

Approved budget and consultation feedback 2015/2016

25 March 2015

Overview

Each year in January and February we consult our stakeholders on our plans and budget for the coming financial year.

The consultation paper we published in January 2015 explained our proposed plans for the 2015/2016 financial year - against the background of what had happened in the first nine months of the financial year 2014/2015.

We invited comments from stakeholders on these plans. We also had discussions with trade associations, industry practitioners, consumer groups and claims-management companies.

We summarise here the feedback our stakeholders gave us and the budget we have now set in light of this feedback.

Our approved budget for 2015/2016

Taking into account the feedback we have received from those who responded to our consultation paper, we have set a reduced operational income budget for 2015/2016 of £223.9 million - a 11% decrease from our 2014/2015 budget.

This budget will be funded by a combination of levies and case fees. As we originally proposed, the overall levy for the “compulsory jurisdiction” has been frozen at £23.3 million. The levy for the “voluntary jurisdiction” will also remain at £0.6 million.

The Financial Conduct Authority (FCA) will be consulting separately on the allocation of the levy for the compulsory jurisdiction. We expect to receive around £51 million in case fees, of which around £0.7 million will come from the voluntary jurisdiction.

Our approved budget for 2015/2016

Income	£ million
Compulsory jurisdiction levy	23.3
Voluntary jurisdiction levy and other income	3.0
Group fees	146.6
Case fees	51.0

Total operating income	223.9
Deferred income	0.0
Deferred income release	20.5
Total income	244.4

Expenditure	
Staff and staff-related costs	220.0
Professional fees	6.2
It costs	7.3
Premises and facilities	25.3
Other costs	3.0
Depreciation	6.0
Bad debt write-off	0.5
Contingencies	2.0
Total operating costs	270.3
Total operating surplus/deficit	(46.4)

Estimated number of new cases	286,000
Estimated number of resolved cases	398,000
Unit cost (£)	678

Although there remains a great deal of uncertainty about future PPI complaint volumes, the consensus among those responding to our consultation was in line with our expectation of receiving around 150,000 PPI complaints.

In light of the feedback we have received (see below), we are now expecting to receive around 30,000 cases about packaged bank accounts - rather than the 18,000 we originally assumed before consulting.

And so we have also increased our estimated *total number* of resolved cases from 388,000 to 398,000 (250,000 PPI cases and 148,000 other cases).

Summary of responses to our consultation paper

We summarise below the feedback we received from stakeholders on each of the themes we set out in our consultation paper. We also explain below how we have decided to proceed in the light of this feedback.

Our overall aims

We asked our stakeholders for their views on how we are planning to approach the challenges ahead of us and where they believed our priorities should be.

Stakeholders were broadly supportive of our plans and highlighted three priorities in particular:

- *casework operating model*
The majority of stakeholders supported our plans to modernise and streamline our casework operating model - and many stakeholders were keen to work with us to trial new ways of working to achieve this.
- *casework-handling times*
Stakeholders want to see a reduction in the time taken to deal with cases, as well as a reduction in stock that has built up, especially in PPI.
- *ombudsman decisions database*
Many stakeholders requested that we develop the current online database to be more easily searchable.

A number of financial businesses also encouraged us to work more closely with the Claims Management Regulator to report on the behaviour of claims-management companies.

We welcome this feedback and will take forward action on all these priorities in our plans for 2015/2016.

Volumes of new cases

We asked our stakeholders what volumes of cases and enquiries they expect us to receive - and whether our assumptions for new case volumes are reasonable. We also asked whether there are any new areas of possible complaints that they believe we may start to see in 2015/2016.

For cases other than PPI and mis-sold packaged bank accounts, the majority of stakeholders who responded agreed with our views on likely new complaints in 2015/2016.

A number of responses highlighted pensions as an area where we may see increased complaints - in light of the government's pension reforms which come into effect in April 2015. Other possible areas of complaint activity mentioned by stakeholders included:

- cases involving the affordability of mortgages;
- claims made under section 75 of the *Consumer Credit Act*; and
- complaints resulting from the requirements of the *Proceeds of Crime Act*, as an increase in "suspicious activity reports" may mean reported transactions take longer to be checked by the relevant law enforcement agencies.

A variety of stakeholders - including claims-management companies and financial businesses - believe we will see more complaints about mis-sold packaged bank accounts than we had

originally planned for. But there was a general agreement that these would not reach the same scale as PPI.

A number of potential causes were given for this - including the activity of claims-management companies, an increased media focus and changes to regulation.

On the basis of this feedback - and taking into account the recent increases we have seen in new complaints about mis-sold packaged bank accounts - we have revised our estimate of the total number of these cases we are likely to receive in 2015/2016 from 18,000 to 30,000.

We agree that there is a lot of uncertainty about this forecast, and our plans reflect this. There is a corresponding increase in the number of cases we plan to resolve.

We also asked our stakeholders specifically about what volumes and types of complaints about mis-sold PPI they expect to receive - and whether our plans for dealing with these cases were realistic.

Many stakeholders broadly agreed with our projections for the number of new PPI complaints that we are likely to receive in 2015/2016 - supporting our view that these volumes are slowly starting to decrease.

There was agreement among stakeholders that this is still a highly volatile area of our casework, making it difficult to predict new complaint volumes accurately. Many financial services stakeholders pointed to the activities of claims-management companies as potentially contributing to the uncertainty.

On the basis of this feedback we have not revised our estimate of the number of new PPI cases we are likely to receive in 2015/2016. But we note that there is still a lot of uncertainty around this forecast.

Funding proposals

We asked stakeholders about our proposals to:

- freeze the levy at £23.3m;
- freeze the standard case fee at £550;
- maintain the PPI supplementary fee at zero;
- maintain the number of “free” cases at 25; *and*
- keep the current group-account fee arrangements.

We also asked about our approach to managing our reserves over the coming period, including not returning any to financial services sector at this time.

Stakeholders broadly supported our proposals in this area. Many welcomed the freeze to our levy and case fee and the number of “free cases” we are able to offer.

Those businesses involved in the group-account arrangement continued to support this approach - and others agreed that this was not the time to expand this arrangement.

As noted above, we are increasing the number of “free cases” provided under the group-account arrangement - to ensure that those businesses that are not responsible for the increased number of complaints to us about packaged bank accounts do not end up paying more as a result of the overall increase in the volume of cases we have received.

Everyone who commented on this aspect supported our plan not to return reserves at this stage. A large majority of stakeholders agreed that our reserves should be reinvested into our organisation - to help improve our operational efficiency and develop our technology and casework model.

Some claims-management companies argued that it was too soon to reduce our income levels, and that we should instead invest more heavily in dealing with the stock of PPI cases. In the light of this feedback, we have gone ahead with our funding proposals. We agree that, given the uncertainties relating both to PPI and packaged bank accounts, we should use our reserves to further develop our service.

List of organisations that responded

The following organisations responded to our consultation paper. A further six organisations, who are not listed, also provided responses but requested that these be kept confidential for commercial reasons.

- Association of British Insurers
- Association of Professional Financial Advisers
- Barclays Bank plc
- British Insurance Brokers Association
- Building Societies Association
- Brunel Franklin
- Citizens Advice
- Consumer Council of Northern Ireland
- Consumer Finance Association
- Consumer Liaison Group
- DAS First for Justice
- David Oliver Farm & Agribusiness Consultancy
- Direct Line Group
- Jigsaw Financial Solutions
- Ferguson Financial Solicitors

- Financial Services Consumer Panel
- Finance and Leasing Association
- Friends Life
- Gladstone Brookes
- Lloyds Banking Group
- MBNA
- Money Advice Service
- Professional Financial Claims Association
- RSA
- Virgin Money
- Which?