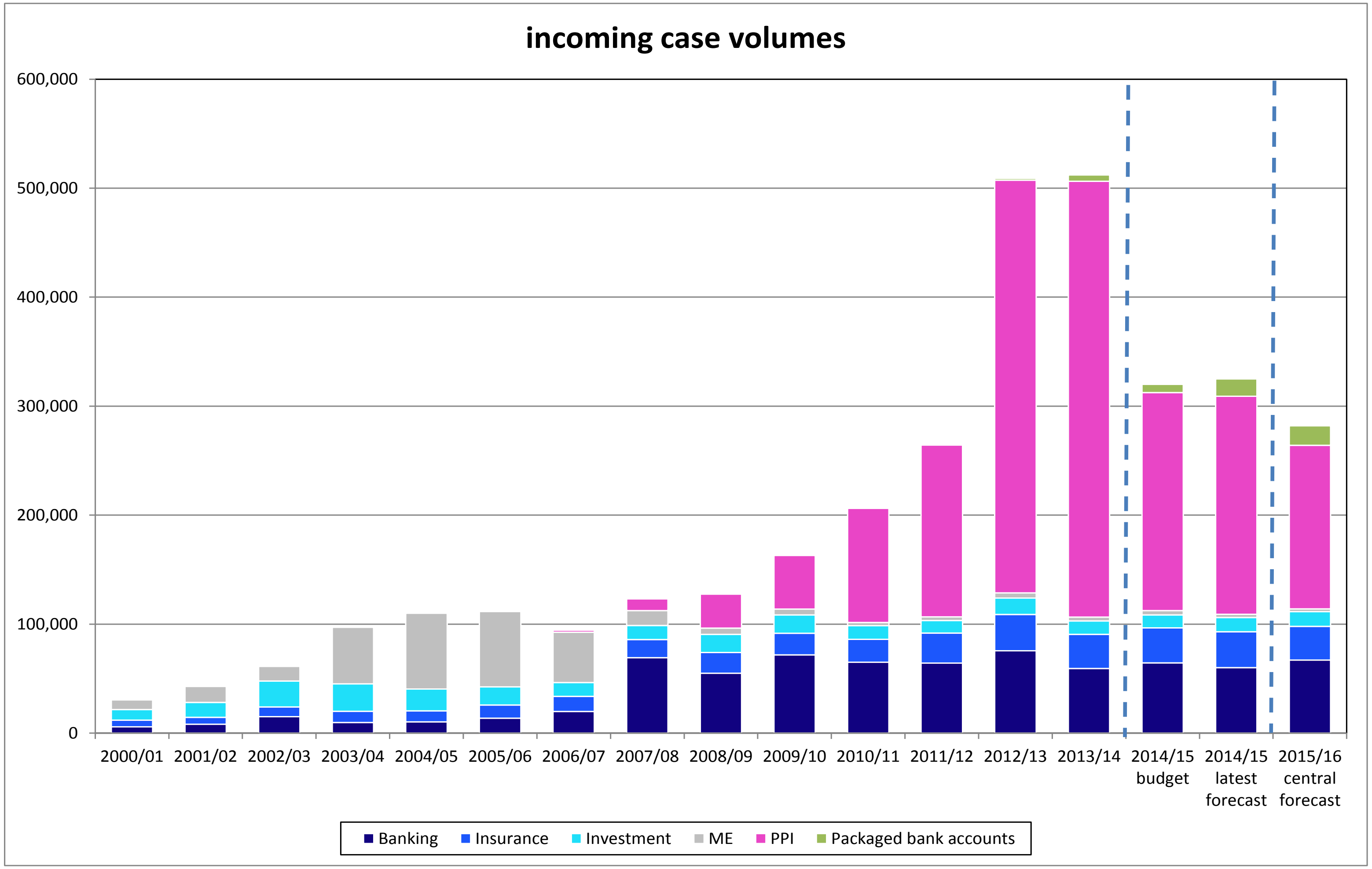
Debbie Enever

Financial Ombudsman Service

Exchange Tower

London

E14 9SR



incoming case volumes
600,000
500,000
400,000
300,000
200,000
100,000
0
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15 budget
2014/15 latest forecast
2015/16 central forecast
Banking
Insurance
Investment
ME
PPI
Packaged bank accounts

our latest projections for volumes of new cases in 2014/2015 and 2015/2016

annex B

case volume forecasts

	2013/14	2014/15		2015/16
	actual	plan	forecast	central view
current accounts	13,676	18,000	14,800	15,000
credit cards	10,120	9,800	9,900	10,200
mortgages	12,598	14,000	13,500	14,000
packaged bank accounts	5,667	6,000	16,000	18,000
other banking	15,358	16,200	12,300	16,800
banking	57,419	64,000	66,500	74,000
consumer credit	7,658	8,000	9,500	11,000
motor insurance	7,190	7,500	8,000	7,500
other general insurance	24,023	24,500	25,000	23,500
insurance (exc. PPI)	31,213	32,000	33,000	31,000
mortgage endowments	3,573	4,000	3,000	2,600
pension products	4,364	3,800	5,000	5,400
other investment	8,001	8,200	8,000	8,000
investment	15,938	16,000	16,000	16,000
total non-PPI	112,228	120,000	125,000	132,000
payment protection insurance (PPI)	399,939	200,000	200,000	150,000
total	512,167	320,000	325,000	282,000

FEES 5 Annex 2R

annual levy payable in relation to the voluntary jurisdiction for 2015/2016

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*;	not applicable	n/a	£75

	or would be if they were carried on from an establishment in the *United Kingdom*			
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	£0.15 per £1000	£75

draft rules instrument – case fees for 2015/2016 and proposed changes to FEES 5

FEES MANUAL (FINANCIAL OMBUDSMAN SERVICE CASE FEES 2015/16) INSTRUMENT 2015

Powers exercised by the Financial Ombudsman Service

A. The Financial Ombudsman Service Limited makes this instrument amending:

(1) the rules and guidance relating to the payment of fees under the Compulsory Jurisdiction; and
(2) the standard terms for Voluntary Jurisdiction participants relating to the payment of fees under the Voluntary Jurisdiction.

in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(a) paragraph 14 (The scheme operator's rules) of Schedule 17;
(b) paragraph 15 (Fees) of Schedule 17; and
(b) paragraph 18 (Terms of reference to the scheme) of Schedule 17.

B. The making of these rules, guidance and standard terms by the Financial Ombudsman Service Limited is subject to the consent and approval of the Financial Conduct Authority.

C. The Financial Conduct Authority approves and consents to the making (and amendment) of the rules and standard terms that are made and amended by the Financial Ombudsman Service Limited under this instrument, pursuant to the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(a) section 227 (Voluntary jurisdiction);
(b) paragraph 14 (The scheme operator's rules) of Schedule 17 to the Act; and
(c) paragraph 18 (Terms of reference to the scheme) of Schedule 17 to the Act.

The rule making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

D. This instrument comes into force on 1 April 2015 subject to the approval and consent of the Financial Conduct Authority having been received before that time.

Amendments to the Handbook

E. The Fees manual (FEES) is amended by the Board of the Financial Ombudsman Service in accordance with the Annex to this instrument.

Citation

F. This instrument may be cited as the Fees Manual (Financial Ombudsman Service Case Fees 2015/16) Instrument 2015.

By order of the Board of the Financial Ombudsman Service Limited
XX March 2015

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Amend the following as shown.

5 Annex 2R **Annual Levy Payable in Relation to the Voluntary Jurisdiction ~~2013/14~~<u>2015/16</u>**

5 Annex 3R **Case Fees Payable for ~~2013/14~~<u>2015/16</u>**

Part 3 – Charging groups	
The *charging groups*, and their constituent *group respondents*, are listed below. They are based on the position at 31 December immediately preceding the *financial year*. For the purposes of calculating, charging, paying and collecting the special case fee, they are not affected by any subsequent change of ownership.	
1	Barclays Group, comprising the following *firms*: [to be confirmed by FCA]
2	HSBC Group, comprising the following *firms*: [to be confirmed by FCA]
3	Lloyds Banking Group, comprising the following *firms*: [to be confirmed by FCA]
4	RBS/NatWest Group, comprising the following *firms*: [to be confirmed by FCA]
5	Aviva Group, comprising the following ~~firms~~<u>*firms*</u>: [to be confirmed by FCA]
6	Direct Line Group, comprising the following ~~firms~~<u>*firms*</u>: [to be confirmed by FCA]
7	Nationwide Building Society Group comprising the following ~~firms~~<u>*firms*</u>: [to be confirmed by FCA]
8	Santander Group, comprising the following ~~firms~~<u>*firms*</u>: [to be confirmed by FCA]

Part 4 – Special case fees

The special case fee shall be calculated and paid as follows:

1 Proportions:

(1) In the calculations that follow in (2), (3) and (4):

new *chargeable cases (PPI)* for *group respondents* –

A = twice the number of new *chargeable cases (PPI)* that were referred to the *Financial Ombudsman Service* in respect of *group respondents* from 1 July to 31 December (both dates inclusive) in the immediately preceding *financial year*.

new *chargeable cases (PPI)* for all *firms* –

B = twice the number of new *chargeable cases (PPI)* that were referred to the *Financial Ombudsman Service* in respect of all *firms* (whether or not they are part of a *charging group*) from 1 July to 31 December (both dates inclusive) in the immediately preceding *financial year*.

open *chargeable cases (PPI)* for *group respondents* –

C = the number of *chargeable cases (PPI)* referred to the *Financial Ombudsman Service* in respect of *group respondents* before 1 January in the immediately preceding *financial year* which had not been closed before 1 January in the immediately preceding *financial year*.

open *chargeable cases (PPI)* for all *firms* –

D = the number of *chargeable cases (PPI)* referred to the *Financial Ombudsman Service* in respect of all *firms* (whether or not they are part of a *charging group*) before 1 January in the immediately preceding *financial year* which had not been closed before 1 January in the immediately preceding *financial year*.

new *chargeable cases (general)* for *group respondents* –

E = twice the number of new *chargeable cases (general)* that were referred to the *Financial Ombudsman Service* in respect of *group respondents* from 1 July to 31 December (both dates inclusive) in the immediately preceding *financial year*.

new *chargeable cases (general)* for all *firms* –

F = twice the number of *chargeable cases (general)* referred to the *Financial Ombudsman Service* in respect of all *firms* (whether or not they are part of a *charging group*) from 1 July to 31 December (both dates inclusive) in the immediately preceding *financial year*.

open *chargeable cases (general)* for *group respondents* –

G = the number of *chargeable cases (general)* that were referred to the *Financial Ombudsman Service* in respect of *group respondents* before 1 January in the immediately preceding *financial year* which had not been closed before 1 January in the immediately preceding *financial year*.

open *chargeable cases (general)* for all *firms* –

H = the number of *chargeable cases (general)* referred to the *Financial Ombudsman Service* in respect of all *firms* (whether or not they are part of a *charging group*) before 1 January in the immediately preceding *financial year* which had not been

	closed before 1 January in the immediately preceding *financial year*.
	(2) ‘Proportion X’ for each *charging group* is a percentage calculated as follows – A / B x 100
	(3) ‘Proportion Y’ for each *charging group* is a percentage calculated as follows – {A + C} / {B + D} x 100
	(4) ‘Proportion Z’ for each *charging group* is a percentage calculated as follows – {E + G} / {F + H} x 100
2	The special case fee is intended to broadly reflect the budgeted workload capacity of the *Financial Ombudsman Service* and comprises elements in respect of:
	(1) new *chargeable cases (PPI)*;
	(2) closed *chargeable cases (PPI)*; and
	(3) closed *chargeable cases (general)*;
	with a free-case allowance of:
	(4) 125 new *chargeable cases (PPI)*; and
	(5) 125 closed *chargeable cases (general)*.
3	The special case fee for each *charging group* is a total amount calculated as follows:
	(1) in respect of new *chargeable cases (PPI) –* {-£0 x [~~200,000~~150,000] x the ‘proportion X’} – {£0 x 125}
	(2) in respect of closed *chargeable cases (PPI) –* £550 x [~~320,000~~250,000] x the ‘proportion Y’
	(3) In respect of closed *chargeable cases (general)*– {£550 x [~~120,000~~138,000] x the ‘proportion Z’} – {£550 x 125}
4	The *FOS Ltd* will invoice each *charging group* for the special case fee (calculated as above) in four equal instalments, payable in advance on the following dates during the *financial year*: (1) 1 April (or, if later, when *FOS Ltd* has sent the invoice); (2) 1 July; (3) 1 October; and (2) 1 January.
5	Year-end adjustment:
	(1) If the actual number of new *chargeable cases (PPI)* referred to the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is more than 10,000 and is more than [115%] of {[~~200,000~~150,000] x the ‘proportion X’}: (a) the *FOS Ltd* will invoice the *relevant charging group*; and (b) the relevant *charging group* will pay to *FOS Ltd*; an additional £35,000 for each block of 100 (or part thereof) new *chargeable cases (PPI)* in excess of the [115%].

	(2)	If the actual number of *chargeable cases (general)* closed by the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is more than [115%] of {[~~120,000~~138,000] x the 'proportion Z'}: (a) the *FOS Ltd* will invoice the *relevant charging group*; and (b) the relevant *charging group* will pay to *FOS Ltd*; an additional £55,000 for each block of 100 (or part thereof) ~~new~~closed *chargeable cases (~~PPI~~general)* over the [115%].
	(3)	If the actual number of *chargeable cases (general)* closed by the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is less than [85%] of {[~~120,000~~138,000] x the 'proportion Z'}, the *FOS Ltd* will promptly repay to the relevant *charging group* £55,000 for each block of 100 (or part thereof) closed *chargeable cases (general)* under the [85%].