Approved budget and consultation feedback 2016/2017

21 March 2016

Overview

Each year the Financial Ombudsman Service consults its stakeholders on its plans and budget for the coming financial year.

The consultation paper we published in December 2015 explained our proposed plans for the 2016/2017 financial year - against the background of what had happened in the first eight months of the financial year 2015/2016.

We know the next twelve months will be particularly challenging, as the Financial Conduct Authority (FCA) consults on introducing a deadline for complaints about mis-sold PPI, along with proposed rules and guidance in light of the Supreme Court's judgment in the case of *Plevin v Paragon Personal Finance Ltd,* and these developments have contributed to a number of uncertainties in the regulatory environment.

We invited comments from stakeholders on these plans and also had discussions with trade associations, industry practitioners, and consumer groups. 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 2016/2017

Taking into account the feedback we have received from those who responded to our consultation paper, we have set an operational income budget for 2016/2017 of £226.5 million - a small reduction from our latest forecast for 2015/16. This budget will be funded by a combination of levies and case fees.

As we set out in the consultation, next year marks the end of the transition period for consumer credit businesses - from being licensed by the Office of Fair Trading (OFT) to being authorised by the FCA. To return the levies to the same level as before the transition, and in line with our previously agreed approach, we have asked the FCA to increase the overall levy for the 'compulsory jurisdiction' from £23.3 million to £24.5 million in 2016/17. This means the overall amount of the levy in 2016/17 is effectively frozen for all other industry blocks.

The levy for the 'voluntary jurisdiction' will remain at £0.6 million. The FCA will be consulting separately on the allocation of the compulsory jurisdiction levy. We expect to receive around

£55.9 million in case fees, of which around £0.5 million will come from the voluntary jurisdiction levy.

Our approved budget for 2016/2017

Income	*£ million*
Compulsory jurisdiction levy	24.5
Voluntary jurisdiction levy and other income	1.8
Group fees	144.2
Case fees	55.9
Total operating income	226.5
Deferred income	0
Deferred income release	13
Total income	239.5

Expenditure	
Staff and staff-related costs	207.7
Professional fees	6.1
It costs	7.2
Premises and facilities	26.4
Other costs	1.2
Depreciation	8.4
Bad debt write-off	0.4
Contingencies	7.6
Total operating costs	265.0
Total operating surplus/deficit	(38.5)

Estimated number of new cases	306,000
Estimated number of resolved cases	406,000
Unit cost (£)	652

In the light of the feedback we have received from our stakeholders, and after reviewing the current level of complaints we are receiving, we have increased the number of new complaints we expect to receive about packaged bank accounts, from 15,000 to 30,000. We have also updated the final costs for our group-account fees in light of the actual volumes of cases received.

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. We also asked if there are issues on which they'd welcome us sharing our insight.

Stakeholders were broadly supportive of our plans. A number of themes emerged:

- *Casework operating model*
  many stakeholders appreciated the work we have already done to streamline our casework operating model, and want to continue working with us to achieve speedier, informal resolution.
- *Engagement*
  a number of financial businesses and bodies supported opportunities to engage with us in order to learn from our approach and improve complaints-handling, and to discuss the implications of changes in the regulatory environment.
- *Complaints data*
  a number of stakeholders suggested we include more detail in the complaints data we publish.

Many financial businesses also appreciated the work we have done with claims managers and would like this to continue.

We welcome the feedback we have received and will take forward action on these issues in our plans for 2016/2017.

Managing uncertainties in forecasting for next year

Forecasting future numbers and trends is always challenging, and this year in particular, a number of developments relating both to PPI and to claims managers raised this uncertainty further.

In November 2015, the FCA published a consultation paper on proposed changes to its rules and guidance for businesses about handling PPI complaints. The paper set out proposals for a new rule that would set a deadline (two years from the start date of the rule) by which consumers would need to make their PPI complaints or else lose their right to have them assessed by firms or by the Financial Ombudsman Service.

The consultation also set out proposals for a FCA-led communications campaign designed to inform consumers of the deadline, and new rules and guidance on the handling of PPI complaints in light of the Supreme Court's decision in *Plevin v Paragon Personal Finance Ltd.* The proposed deadline would also to apply to PPI complaints falling within the scope of the proposed rules and guidance on Plevin.

Amongst those stakeholders who commented on this aspect, the majority thought that the FCA's consultation on a PPI time limit will lead to an increase in PPI complaints brought to our service, though views varied on when we might see this. We received a wide range of views on the impact of the FCA's proposed guidance on the handling of complaints affected by the decision in *Plevin v Paragon Personal Finance Ltd.*

While some anticipated little or no material impact, others expressed uncertainty until the final rules and guidance are published. A number anticipated a possible increase, though some thought complaints would be resolved by the business and wouldn't necessarily result in, or could potentially reduce, referrals to our service.

Views were also mixed on the impact of the proposed cap on claims managers' fees and whether this could lead to fewer complaints being referred to our service, with some anticipating little impact and others predicting a possible reduction in complaint volumes.

Many anticipated future changes in the types of complaints claims managers will pursue, ranging from an increased focus on cases with larger redress, to higher volumes of small value claims, to concern about an increase in poor quality referrals. One respondent noted general uncertainty around how claims managers will respond to changes in both claims management regulation and the FCA's complaint handling rules.

Respondents were broadly split on the impact of the FCA's new complaint handling rules and the summary resolution communication. Some anticipated no material impact, noting that such cases should have already been resolved.

Others predicted an increase in referrals, though not of large proportions. Several stakeholders requested the opportunity for further discussions on the impact of these changes, which we will take forward with the businesses concerned.

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 complaints we may start to see in 2016/17.

As noted above, many respondents think the FCA consultation on a PPI time limit will lead to an increase in our PPI case volumes. Those who commented on whether our plans and assumptions for dealing with PPI complaints are realistic were broadly supportive, and others noted the particular challenges in forecasting volumes at present, which make it sensible to keep our plans under review.

Financial businesses who shared their own forecasts outlined some of the uncertainties, with large ranges given when estimating the potential increase in PPI referrals we may receive.

Most stakeholders thought the volume of complaints we will receive about packaged bank accounts will continue to decline or remain stable, though some said volumes may vary depending on claims managers' activity - with one noting claims managers' activity could lead to an increase.

Another respondent said its own projection for a decline in PBA complaint volumes was more conservative than ours. A number of stakeholders supported the work we have done with claims managers to increase effective complaint-handling in this area.

As outlined above, we have revised our projections of the number of complaints we expect to receive about packaged bank accounts upwards, from 15,000 to 30,000. We have reviewed this figure to take into account the volume of complaints we are currently receiving in this area.

For cases excluding PPI and mis-sold packaged bank accounts, the majority of stakeholders agreed with our assumptions about complaint volumes, though several highlighted uncertainties caused by the broader regulatory environment.

In our consultation we also asked stakeholders if there are any new issues or possible areas of complaints that we might start to see, or could affect our work in the future. We received a wide range of comments from respondents.

One noted that depending on the outcome of the FCA's discussion paper on small and medium sized enterprises (SMEs), we may start to receive more complaints from that sector. Another respondent referred to alleged investment mis-sale activity from claims managers and interest-only mortgages cases.

Several stakeholders thought we might receive higher numbers of pension complaints in the future, and one noted that the creation of a secondary annuities market could influence complaint volumes in the future. Another respondent suggested that the growth in the number of people living with cancer could mean products such as pensions, medical retirement and insurance are prominent areas of complaint.

Short-term lenders reported a rise in complaints from claims managers including where customers have never had a loan, which may result in referrals to our service. Another respondent said they are seeing fluctuations in volumes on investment claims due to claims managers' activity, but that this was difficult to predict going forward.

Funding proposals

We asked stakeholders about our proposals to:

- essentially freezing the levy at £23.3 m - adding £1.2m to account for the transition of consumer credit - bringing the total levy to £24.5m;
- freeze the standard case fee at £550;
- maintain the PPI supplementary fee at zero;
- maintain the number of "free" cases at 25; *and*
- retain the current group-account fee arrangements.

We also asked for views on our approach to managing our reserves over the coming period, and our decision not to return any of the reserves we're holding for now - and whether we should explore our current flat-rate case fee model to determine whether it remains fit for purpose.

Respondents who commented supported our proposal to freeze the levy and standard case fee and retain the number of 'free cases' - one respondent asked us to consider applying the free case allowance to appointed representatives.

Those firms who responded and are involved in the group-account fee continued to support this approach, and others agreed that this was not the time to expand these arrangements. One member said grounds for extending the arrangement may arise if changes in the regulatory environment result in significant increases to complaint volumes.

After making a temporary adjustment last year - to offset a distortion relating to the rapid increase in complaints about packaged bank accounts - we plan to return the free case allowance in the group fee arrangements for the largest banking groups to 125 from 200.

Those who commented were supportive of our approach to managing our reserves, though several said this may need reviewing as the position in relation to PPI complaints develops. Several respondents identified investment in new technology as key to improving the service we provide, and another welcomed more detail on how we invest the reserves in developing our service, and how spending impacts efficiency.

The majority of respondents agreed that we should explore the current flat-rate case fee arrangement, and wanted opportunities to engage with us on this. Several highlighted the complexity of cases or early resolution as factors of relevance to future discussions about the case fee structure. Others expressed some value in the simplicity of a single price structure, and warned of the risk of unintended perverse incentives.

In the light of this feedback, we will proceed with the funding proposals outlined above. We agree that given the uncertainties ahead, we should use our reserves to further develop our service. And we note the support of stakeholders for exploring the current flat-rate case fee arrangement, which we will take forward in our plans for the year.

List of organisations that responded

The following organisations responded to our consultation paper.

- Association of British Insurers
- Association of Professional Financial Advisers
- Aviva
- Barclays Bank
- Building Societies Association
- Clydesdale Bank
- Consumer Finance Association
- Consumer Liaison Group
- Direct Line Group
- Finance and Leasing Association
- Lloyds Banking Group
- Macmillan Cancer Support
- Nationwide
- Royal Bank of Scotland
- Santander
- Which?