how to contact the Financial Ombudsman Service

write to us
Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR

phone us
for consumer enquiries 0845 080 1800
switchboard 020 7964 1000
technical advice desk 020 7964 1600

email us
complaint.info@financial-ombudsman.org.uk

look at our website
www.financial-ombudsman.org.uk

We can help if you need information in a different format (e.g. Braille, audiotape etc) or in a different language. Just let us know.
... an independent service for resolving financial complaints

**key facts** about the Financial Ombudsman Service

We were set up under the Financial Services and Markets Act 2000 to help settle individual disputes between consumers and financial firms – fairly, reasonably, quickly and informally.

We can consider complaints about a wide range of financial matters – from insurance and mortgages to pensions and investments.

Our service is free to consumers.

We are completely impartial – just as a judge would be, if a complaint went to court instead of to us.

Consumers must complain to the firm first, before we can look at their case.

Consumers do not have to accept any decisions we make – they are always free to go to court instead. But if a consumer accepts an ombudsman’s decision, it is binding on both the consumer and the firm.

We do not write the rules for financial firms – or punish and fine firms if rules are broken. That is the job of the regulator.

Our service is confidential – we do not publish the names of those firms and consumers whose complaints we handle.

We cannot give personal advice about financial matters or debt problems. But we actively share our knowledge and experience with the outside world – to help consumers and firms settle problems themselves and to help prevent the need for complaints in the first place.

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**services for firms and consumer advisers**

**how we can help**

our technical advice desk offers:
- information on how the ombudsman service works
- help with technical queries
- general guidance on how the ombudsman might view specific issues.

phone 020 7964 1400
email technical.advice@financial-ombudsman.org.uk

our external liaison team can:
- provide training for complaints handlers
- organise and speak at seminars, workshops and conferences
- arrange visits and meetings.

phone 020 7964 1400
email liaison.team@financial-ombudsman.org.uk

our website [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk) gives you online access to:
- news and frequently-asked-questions (FAQs)
- help for consumers and technical guidance for firms
- publications, briefing notes and ombudsman news – our monthly newsletter containing case studies and commentary.
We handled 672,973 initial enquiries and complaints from consumers (a 10% annual increase) – of which 1 in 6 turned into cases requiring the involvement of our adjudicators and ombudsmen.

We handled new cases about 1 in 5 of the financial services firms we cover.

Half of the cases we dealt with related to 12 of the UK’s largest financial services groups.

We saw a 31% increase in banking-related cases, a 24% increase in insurance-related cases, and an 18% decrease in cases involving investments other than mortgage endowments.

We handled 69,149 new mortgage endowment cases during the year – over 250 new cases every working day.

We resolved 119,432 cases – up by a third on the previous year.

We resolved 92% of cases informally – through mediation and recommended settlements – without the need for formal ombudsman decisions.

We resolved two-thirds of mortgage endowment cases within nine months – and three-quarters of complaints other than mortgage endowments within six months.

We operated on a budget of £52 million and had a staff of 1,000.

We provided information – and handled enquiries – in 20 languages, from Arabic to Welsh.

We took part in 212 conferences, roadshows, trade fairs and consumer events.

We handled 617 parliamentary and ministerial enquiries, 3,500 media calls and over 20,000 specialist enquiries to our technical advice desk.

All figures relate to the year ended 31 March 2006.
The photos in this annual review were taken during the year by Financial Ombudsman Service employees – showing colleagues at work and our local community in the Isle of Dogs, East London, where we are based.
an overview of
our case-handling process

672,973 initial enquiries and complaints
handled by our front-line customer contact division (see page 12 for more details)

112,923 new cases
referred to our adjudicators and ombudsmen for further dispute-resolution work (see page 16 for more details)

110,229 cases resolved by our adjudicators
by mediation, recommended settlements and adjudications (see page 37 for more details)

9,203 cases resolved by our ombudsmen
making formal decisions at the final “appeal” stage of our dispute-resolution process (see page 37 for more details)

All figures relate to the year ended 31 March 2006.
This year’s annual review marks an important turning-point for the Financial Ombudsman Service. After five consecutive years of reporting an ever-rising flood of complaints to the ombudsman service – with recent year-on-year increases in workload of up to 57% – we have now at last seen the level of new complaints starting to stabilise.

This year the number of disputes referred to us exceeds last year’s figure only marginally – just under 113,000 new cases, out of a total of almost 700,000 initial complaints and enquiries. And for the first time in recent years we have seen an annual decrease – albeit only a very tiny one – in the volume of mortgage endowment complaints. This may indicate that the deluge of mortgage endowment complaints could finally be on the point of receding. However, the steady flow of incoming new cases – predicted to continue into next year – means we are still operating at high-water level.

With almost two-thirds of our workload still taken up with the mortgage endowment flood, other features of the complaints landscape seem less prominent. Yet there is life beyond mortgage endowments. And some interesting trends are emerging in other areas, which could be a useful indicator of what the complaints world might look like after the endowment deluge. For example, while investment-related complaints other than mortgage endowments fell by 18% during the year, insurance disputes referred to the ombudsman service rose by a quarter and banking-related cases increased by a third.

One of the most pleasing statistics from this year’s annual review is the number of complaints we have resolved and closed during the year: just under 120,000 cases – a third more than last year, and the highest number we have ever achieved. The sometimes difficult decisions the board and management have had to take – on investing in new processes, people and resources in the face of rapidly-rising complaint volumes – have been justified. The figure is also proof of the hard work and effort of everyone involved – for which I am deeply grateful.

After I became chairman last year, I set out to get a better picture of how we are seen by our major stakeholders – consumer organisations and firms. I met chief executives, and in some cases chairmen, and took part in constructive discussions
about the role of the ombudsman. Much of the feedback was positive, some was challenging. Everyone I spoke to was encouraging and supportive of our work, recognising the stresses and strains that we – and the industry – have experienced in recent years as a result of the massive mortgage endowment workload.

People I have been meeting and talking to have been just as interested in our plans for the future. And having withstood the pressures and challenges of recent years – and achieved a level of stability – we recognise that it is now time to share what is on our agenda for the next few years ahead. We set out much of this in our first corporate plan launched in January 2006 – a document, available on our website, that I commend to all readers of this annual review. Producing the corporate plan gave us the opportunity to draw breath, after several years of continuously manning the pumps to keep the mortgage endowment waters under control. With the realistic probability of our workload stabilising for the first time, we have grasped this opportunity to reflect strategically on what we are doing and what we could do differently, and better, in future.

As ombudsman service colleagues and I continue our regular rounds of visits, meetings and contacts with the outside world, I hope that everyone with an interest in our service will feed in their views on the themes and projects we have identified in our corporate plan. I am, of course, equally keen for feedback on this latest annual review.

This review includes, as usual, the report from the independent assessor, Michael Barnes. The independent assessor’s role is to investigate complaints from firms and consumers about standards of service provided by the Financial Ombudsman Service. The independent assessor reports directly to me and my board colleagues. His annual report to us, which we publish in full, gives an insight into how our actions and processes affect consumers and firms in individual cases, as well as focusing attention on more general issues. This year, for example, the independent assessor draws attention to issues relating to redress calculations by firms – which we will be considering carefully and discussing with the Financial Services Authority. I am very grateful to Michael Barnes for his diligent work in providing a fair and impartial mechanism for people unhappy with our service – and at the same time providing us with a valuable mechanism for feedback and scrutiny on our performance.

Sir Christopher Kelly KCB
June 2006
This annual review describes the work of the Financial Ombudsman Service during the year ended 31 March 2006 – a year of record activity during which we resolved more disputes than in any previous year.

The facts and figures giving more details about this achievement – and our other complaints-handling and stakeholder activities over the year – are set out on the following pages. Rather than summarise all the statistics here, I will leave you to browse through this annual review, and see for yourself some of the results, trends and observations presented in the text and graphics.

In these few pages I take the liberty, instead, of penning a few general thoughts about the role of the ombudsman. In last year’s review, I reflected on the development of the Financial Ombudsman Service during its first five years – building on the foundations of our predecessor ombudsman schemes. This year I hope you will bear with me while I reflect briefly on the theme of the ombudsman’s role in the wider world of dispute resolution.

Twenty years ago, ombudsmen were seen – if at all – as a rather odd sideline in the British institutional landscape: a few small independent offices, headed by individuals in whom was vested a personal responsibility for responding to complaints. These officers defied easy categorisation in the usual pantheon of the British constitution – they were not judges, nor civil servants, nor elected representatives. But because the offices were small and of recent origin, recognition or classification was not obviously necessary.

Things have moved apace since then. In the public sector, the need for close working between the Parliamentary and Local Government Ombudsman has been recognised, and devolution has brought public
services ombudsmen to Scotland and Wales. Ombudsmen for prisons and probation, for the police in Northern Ireland (and now for Ireland), and for the defence forces (in Ireland, and recently recommended for the UK) demonstrate how the demand for independent investigation is greater than ever. And with our own office now employing 1,000 staff, no longer can the word “ombudsman” be associated with smallness.

Like the courts, ombudsmen are clearly in the business of delivering justice. But we perform our function in a different way to the courts, generally using quicker and more informal procedures. This is what is meant when we are sometimes described as an alternative to the courts – providing alternative dispute resolution. From the consumer perspective, we are also often seen as the alternative to the complaints-handling procedure of the firm they are in dispute with.

The alternative approach that the Financial Ombudsman Service takes largely reflects the volume and specialisation of cases that are referred to us. Providing a flexible one-stop service to settle over two thousand financial services disputes every week – all under one roof – is something that logistically no single court of law could do using normal court practice.

In addition to providing a dispute-resolution service as an alternative to the courts, we are part of the statutory arrangements for underpinning confidence in financial services. Our legal powers derive from the Financial Services and Markets Act 2000. That is also, of course, the legislation that established the Financial Services Authority (FSA) as one of the world’s most powerful and all-encompassing financial regulators. But ours is a distinct role, separate from the FSA. We make decisions on one-off individual cases (like the courts) – we do not carry out regulatory functions. The FSA, on the other hand, has responsibility – as regulator – for the bigger picture.

Our so-called “compulsory jurisdiction” automatically covers most FSA-regulated firms – a population that has grown in the last few years from around 8,000 to 26,000 firms, as regulation has expanded. Our remit is
due to grow further, as statutory regulation by the FSA expands to cover home-reversion plans, Islamic mortgages and self-invested personal pensions (SIPPs).

However, our “voluntary jurisdiction” also covers firms and activities that are not regulated by the FSA. For example, National Savings & Investments (NS&I) came under our remit in September 2005 – not as an FSA-regulated firm but as a result of a recent legislative change initiated by HM Treasury. And when the Consumer Credit Act 2006 comes into force in 2007, it will give us a jurisdiction covering up to 100,000 firms that have consumer credit licences issued by the Office of Fair Trading (OFT).

The development – in just five years or so – of our role as the ombudsman for the financial services sector reflects, at a more general level, the rapidly-moving world of dispute resolution, both here in the UK and elsewhere.

In the UK and Ireland our membership of the British and Irish Ombudsman Association (BIOA) provides us with a network of contacts involved in complaints handling in both the public and private sectors. Jointly through BIOA – and individually in our own right – we continue to develop these close contacts with a number of government departments, as interest in that curious creature – the ombudsman – grows, and possibilities and ideas evolve in relation to the ombudsman model of dispute resolution.

While our own sponsoring government department is HM Treasury, which is responsible for the legislative framework under which we operate, the Department for Constitutional Affairs (DCA) takes the lead role in England and Wales in encouraging the development of non-court dispute resolution. We therefore have contacts with DCA in a number of areas.

The background to DCA’s interest in alternative dispute resolution was set out by the Lord Chancellor in 2004 in his paper, Transforming Public Services: Complaints, Redress and Tribunals. This government “white paper” called for lessons – from what it described as “the success of
ombudsman schemes” – to be applied more widely. We now look forward to the establishment of the Administrative Justice Council, designed to ensure that the relationships between the courts, tribunals, ombudsmen and other routes for alternative dispute resolution reflect satisfactorily the needs of their users.

Following Sir David Clementi’s review of the regulation of legal services, the Lord Chancellor has decided to establish an independent office to resolve complaints against lawyers – modelled closely on our own organisation. DCA has consulted us extensively on its plans in this area.

DCA’s interest in improving the process by which small personal injury compensation claims are resolved has also involved us, since most of these cases involve insurance companies – a sector where we have a long history of providing successful dispute-resolution services. If the policy objective here is to resolve more personal injury claims without the need for routine legal representation – and avoiding the legal costs that involves – we recognise why some in the industry are suggesting that this may be an area suited to the ombudsman’s well-established procedures for resolving insurance disputes.

Given the government’s decision to bring consumer credit activities under our remit from 2007 – as mentioned above – we have been working closely with the Department of Trade and Industry (DTI) and OFT, to ensure a smooth implementation of our new consumer credit jurisdiction. However, DTI’s consumer strategy demonstrates a wider and more determined interest in ensuring that consumers have access to appropriate sources of redress, including alternative dispute resolution. To this end, DTI will be developing criteria for the approval of industry-based alternative dispute-resolution schemes – and we will be working with our ombudsmen colleagues in BIOA to help DTI with this.

DTI has recently proposed the establishment of an ombudsman scheme, or schemes, for consumer redress in the gas, electricity and postal sectors. It is also committed to ensuring that arrangements for consumer
redress are available for the users of estate agency services and the new home information packs. Again, DTI has already indicated a wish to draw on our experience in its work in these areas.

Another government department we have worked with over the year is the Department of Work and Pensions (DWP). We have hosted a number of meetings and seminars with officials from DWP and the Appeals Service, as part of their focus on improving the way in which disputes are handled, and tribunal appeals run, in relation to disability and incapacity benefits. Particular interest has been shown in how we are able to resolve large volumes of insurance disputes – which similarly involve medical evidence of disability – without the need to hold tribunal hearings. DWP and the Appeals Service have taken a close interest in the way in which we identify, at an early stage, cases that can be resolved quickly and informally, rather than being determined through formal procedures.

DWP is also the department responsible for the legislative framework under which the Pensions Ombudsman operates. We have close operational contact with the Pensions Ombudsman because of our complementary – and in some cases overlapping – remits in relation to pension disputes. This means DTI regularly consults us on how we ensure that consumers, firms and pension schemes are appropriately served by our two organisations.

Another example of our involvement in government-sponsored initiatives and research has been our close contact over the year with the Law Commission. Earlier this year the Commission published a paper on the reform of insurance contract law, which drew on our experience of areas in which the ombudsman has found the strict application of the law to produce an unfair result for policyholders. More recently, the Commission has published a paper on proportionate dispute resolution in the field of housing. This paper considers whether the experience of ombudsman schemes, including our own, could be applied to improve the resolution of housing disputes.
We are told that the Financial Ombudsman Service is the largest scheme of its type in the world. What is certain is that we are regularly asked to share our knowledge, experience and expertise internationally, as well as in the UK. In the Commonwealth countries, in particular, there is considerable interest in “combined” ombudsman schemes such as ours, which operate across a wider spectrum – such as financial services in general – rather than just in banking, insurance or investment. We are also founder members of FIN-NET, the European Commission-sponsored network of out-of-court redress bodies, designed to ease the handling of cross-border disputes in financial services.

The fact that the UK ombudsman model is finding itself increasingly the focus of interest, both at home and abroad, is not only pleasing as an endorsement of the ombudsman as an accepted mechanism for settling disputes. It is also, in the case of financial services, a tribute to the vision of a small group of insurance practitioners who, twenty-five years ago, persuaded the National Consumer Council to work with them in founding the Insurance Ombudsman Bureau. What started then as a small-scale and quite radical experiment – giving customers access to justice through an ombudsman, rather than resorting to court action – has evolved and grown over the intervening quarter-century.

Ombudsmen are now a recognised feature in the constitutional landscape – an institution in their own right. And I am very proud of my organisation’s own role in contributing to the development of that institution.

Walter Merricks
June 2006
the complaints we received

at the front-line

Our customer contact division provides our front-line for consumer enquiries – by phone, letter and email. During the year we handled 672,973 initial enquiries and complaints from consumers – a 10% increase on the previous year (following a 12% increase in the previous year, when we handled 614,148 enquiries).

This means that on every working day our customer contact division handles more than 2,500 phone calls and items of new correspondence. These come from consumers who have questions, concerns and complaints about the way they believe they have been treated by financial firms.

Only one in six of these initial enquiries will go on to become a “full-blown” case requiring more intensive dispute-resolution work by our adjudicators or ombudsmen. The aim of our customer contact division is to resolve as many initial problems and complaints as early as possible – and in the most efficient and accessible way. This usually involves talking directly to our customers over the phone. Most consumers welcome this informal approach – and it is often the quickest and simplest way of sorting things out.

Being accessible is something we take very seriously. Our aim is to provide access to justice for people from all backgrounds and all sections of the community – not just for those who are confident and articulate in form-filling and complaining. We are especially keen to ensure no one is discouraged from using the ombudsman service because of language barriers or other difficulties. We use an instant phone-based interpreting service to handle calls in languages other than English. And we use TypeTalk, and provide information in formats such as large print and audiotape, to suit individual customers’ needs.

initial enquiries and complaints from consumers

<table>
<thead>
<tr>
<th>Year</th>
<th>Written Enquiries</th>
<th>Phone Enquiries</th>
<th>Total Enquiries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>313,842</td>
<td>359,131</td>
<td>672,973</td>
</tr>
<tr>
<td>2005</td>
<td>285,149</td>
<td>328,999</td>
<td>614,148</td>
</tr>
<tr>
<td>2004</td>
<td>256,446</td>
<td>291,892</td>
<td>548,338</td>
</tr>
</tbody>
</table>

year ended 31 March
Where consumers contact us before raising their complaint with the firm, our customer contact division forwards the complaint to the firm and asks it to investigate the matter under its formal complaints procedure. We remind consumers that they can ask us to get involved directly if the firm is not able to resolve their complaint within eight weeks. And we keep brief details of the case, so that if consumers need to approach us again, we already know who they are and have their details on our system. This reduces duplication, cuts down on paperwork – and saves time and effort for us, firms and consumers.

Where a consumer has already complained to the firm and – dissatisfied with the firm’s response – subsequently contacts us, our customer contact division gets together the relevant details and sorts out the necessary paperwork. In most cases, this involves confirming the consumer’s details and guiding them through our complaint form over the phone. This can be the most efficient way for us to get the information we need from the consumer, because we can explain exactly what we want and focus on the key facts.

At this stage, our customer contact division also offers consumers general advice and guidance. As well as explaining the complaints process in general, we discuss individual cases with consumers – who can be unsure how or whether to proceed with a complaint, or confused about redress already on offer from the firm.

For example, some consumers who have already been offered redress in relation to their mortgage endowments remain worried, because the amount of compensation offered does not match the estimated shortfall shown on the “re-projection” letter that the firm sent them. We can resolve many of these early complaints by clarifying – from an entirely independent standpoint – the regulatory approach to mortgage endowment compensation, and by explaining how redress has been calculated in these cases to comply with guidance set by the Financial Services Authority (FSA).

Our customer contact division is always looking for ways to help nip problems in the bud, before they escalate into full-scale disputes. This can involve intervening directly to sort things out – for example, where it is clear to us that the problem has arisen out of a simple administrative error or misunderstanding between the customer and the firm. During the year around two hundred complaints like this were resolved at this early stage every week.

An increasing number of consumers are getting the information they want from us directly from our website, rather than by phoning or writing to us. Over 125,000 people now visit www.financial-ombudsman.org.uk each month (a 25% annual increase – following similarly-sized increases in the previous two years). Over 200,000 complaint forms were downloaded from our website during the year. The other pages most regularly visited were the frequently-asked-questions (FAQs) for firms, the how to complain page, and the index for previous issues of our newsletter, ombudsman news.

Where further work is needed to resolve complaints, our customer contact division acts as the gateway to our specialist casework teams of adjudicators.
how we handle initial enquiries and complaints

This chart shows the variety of ways in which our front-line customer contact division can resolve initial enquiries or complaints at the earliest stage – before they become “full-blown” cases.

- **Has the consumer complained to the firm yet?**
  If not – refer the complaint to the firm, giving it the chance to sort the problem out first.

- **Does the consumer need advice on financial, debt or legal matters?**
  Direct the consumer to relevant helplines and websites.

- **Can we resolve the problem straight away?**
  Step in promptly, talk to both sides, and see if a few practical suggestions can help sort things out.

- **Is the complaint clearly outside our remit?**
  Explain the rules of our jurisdiction – for example on time limits that apply.

- **Is it a complaint – or just a request for information?**
  Provide the consumer with the facts they need, to resolve the problem themselves.

- **Should the firm be given a last chance to settle the complaint?**
  Persuade both sides to resolve the matter themselves – without escalating the case as a formal dispute to the ombudsman.

- **Is the complaint clearly without merit?**
  Explain why we don’t believe it would be helpful or productive to pursue the matter further.

- **Does the consumer want to pursue the complaint formally?**
  Give an early steer on the likely outcome – from our informed independent viewpoint.

- **Is it a matter for the regulator?**
  Explain the difference between redress and regulatory issues – referring to the relevant regulatory organisation.

- **Is the consumer complaining to the wrong organisation?**
  Suggest other relevant bodies or ombudsmen.

- **Does the consumer need advice on financial, debt or legal matters?**
  Direct the consumer to relevant helplines and websites.

- **Can we resolve the problem straight away?**
  Step in promptly, talk to both sides, and see if a few practical suggestions can help sort things out.

- **Is the complaint clearly outside our remit?**
  Explain the rules of our jurisdiction – for example on time limits that apply.

- **Is it a complaint – or just a request for information?**
  Provide the consumer with the facts they need, to resolve the problem themselves.

- **Should the firm be given a last chance to settle the complaint?**
  Persuade both sides to resolve the matter themselves – without escalating the case as a formal dispute to the ombudsman.

- **Is the complaint clearly without merit?**
  Explain why we don’t believe it would be helpful or productive to pursue the matter further.

- **Does the consumer want to pursue the complaint formally?**
  Give an early steer on the likely outcome – from our informed independent viewpoint.

- **Is it a matter for the regulator?**
  Explain the difference between redress and regulatory issues – referring to the relevant regulatory organisation.

- **Is the consumer complaining to the wrong organisation?**
  Suggest other relevant bodies or ombudsmen.

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- **letters, phone calls and emails from consumers**
- **refer as a new case to our adjudicators for further work**
In the year ended 31 March 2006, our customer contact division referred **112,923** new cases to our adjudicators and ombudsmen for more detailed dispute-resolution work – out of a total of 672,973 enquiries and complaints initially received at our consumer front-line.

The number of new cases is marginally higher (by 1.8%) than the record number of new cases recorded in last year’s annual review – and again results from the continued heavy volumes of mortgage endowment disputes being referred to the ombudsman service.

This means that for three years running we have now been handling an annual caseload over three times the size it was in the financial year 2000/01, when our predecessor ombudsman schemes merged to form the Financial Ombudsman Service.

We handled **69,149** new cases about mortgage endowments during the year. This means that each working day we registered over 250 new mortgage endowment complaints – the same high level as in the previous year. For the third year running, well in excess of half of all new cases during the year were mortgage endowment complaints – compared with less than a quarter in the financial year 2002/03. There is more information about our mortgage endowment work on page 20 of this review.

### number of new cases

<table>
<thead>
<tr>
<th>Year</th>
<th>New Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td><strong>112,923</strong></td>
</tr>
<tr>
<td>2005</td>
<td><strong>110,963</strong></td>
</tr>
<tr>
<td>2004</td>
<td><strong>97,901</strong></td>
</tr>
<tr>
<td>2003</td>
<td><strong>62,170</strong></td>
</tr>
<tr>
<td>2002</td>
<td><strong>43,330</strong></td>
</tr>
<tr>
<td>2001</td>
<td><strong>31,347</strong></td>
</tr>
</tbody>
</table>

*year ended 31 March*
## what the complaints were about

### new cases by type of complaint

<table>
<thead>
<tr>
<th>Year</th>
<th>Mortgage Endowment Cases</th>
<th>Other Investment-Related Cases</th>
<th>Banking-Related Cases</th>
<th>Insurance-Related Cases</th>
<th>Total New Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>69,149</td>
<td>15,795</td>
<td>13,709</td>
<td>14,270</td>
<td>112,923</td>
</tr>
<tr>
<td>2005</td>
<td>69,737</td>
<td>19,251</td>
<td>10,491</td>
<td>11,484</td>
<td>110,963</td>
</tr>
<tr>
<td>2004</td>
<td>51,917</td>
<td>25,157</td>
<td>9,798</td>
<td>11,029</td>
<td>97,901</td>
</tr>
<tr>
<td>2003</td>
<td>13,570</td>
<td>23,872</td>
<td>15,070</td>
<td>9,658</td>
<td>62,170</td>
</tr>
<tr>
<td>2002</td>
<td>14,595</td>
<td>13,711</td>
<td>8,117</td>
<td>6,907</td>
<td>43,330</td>
</tr>
<tr>
<td>2001</td>
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<tr>
<td>1999</td>
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<td></td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Note: The percentages in parentheses indicate the proportion of total complaints for each category.

**year ended 31 March**
what financial products the new cases involved

- 1.5% travel insurance
- 1% savings & deposit accounts
- 1% income protection insurance
- 1% loan protection insurance
- 2% credit cards
- 3% motor insurance
- 3% buildings & contents insurance
- 3% current accounts
- 3.5% mortgage products
- 3.5% personal pension plans
- 4% whole-of-life policies
- 4% single-premium investment bonds
- 8.5% other products
- 61% mortgage endowments
Given the very wide-ranging nature of the disputes we handle – from pet insurance to spread-betting – we have not included individual case studies in this *annual review*. The limited space in this publication means we could not give a fair and representative overview of all aspects of our work.

However, we include case studies in our regular newsletter, *ombudsman news*, which gives feedback on changing complaints trends, as well as commentary and briefing on our approach to different types of dispute.

### new cases by financial product

<table>
<thead>
<tr>
<th>Financial Product</th>
<th>Year Ended 31 March 2006</th>
<th>Year Ended 31 March 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage endowments</td>
<td>69,149</td>
<td>69,737</td>
</tr>
<tr>
<td>Other “packaged” investment products</td>
<td>5,810</td>
<td>8,213</td>
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<tr>
<td>Single-premium investment bonds (including with-profits bonds)</td>
<td>4,541</td>
<td>6,281</td>
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<tr>
<td>Investment ISAs</td>
<td>557</td>
<td>788</td>
</tr>
<tr>
<td>PEPs</td>
<td>223</td>
<td>389</td>
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<tr>
<td>Unit trusts</td>
<td>109</td>
<td>192</td>
</tr>
<tr>
<td>Whole-of-life policies and non mortgage-linked endowments</td>
<td>4,163</td>
<td>4,506</td>
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<td>Personal pension plans</td>
<td>4,053</td>
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<td>Personal pensions</td>
<td>2,241</td>
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<tr>
<td>Income draw-down</td>
<td>516</td>
<td>162</td>
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<tr>
<td>Annuities</td>
<td>422</td>
<td>359</td>
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<tr>
<td>Small self-administered schemes and executive pension plans</td>
<td>182</td>
<td>181</td>
</tr>
<tr>
<td>Mortgage products</td>
<td>3,942</td>
<td>3,001</td>
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<td>Current accounts</td>
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<tr>
<td>Debit cards</td>
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</tr>
<tr>
<td>Direct debits and standing orders</td>
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<td>235</td>
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<tr>
<td>Motor insurance</td>
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<td>Credit cards</td>
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<td>Buildings insurance</td>
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<td>Travel insurance</td>
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<td>1,525</td>
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<tr>
<td>Loans other than mortgages</td>
<td>1,507</td>
<td>1,133</td>
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<tr>
<td>Unsecured loans</td>
<td>1,212</td>
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<td>Second charges</td>
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<td>Lifetime mortgages</td>
<td>45</td>
<td>60</td>
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<tr>
<td>Service</td>
<td>Total Complaints 2005</td>
<td>Total Complaints 2006</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-----------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Other Banking Services</td>
<td>1,360</td>
<td>1,083</td>
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<tr>
<td>- Cheque Clearing</td>
<td>467</td>
<td>493</td>
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<tr>
<td>- Money Transfer</td>
<td>309</td>
<td>216</td>
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<tr>
<td>- Cash Machines</td>
<td>279</td>
<td>190</td>
</tr>
<tr>
<td>- Electronic Money</td>
<td>183</td>
<td>61</td>
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<tr>
<td>- Safe Custody</td>
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<tr>
<td>Loan Protection Insurance</td>
<td>1,315</td>
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<tr>
<td>Savings and Deposit Accounts</td>
<td>1,233</td>
<td>1,154</td>
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<tr>
<td>- Cash ISAs</td>
<td>314</td>
<td>347</td>
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<tr>
<td>- TESSAs</td>
<td>27</td>
<td>70</td>
</tr>
<tr>
<td>- Re-discovered Passbooks and Dormant Accounts</td>
<td>71</td>
<td>62</td>
</tr>
<tr>
<td>Contents Insurance</td>
<td>1,224</td>
<td>1,145</td>
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<tr>
<td>Other Types of General Insurance</td>
<td>1,220</td>
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<tr>
<td>- Commercial Policies</td>
<td>480</td>
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<tr>
<td>- Pet Insurance</td>
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<tr>
<td>- Roadside Assistance</td>
<td>115</td>
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<tr>
<td>- Caravan Insurance</td>
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<tr>
<td>Income Protection Insurance</td>
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<td>Critical Illness Insurance</td>
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<td>Extended Warranty Insurance</td>
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<tr>
<td>Stockbroking</td>
<td>529</td>
<td>473</td>
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<tr>
<td>Portfolio and Fund Management</td>
<td>446</td>
<td>583</td>
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<tr>
<td>Free-Standing Additional Voluntary Contribution (FSAVC) Schemes</td>
<td>416</td>
<td>482</td>
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<tr>
<td>Legal Expenses Insurance</td>
<td>395</td>
<td>304</td>
</tr>
<tr>
<td>Private Medical Insurance</td>
<td>389</td>
<td>337</td>
</tr>
<tr>
<td>“Splits” and “Zeros” (in relation to investment trust companies)</td>
<td>333</td>
<td>729</td>
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<tr>
<td>Personal Accident Insurance</td>
<td>172</td>
<td>128</td>
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<tr>
<td>Derivatives</td>
<td>45</td>
<td>51</td>
</tr>
<tr>
<td>- Spread-Betting</td>
<td>36</td>
<td>42</td>
</tr>
<tr>
<td>Total Number of New Cases</td>
<td>112,923</td>
<td>110,963</td>
</tr>
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</table>

We hope that firms, in particular, find ombudsman news a helpful source of reference – and that they will take its contents into account when considering how to handle complaints. ombudsman news is available in the publications section of our website.

To join our mailing list for free copies – email publications@financial-ombudsman.org.uk

On the following pages we highlight the issues behind the key areas of complaint during the year.
During the year we received 69,149 new mortgage endowment complaints – a similar number to the previous year, when we handled 69,737 cases. This means that for the first time since 2003, when we received just 13,570 complaints about mortgage endowments, the substantial year-on-year increases in these complaints have halted, although the numbers have not yet started to decline. In fact, we expect – and are geared up for – similarly high levels of mortgage endowment complaints to continue throughout 2006/07.

In July 2005 the Financial Services Authority (FSA) published a document, *mortgage endowments – progress report and next steps*, which sets out the regulator’s intention to monitor firms’ performance in handing mortgage endowment complaints against three measures:

- timeliness in meeting the FSA’s “eight-week” rule (the length of time a firm is given to resolve a complaint itself, before the ombudsman service can get involved);
- the percentage of complaints about a firm that are upheld by the ombudsman service in favour of consumers; and
- the number of complaints to the ombudsman service about a firm, in relation to that firm’s market share.

The FSA has subsequently been collecting data direct from firms and from us on the number of complaints we uphold in favour of consumers. As a result of the continued regulatory focus in this area – with the FSA stressing the importance of firms handling mortgage endowment complaints fairly and properly – we have seen a general improvement in the quality of complaints handling by the largest firms. We expect to see this improvement reflected in an increase in the proportion of cases where we decide the complaint has been properly investigated and declined by the firm involved. We continue to liaise closely with the FSA on these matters, as the quality of complaints handling by firms has a significant direct impact on our workload.

The volume of mortgage endowment complaints relating to the largest firms has showed a small decline over the year – with slightly more complaints now relating to medium-sized and smaller firms. In response to this trend, we are planning more events and communications targeted specifically towards these firms.
For example, we recently hosted a forum for 40 building societies, to explain our approach to mortgage endowment cases that relate to the period before the Financial Services Act 1986 came into force in April 1988. While some complaints about the sale of mortgage endowments in this period fall outside our jurisdiction – usually where advice was given by independent financial advisers (IFAs) – many of these cases are within our remit. This is because the sales were made by mortgage lenders or insurance companies who were members of our predecessor ombudsman schemes at that time.

The forum covered areas such as how we determine whether a firm gave advice; how we deal with cases when the firm’s file has been destroyed; and how we take into account the economic climate at the time mortgage endowment policies were sold. We also set out our approach to these issues in a technical briefing note that we subsequently published on our website. We plan similar events aimed at smaller firms throughout 2006.

All the large firms have now announced their intention to apply “time bars” to mortgage endowment complaints – as set out in the FSA’s complaints-handling rules (the “DISP” section of the FSA’s Handbook). During 2006 a significant number of consumers will receive personal notification of the final date by which they must have complained. The impact of time bars on complaint volumes is still uncertain.

Although we do not know how many consumers will be prompted into action by getting a letter telling them the final date to complain, the various “time-bar” rules are already starting to have an impact on the number of new mortgage endowment complaints that we are able to look at.

The effect of time-barring is something we had expected to see. We talked about this issue in our last annual review. During the year, around 15% of the mortgage endowment disputes we handled turned on whether the firm had applied an effective time bar – compared with 12% in the previous year. We explained our approach to dealing with these cases – including when we charge the firm a case fee – in issue 50 of our newsletter, ombudsman news.

We continue to see an increasing number of complaints where consumers have altered their mortgage arrangements in some way – and a modification to the standard redress calculation is therefore required if we uphold the complaint. In November 2005, in response to requests from firms, we published a summary of mortgage endowment cases involving unusual redress calculations. This technical briefing note is available in the publications section of our website.
what the complaints were about

investment-related complaints (other than mortgage endowments)

- 29% single-premium investment bonds
- 26% whole-of-life policies
- 14% personal pension plans
- 11% other products
- 2% “splits” and “zeros”
- 2.5% FSAVCs
- 2.5% annuities
- 3% portfolio and fund management
- 3% income draw-down
- 3.5% stockbroking
- 3.5% investment ISAs

annual review 1 April 2005 to 31 March 2006
The positive news in relation to investment complaints was the welcome 29% decrease in the number of cases we received during the year about “packaged” investment products, such as single-premium investment bonds and investment ISAs.

The recovery in the stock market has doubtless played some part in the reduction in the number of complaints in this area. That does not mean, of course, that we usually accept complaints about the performance of investments. We have specific powers to dismiss such complaints without considering their merits, where we believe the basis of the complaint is simply that the consumer is disappointed with the way in which their investment has turned out. However, poor investment returns can reveal underlying issues in a sale which might otherwise have been masked by good performance. So the inherent risk in a product might only become apparent when stock market losses are threatened or are actually suffered.

Risk and suitability for the individual consumer – at the time they bought the investment in question – are at the heart of most investment complaints we look at. We examine each complaint in the light of its own unique facts and circumstances, having regard to the law, regulations, rules, guidance etc in place at the time of the advice or sale complained about.

Our approach to certain types of complaints is now well established and recognised across the industry. This may also have contributed to the falling number of complaints about “packaged” investments. Having a better understanding of the way in which we are likely to view certain matters means that more firms are now able to settle complaints themselves, without the need for customers to refer the dispute to the ombudsman service.
During the year there has been a particularly marked decrease in the number of complaints to us about “structured capital-at-risk” products (SCARPs) – sometimes called “precipice bonds”. Complaints relating to this type of bond are closely linked to performance issues. Many consumers do not appreciate the risks involved in their investment until they lose its capital value. Product design and the selling process have changed since these bonds first emerged on the market. The reduction in the number of complaints we are now seeing may therefore reflect a new focus on capital-guaranteed products – with riskier products directed only to those customers demonstrably willing to accept risk.

We have also seen fewer complaints about market value reductions (MVRs) in relation to with-profits bonds invested in open funds – with the generally improved performance of these funds, reflecting stock market improvements, leading to MVRs being reduced or removed.

However, consumers holding with-profits bonds invested in funds that are now closed to new customers may see MVRs continuing to be applied for some time to come. Given that the equity content of these closed funds is often only 10 to 15%, or less, these bonds are far more likely to be affected by changes in the yields on the underlying fixed income investments, rather than by the performance of the stock market. There are complaints that this is unfair, as it means the fund is not in a position to take advantage of a recovery in equities.

The issue of closed funds has been identified jointly by ourselves and the FSA as giving rise to wider implications – because the interests of an individual consumer may conflict generally with the interests of all other policyholders in that fund. Our role at the ombudsman service is to look at individual complaints, taking into account the particular circumstances of each case. It is for the FSA to take a more general overview of funds. If the FSA has no objection to a firm’s decisions about running a closed with-profits fund, our role in any individual case is to consider whether the firm’s investment approach to that fund is a legitimate exercise of its commercial judgement – for the good of its policyholders as a group. If it is, we will not take on the complaint for any further investigation.
The reduction in the number of complaints about whole-of-life policies during the year – an 8% annual decrease – was less than the 28% fall in the number of complaints about single-premium investment bonds and the 29% decrease in complaints about investment ISAs.

During the year we continued to receive complaints, in particular, about “reviewable” whole-of-life policies. A feature of these policies is that the product providers involved carry out reviews of policies in force, to see if the sum assured at the outset can be maintained in the future. The use of the regulator’s specified growth rates for assumed future performance – which are now lower than those specified some years ago – can have a significant bearing on whether the firm believes a policy’s “sum assured” will be sustainable.

Where investment performance is not as strong as expected, and assumed growth rates for the future are lower, whole-of-life policyholders may be asked for appreciable increases in premiums. Or they may be advised to reduce the sum assured provided by the policy. In these circumstances, policyholders frequently complain to us that the possibility of such a review was not mentioned – or that the implications and extent of the review were underplayed.
The fall in the number of pension complaints we have seen in recent years – from 7,233 cases in 2002/03 to 4,214 cases in 2004/05 – continued this year, with a further 4% reduction in pension-related disputes. This decrease is partly due to the “tailing-off” of cases relating to the industry-wide Pensions Review, instigated by the regulator in the mid-1990s. Many of the Pensions Review complaints we received during the year were “out of time” under the FSA’s rules.

The majority of the pension complaints we deal with are about advice – the separate Pensions Ombudsman deals with most administration-related pension complaints. Where disputes turn on the quality of the advice given, professional pride is often at stake on the part of the adviser involved. And for consumers, the complaint may be a question of determining what pension income they will have when they retire. So these cases are often highly complex, with both parties having a very significant personal interest in the outcome.
What the complaints were about

- Banking-related complaints
  - Mortgage products: 29%
  - Credit cards: 15%
  - Current accounts: 26%
  - Savings and deposit accounts: 9%
  - Other banking services: 10%
  - Loans other than mortgages: 11%
  - Other banking services: 15%

Annual review 1 April 2005 to 31 March 2006
Complaints about mortgage products – where the dispute centres on the loan rather than on any repayment vehicle in place (such as a mortgage endowment) – have increased by a third during the year. This may reflect the fact that the range and complexity of mortgage products available in the market continues to grow. In particular, we have seen an increase in the number of disputes between consumers and lenders that relate specifically to the terms and conditions of mortgage products.

Where the mortgage product has been in place for a couple of years, the consumer has often forgotten what the original terms were. When the consumer tries to check this with the lender – perhaps by phoning the firm’s call centre, or by speaking to a branch employee who may be familiar only with the current product range – there is considerable scope for misunderstanding or wrong information. This can have serious implications where the consumer is trying to avoid being caught by an early repayment charge.

We have seen more complaints specifically about the fees charged for arranging or securing mortgage products – perhaps reflecting the fact that this is our first complete year of handling complaints against mortgage intermediaries.

At the other end of the mortgage lifecycle, we have also received a flurry of complaints about what are popularly called “mortgage exit fees” – the charge that the lender makes to cover the costs of the administrative work involved in repaying a mortgage.
The number of complaints to the ombudsman service about credit cards has increased by a third over the year – the same increase we have seen generally in relation to our banking-related caseload.

Card fraud, in all its forms, has again been a significant source of dispute. Card issuers have reported that the introduction of cards with the “chip and PIN” security feature has contributed significantly to the reduction in the incidence of card fraud. However, we have not yet seen this reflected in a reduced number of complaints to us about alleged card fraud. As we reported last year, the complaints we see include a significant proportion of cases of alleged “first party fraud” – where the card issuer believes the customer is implicated in the fraud in some way.

Complaints about alleged card fraud have also risen significantly in relation to debit and charge cards attached to current accounts.

Enticing introductory offers by card issuers have led to complaints where the customer does not consider that the terms of the special deal were sufficiently clear. Although we have not normally upheld these complaints on the actual facts of each individual case, it is perhaps a good indicator that many consumers find these sorts of deals difficult to understand.

During the year there have been further developments on the question of whether section 75 of the Consumer Credit Act 1974 applies to credit transactions made abroad. This is the provision that holds suppliers and credit card providers jointly liable if a consumer has a valid claim for misrepresentation and/or breach of contract. The decision of the Court of Appeal in March 2006 overturned an earlier High Court decision which had found that transactions made abroad were not covered by this provision.

As we explained in last year’s annual review, we had expected card issuers to continue to apply the old voluntary policy on credit card transactions made abroad. So in practical terms, the decision by the Court of Appeal makes no difference in the vast majority of cases we see.
Consistent with the increase generally in banking-related complaints, disputes to the ombudsman service about loans other than mortgages rose by a third during the year.

In last year’s annual review, we focused on the growing number of cases involving consumers who complained that the loans they took out were unaffordable from the outset. We have continued to see a growing number of these cases during the year – with similar issues also emerging in the significant numbers of complaints relating to overdraft lending and consolidation on current accounts. The complaints we receive in this area can be particularly complex and sensitive, as they frequently involve consumers who are vulnerable in some way (for example, those on long-term benefits).

We have also received complaints about interest rate differentiation – where the firm sets the interest rate for the loan on the basis of the customer’s individual risk profile, rather than offering one set rate to all customers across the board. In the absence of any evidence of maladministration by the firm – for example, the firm entering the applicant’s details wrongly in its system, resulting in a mistake in the rate offered – we will not normally investigate a firm’s commercial decision about the rate on which it is prepared to lend to a customer.

**complaints about loans other than mortgages**

- **11%** complaints about loans other than mortgages
- **89%** other banking-related complaints
In general we have seen a quieter year in terms of complaints involving savings and deposit accounts. The number of complaints in this area rose by only 7%, compared with increases of a third in the other types of banking dispute.

We continue to see complaints about the interest earned on savings accounts, particularly where the account is subject to complicated or restrictive notice requirements if loss of interest is to be avoided.

We have also continued to receive complaints about “guaranteed capital bonds” – as described in our annual review last year. These are not technically defined as investment products, as there is a guarantee that the invested capital will be returned in full at the end of the bond’s term, even though the interest rate depends of the movement of a specified investment index. Consumers who do not distinguish these deposit-based products from regulated investment products are often surprised that the regulatory requirements – such as the requirement on firms to carry out a “fact find” – do not apply to guaranteed capital bonds.

Complaints about savings and deposit accounts

91% other banking-related complaints

9% complaints about savings and deposit accounts
Annual Review 1 April 2005 to 31 March 2006

What the complaints were about

Insurance-related complaints

- Motor: 24%
- Buildings: 14%
- Travel: 12.5%
- Loan protection: 9%
- Income protection: 8%
- Contents: 8.5%
- Critical illness: 5.5%
- Extended warranty: 4%
- Commercial: 3.5%
- Legal expenses: 3%
- Private medical: 3%
- Pet: 1.5%
- Personal accident: 1%
- Other: 2.5%

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Complaints to the ombudsman service about motor insurance rose by 31% during the year. This overall increase results from rises in all types of dispute involving motor claims. It also partly reflects the fact that this was the first complete year that insurance intermediaries were covered by the ombudsman service, having come under our jurisdiction on a statutory basis in January 2005. More than a third of complaints against the new insurance intermediaries and brokers related to motor claims.

We will continue to work with insurers and intermediaries to see if there are other particular factors responsible for the increase in motor insurance disputes. For example, we know there are some concerns that the growth of lower-priced motor policies is accompanied by the application of more stringent standards when claims are submitted. On the other hand, the willingness of insurers to assume responsibility for repairs after an accident means that a significant proportion of the complaints we now see relate to disputes about the standard of these repairs.

Another significant element of our work that is continuing to increase relates to complaints from policyholders about the way in which their insurer has handled motor claims from third parties. Policyholders can be dissatisfied with the effect that insurers’ actions in this area may have on their no-claims bonus and on the recovery of their uninsured loss. They may also feel, rightly or wrongly, that they were inadequately involved in this aspect of the claims process.

Annual review 1 April 2005 to 31 March 2006
The number of building insurance complaints has increased by 20% over the year, while disputes about contents insurance have risen by 7%. This reflects, in part, the fact that insurance intermediaries came under our jurisdiction on a statutory basis in January 2005. A significant number of the complaints we received about insurance brokers and intermediaries related to household insurance.

The increase also reflects, in part, a continuing rise in the number of disputes involving complex and high-value claims under buildings policies. During the year, over a quarter of the complaints we received about buildings insurance related to the standard of repair work carried out following claims under this type of policy. We continue to see a very wide range of practice in the way in which insurers handle complex buildings insurance claims. On the one hand, some policyholders have unreasonable expectations of insurers in terms of both the speed and the quality of the repairs they are entitled to. On the other hand, the systems operated by some insurers prove inadequate when faced with complex or unusual individual circumstances.
Disputes arising out of travel insurance claims have increased by 17% over the year – and are now more than double the number we received in 2001/02. This may reflect the fact that the market for travel insurance continues to expand – for example, with further growth in the popularity of annual travel policies and policies automatically linked to other financial services, such as premium bank accounts and credit cards.

The policy terms for travel insurance remain complicated, and the sales process is frequently limited – given the low value of the transactions involved. As a result, while there is considerable competition on the pricing of travel insurance, there is also widespread misunderstanding on the part of consumers about the scope of the cover they have and the eligibility criteria that apply. We also see evidence of unsophisticated claims-handling by some firms and their sub-contractors.
We resolved a total of 119,432 cases in the financial year 2005/06 – a 31% increase on the previous year (following an 18% annual increase in the number of cases we resolved in the year before that).

This is the highest number of cases we have resolved in any year – and a four-fold annual increase on the number of cases we settled in the financial year 2000/01, when our predecessor ombudsman schemes merged to form the Financial Ombudsman Service.

The 119,432 complaints we resolved during the year included 70,757 mortgage endowment complaints – a 45% increase on the 48,869 mortgage endowment complaints resolved in the previous year.

110,229 cases – 92% of the total number of cases settled – were resolved by adjudicators, using a range of dispute-resolution tools and techniques, including guided mediation and informal recommended settlements. In each case we take the approach we believe will be the most appropriate in the individual circumstances – and the most likely to settle the complaint quickly and fairly.

More formally, adjudicators can issue an “adjudication” on a case – a document setting out our recommendations about whether the complaint should be upheld.

In most cases, both sides accept the recommendations. But either side can ask instead for a review and final decision by an ombudsman. This happened in 8% of cases during the year. A decision by the ombudsman is final – it is the last stage of our dispute-resolution process.

During the year around 15% of the mortgage endowment disputes we handled turned on whether the firm had correctly applied a “time bar” – compared with 12% in the previous year. We cannot consider the merits of complaints where firms have properly applied the “time-bar” rules (as set out in the FSA’s complaints-handling rules – the “DISP” section of the FSA’s Handbook).

As we commented in last year’s annual review, the number of mortgage endowment cases that are out of time is expected to continue to rise substantially, where consumers leave it too late to complain. We expect that even more of our work in future will be spent dealing with complaints from people unhappy that they have been told their right to complain has expired.
In 2% of cases, the ombudsman found that the firm had generally treated the customer’s complaint fairly – but the firm still agreed a goodwill payment.

In 51% of cases, the ombudsman found that the firm had treated the customer’s complaint fairly.

In 5% of cases, the firm had made an offer to the customer but the ombudsman negotiated an improved settlement.

In 36% of cases, the ombudsman found that the firm had not treated the customer’s complaint fairly.

In 1% of cases, the customer withdrew their complaint.

In 36% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

6,220 cases resolved

In 6% of cases, the adjudicator found that the firm had generally treated the customer’s complaint fairly – but the firm still agreed a goodwill payment.

In 59% of cases, the adjudicator found that the firm had treated the customer’s complaint fairly.

In 10% of cases, the firm had made an offer to the customer but the adjudicator negotiated an improved settlement.

In 31% of cases, the adjudicator found that the firm had not treated the customer’s complaint fairly.

In 2.5% of cases, the customer withdrew their complaint.

In 19.5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

42,455 cases resolved

In 28% of cases, the ombudsman found that the firm had treated the customer’s complaint fairly.

In 1% of cases, the customer withdrew their complaint.

In 33% of cases, the ombudsman found that the firm had not treated the customer’s complaint fairly.

In 36% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

2,983 cases resolved

In 5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

67,774 cases resolved

In 5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 1% of cases, the firm had made an offer to the customer but the adjudicator negotiated an improved settlement.

In 12.5% of cases, the adjudicator found that the firm had not treated the customer’s complaint fairly.

In 5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 4.5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 19% of cases, the customer withdrew their complaint.

In 5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 1% of cases, the customer withdrew their complaint.

In 46% of cases, the adjudicator found that the firm had treated the customer’s complaint fairly.

In 1% of cases, the firm had made an offer to the customer but the adjudicator negotiated an improved settlement.

In 4.5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 2% of cases, the ombudsman found that the firm had generally treated the customer’s complaint fairly – but the firm still agreed a goodwill payment.

In 28% of cases, the ombudsman found that the firm had treated the customer’s complaint fairly.

In 2% of cases, the firm had made an offer to the customer but the ombudsman negotiated an improved settlement.

In 33% of cases, the ombudsman found that the firm had not treated the customer’s complaint fairly.

In 8% of cases, the customer withdrew their complaint.

In 1% of cases, the customer withdrew their complaint.

In 31% of cases, the adjudicator found that the firm had not treated the customer’s complaint fairly.

In 5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 36% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 8% of cases, the customer withdrew their complaint.

In 5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 19% of cases, the customer withdrew their complaint.

In 5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 28% of cases, the ombudsman found that the firm had treated the customer’s complaint fairly.

In 1% of cases, the customer withdrew their complaint.

In 33% of cases, the ombudsman found that the firm had not treated the customer’s complaint fairly.

In 8% of cases, the customer withdrew their complaint.

In 5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 28% of cases, the ombudsman found that the firm had treated the customer’s complaint fairly.

In 1% of cases, the customer withdrew their complaint.

In 33% of cases, the ombudsman found that the firm had not treated the customer’s complaint fairly.

In 8% of cases, the customer withdrew their complaint.

In 5% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).

In 28% of cases, the ombudsman found that the firm had treated the customer’s complaint fairly.

In 1% of cases, the customer withdrew their complaint.

In 33% of cases, the ombudsman found that the firm had not treated the customer’s complaint fairly.
Where we uphold a complaint in favour of a consumer – either wholly or partly – there are a number of ways in which we can put matters right, depending on the individual circumstances of the case.

Where we do not uphold a complaint in favour of a consumer, we always aim to give a clear explanation of why we believe the firm has treated its customer fairly. In some cases, this is something the firm could have done initially, to have prevented the complaint arising in the first place. In other cases, our explanation simply reinforces – from an impartial standpoint – what the firm has already set out clearly for its customer.

We recognise that any decision of ours will be disappointing for the side that does not hear what they wanted to hear. But whatever the outcome, we hope we will have “added value” by giving our view on the case fairly, authoritatively and independently.
The chart below shows the time it takes to resolve disputes that are referred to the ombudsman service. The very large volumes of mortgage endowment complaints that we continued to receive during the year meant we were not able to deal with these cases as quickly as we would have liked. On average, a complaint now takes us between six and nine months to resolve. However, as part of the further expansion during the year of our endowment case-handling unit, we recruited around 120 more adjudicators and support staff. As these “new starters” have got up to speed and become fully productive, our particular focus has been on resolving the mortgage endowment complaints that have been with us longer.

### Time taken to resolve cases

**2006**
- 32% resolved within 3 months
- 59% resolved within 6 months
- 75% resolved within 9 months
- 85% resolved within 12 months

**Excluding mortgage endowment cases**
- 43% resolved within 3 months
- 74% resolved within 6 months
- 84% resolved within 9 months
- 89% resolved within 12 months

**2005**
- 32% resolved within 3 months
- 64% resolved within 6 months
- 80% resolved within 9 months
- 90% resolved within 12 months

**Excluding mortgage endowment cases**
- 42% resolved within 3 months
- 72% resolved within 6 months
- 82% resolved within 9 months
- 88% resolved within 12 months

**2004**
- 47% resolved within 3 months
- 79% resolved within 6 months
- 91% resolved within 9 months
- 96% resolved within 12 months
However, the real concern for consumers with mortgage endowment complaints is whether they will be able to pay off their mortgage when their endowment matures – usually at some future date. Generally, no loss has yet materialised in real terms. So a longer waiting period before deciding these cases, while regrettable, is not critical in terms of the loss the consumer currently faces. This is why our approach, in the short term, is to give priority to resolving disputes that involve products other than mortgage endowments, where any loss is likely to have materialised already. We also continue to give priority to cases where the consumer might clearly be disadvantaged by having to wait – for example, through financial hardship or for medical reasons.

The time taken to resolve a complaint is also affected by the complexity of the case – and by whether the firm and consumer are willing to accept any conciliated settlement at an early stage, or whether either side instead requests a more formal review, including an “appeal” to an ombudsman. Cases involving hard-fought arguments and entrenched attitudes are more common, as firms increasingly take a legalistic approach to dispute resolution and consumers become more demanding and less willing to concede. This has a direct impact both on the time it takes us to resolve disputes and on our unit cost and productivity.

The Financial Ombudsman Service is funded by an annual levy paid by firms we cover – and by case fees that we charge each firm for the third and subsequent disputes referred to us during the year.

In November 2005 we announced that we would be reviewing these funding arrangements. And in May 2006 we and the Financial Services Authority (FSA) published a discussion paper putting forward a range of possible alternative funding options for the future. The discussion paper – which is available on our website – considers the balance between annual fees and case fees, as well as other issues about the structure of our funding.

Our budget is calculated on the basis of workload forecasts which we consult on publicly each year in January and February – before the start of the new financial year.

When we consulted in January and February 2005 on the budget we proposed for the financial year 2005/06, we said we expected to resolve 116,000 cases during the year, at a total cost of £53.1m – the equivalent of £456 per case. We exceeded expectations and resolved over 119,000 cases.

Our income from case fees was marginally below budget, because more firms than expected had only one or two complaints during the year – for which we do not
charge case fees. (As explained above, we charge firms only for the third and subsequent disputes referred to us each year.) Other income we received relates to interest income, the sale of publications, and fees we charge to cover the costs of our industry conferences.

Our total expenditure for the year of £52.6m was £0.5m below budget – almost wholly due to lower than expected staff costs.

The amount of bad debts during the year increased to £0.6m as a result of firms going out of business, leaving case fees unpaid. Two-thirds of these unpaid case fees related to ten firms.

Our unit cost for the year was £433 – compared with a figure of £496 in the previous year. This 12% decrease resulted from our lower than budgeted expenditure – spread across a higher number of resolved cases.

The management accounts – as summarised in this table – are shown before adjusting for the accounting standard FRS 17 on pension accounting. After adjusting for FRS 17, the statutory accounts show a reduction in pension costs and an overall deficit of £0.3m – but they also show, as a liability in the balance sheet, a deficit of £2.3m on our closed final salary pension scheme.

![Image](image1.png)

**our income and expenditure (summary)**

<table>
<thead>
<tr>
<th>income</th>
<th>actual year ended 31 March 2006 £ million</th>
<th>budget year ended 31 March 2006 £ million</th>
<th>actual year ended 31 March 2005 £ million</th>
<th>actual year ended 31 March 2004 £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>annual levy</td>
<td>11.7</td>
<td>11.1</td>
<td>12.4</td>
<td>13.1</td>
</tr>
<tr>
<td>case fees</td>
<td>39.8</td>
<td>40.0</td>
<td>31.2</td>
<td>27.4</td>
</tr>
<tr>
<td>other income</td>
<td>0.5</td>
<td>0.0</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>total income</td>
<td>52.0</td>
<td>51.1</td>
<td>44.0</td>
<td>41.0</td>
</tr>
<tr>
<td>expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>staff-related costs</td>
<td>40.5</td>
<td>41.1</td>
<td>34.7</td>
<td>26.6</td>
</tr>
<tr>
<td>other costs</td>
<td>8.9</td>
<td>8.8</td>
<td>8.2</td>
<td>6.8</td>
</tr>
<tr>
<td>financing charges</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>depreciation</td>
<td>2.9</td>
<td>2.9</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>total expenditure</td>
<td>52.6</td>
<td>53.1</td>
<td>45.8</td>
<td>36.5</td>
</tr>
<tr>
<td>(deficit)/surplus</td>
<td>(0.6)</td>
<td>(2.0)</td>
<td>(1.8)</td>
<td>4.5</td>
</tr>
</tbody>
</table>

The table shows the income and expenditure for the year ended 31 March 2006, along with the budgeted figures and actual figures for the previous two years. The table also includes a summary of the deficit/surplus for the year.
Our productivity – which we define as the average number of cases resolved weekly by each adjudicator – was 4.5, compared with the figure of 4.3 that we had planned for in the budget. In previous years’ annual reviews we explained that the productivity levels we achieved in 2003 and 2004 reflected exceptional circumstances specific to that period – involving large economies of scale, changes to our case-handling process and significant amounts of staff overtime – in response to the first waves of increased numbers of mortgage endowment cases.

On a statutory accounting basis, the financial deficit for the year of £0.3m has reduced our surplus to £3.9m. The overall surplus was reduced for the first time by the deficit of £2.3m on our closed final salary pension scheme. Our policy on financial reserves, agreed after consultation with the financial services industry, is to keep no more than 5% of our expected annual expenditure – and to return any amount over this to firms, by reducing the amount of the annual levy in the following years.

More information about our finances is available in the detailed financial statements which begin on page 66 of this annual review.

**average number of cases resolved weekly by each adjudicator**

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cases resolved</td>
<td>3.3</td>
<td>3.7</td>
<td>4.9</td>
<td>4.9</td>
<td>4.4</td>
<td>4.5</td>
</tr>
</tbody>
</table>

**our unit cost**

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit cost (£)</td>
<td>£753</td>
<td>£684</td>
<td>£518</td>
<td>£473</td>
<td>£496</td>
<td>£433</td>
</tr>
</tbody>
</table>

*Our unit cost is calculated by dividing our total costs (before financing charges and any bad debt charge) by the number of cases we complete.
Consumers complaining to the ombudsman service are, on average, between the ages of 35 and 64. Seven out of ten people who use our service are in this age bracket, reflecting the fact that this is the generation of homeowners most likely to have complaints relating to mortgage endowments sold in the 1980s and early 1990s. Complaints about mortgage endowments make up almost two-thirds of our total workload.

The figures continue to show that significantly more men than women complain to the ombudsman service. However, many complaints relate to accounts and policies (especially mortgage endowment policies) held jointly. And with joint accounts, the first-named account-holder – the name our system records – is generally a male partner.

**what type of consumer uses the ombudsman service?**

**what age are consumers who complain to the ombudsman?**

- 6% younger than 24 years
- 1% 25–34
- 18% 35 to 44
- 27% 45 to 54
- 21% 55 to 64
- 27% 65 and older

**... and what gender are they?**

- 74% male
- 26% female
The number of consumers who complained to the ombudsman service from the South West of England, Wales and Northern Ireland remained proportionately the same as in the previous year. Fewer people complained from the South East and London. But the proportion of people who brought complaints to the ombudsman service from the Midlands, Scotland, East Anglia and the North West rose by 12%.

These are the regions where we have focused specific consumer “outreach” work in the last couple of years – including taking part in consumer shows and organising training for local consumer advice agencies. These activities might help explain the greater level of awareness of the ombudsman on the part of consumers from these particular areas.
Under the rules of the Financial Services Authority (FSA), firms are required to tell their customers about the ombudsman service when they first do business with them, and subsequently if a complaint arises which the firm cannot resolve to the customer’s satisfaction. So we would expect most people to say they heard about us from the financial firm they are complaining about.

However, many consumers also continue to tell us that they first heard about our service through the media. And this year an increasing number of people said they found out about us from friends, relatives and work colleagues or through consumer advice agencies, such as citizens advice and trading standards. This shows the importance of word of mouth as a way of increasing awareness about the Financial Ombudsman Service.
what newspapers do consumers read who complain to the ombudsman?

The chart below shows the newspapers that the consumers who used our service during the year told us they read. This information helps us tailor our messages more effectively to target the people who do – and don’t – know about and use the ombudsman service.

- 3% Scottish and Northern Irish titles
- 4% Financial Times
- 4% The Independent/Independent on Sunday
- 6% The Guardian/Observer
- 6% The Mirror/Sunday Mirror
- 7% The Sun/News of the World
- 9% The Express/Sunday Express
- 11% other newspaper (including regional publications)
- 12% The Telegraph/Sunday Telegraph
- 13% The Times/Sunday Times
- 25% Daily Mail-Mail on Sunday
consumer diversity

14% of our customers told us in our monthly surveys that they had some form of disability (16% in the previous year) – predominantly hearing impairment and mobility difficulties. There is strong demand for our publications in Braille, large print and on audiotape – and we use TypeTalk and sign-language on request. This is part of our commitment to be flexible and accommodate our customers’ needs wherever we can.

Our customer surveys indicate that around 5% of people who use our service define themselves as “minority ethnic” (4% in the previous year). 15% of ombudsman service employees describe themselves as coming from an ethnic minority background.

For people who are not comfortable using English, we provide information – and are able to communicate – in other languages. In the past year we have done so in over 20 languages – including handling correspondence in Arabic, phone calls in Tagalog and emails in Urdu.
how do consumers who complain to the ombudsman rate the service we provide?

- we keep consumers well informed about progress on their complaint
  86% agree
  14% disagree

- we explain clearly the reasons behind our decisions
  80% agree
  20% disagree

- we resolve complaints within an acceptable length of time
  66% agree
  34% disagree

- our staff are courteous at all times
  98% agree
  2% disagree

- people who use our service are likely to recommend it to friends and family who have a financial complaint
  80% agree
  20% disagree

This chart shows how the consumers who took part in our monthly satisfaction surveys throughout the year rated our service – measured against a number of specific customer service benchmarks. We also measured the general level of satisfaction of consumers who used the ombudsman service during the year. 78% of their views of our service were generally positive (compared with a figure of 80% in the previous year).

We launched our customer satisfaction research programme in 2002 – and have published findings from our surveys in each annual review since then. Because of the significant growth in the number of consumers using the ombudsman service since 2002, it has been important to review the way we carry out this work. This has resulted in our developing our customer service benchmarks, agreeing eight “satisfaction indicators” that sum up what
of those consumers who said they felt they had “won” their complaint:

- 96% were satisfied with our handling of their case
- 3% were dissatisfied
- 1% expressed no view

of those consumers who said they felt they had “lost” their complaint:

- 64% were satisfied with our handling of their case
- 30% were dissatisfied
- 6% expressed no view

of those consumers who said they didn’t feel they had either “won” or “lost” their complaint:

- 92% were satisfied with our handling of their case
- 7% were dissatisfied
- 1% expressed no view
These charts show how the cases we handled during the financial year 2005/06 were spread across the different sectors of the financial services industry.

**firms complained about by sector**

- **45%**: Life insurance and investment product providers
- **26%**: Banks
- **14%**: Independent financial advisers (IFAs)
- **7%**: General insurers
- **3%**: Building societies
- **3%**: Mortgage and general insurance intermediaries
- **2%**: Other (including fund managers and friendly societies)

**independent financial advisers (IFAs) – what products were complained about**

- **79%**: Mortgage endowments
- **10%**: Other investments
- **6%**: Personal pensions
- **3%**: Other
- **2%**: Securities

These charts are intended to provide an overview of the complaints handled during the financial year 2005/06.
**life insurance and investment product providers** – what products were complained about

- 77% mortgage endowments
- 12% other investments
- 6% personal pensions
- 4% insurance products
- 1% other

**banks** – what products were complained about

- 49% mortgage endowments
- 40% banking services and products
- 6% other investments
- 2% pensions and securities
- 3% insurance products
financial products most frequently complained about – by sector

These charts show how cases involving the products most frequently complained about to the ombudsman service were spread across the different sectors of the financial services industry.

complaints about mortgage endowments

- 20% banks
- 56% life insurance & investment product providers
- 4% building societies
- 2% other
- 18% independent financial advisers (IFAs)

complaints about personal pension products

- 68% life insurance & investment product providers
- 22% independent financial advisers (IFAs)
- 3% other (including building societies and stockbrokers)

complaints about other investment products

- 61% life insurance & investment product providers
- 17% banks
- 6% other (including building societies and fund managers)
- 16% independent financial advisers (IFAs)
complaints about banking products and services

- 83% banks
- 5% mortgage brokers
- 4% other
- 6% building societies
- 2% life insurance & investment product providers

complaints about general insurance products

- 59% general insurers
- 15% life insurance & investment product providers
- 15% insurance brokers
- 1% Society of Lloyd’s
- 2% cash-plan health insurers
- 2% other
- 6% banks
The chart above shows that more than eight out of ten firms covered by the ombudsman service had no complaints about them referred to us during the financial year 2005/06. 2,705 firms – 11% of all firms we cover – had just one or two complaints referred to us in the year.

As in the previous financial year (2004/05), we again did not charge firms case fees for the first two complaints during the year.

This meant that only around 7% of firms covered by the ombudsman service paid case fees in 2005/06.

Twelve of the UK’s largest financial services groups accounted for half of the total number of complaints we received during the year. At the other end of the scale, just 216 complaints – 0.2% of the total number – related to friendly societies and credit unions.

### How often do financial firms have complaints about them referred to the ombudsman?

<table>
<thead>
<tr>
<th>Number of Firms</th>
<th>Percentage of All Firms Covered</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>19,213</td>
<td>81.5%</td>
<td>No complaint referred to the ombudsman during the year</td>
</tr>
<tr>
<td>1,968</td>
<td>8%</td>
<td>1 complaint referred to the ombudsman</td>
</tr>
<tr>
<td>737</td>
<td>3%</td>
<td>2 complaints to the ombudsman</td>
</tr>
<tr>
<td>748</td>
<td>3%</td>
<td>Between 4 and 10 complaints to the ombudsman</td>
</tr>
<tr>
<td>209</td>
<td>1%</td>
<td>Between 11 and 20 complaints to the ombudsman</td>
</tr>
<tr>
<td>134</td>
<td>0.6%</td>
<td>Between 21 and 50 complaints to the ombudsman</td>
</tr>
<tr>
<td>73</td>
<td>0.3%</td>
<td>Between 51 and 100 complaints to the ombudsman</td>
</tr>
<tr>
<td>49</td>
<td>0.2%</td>
<td>Between 101 and 250 complaints to the ombudsman</td>
</tr>
<tr>
<td>22</td>
<td>0.1%</td>
<td>Between 251 and 500 complaints to the ombudsman</td>
</tr>
<tr>
<td>43</td>
<td>0.2%</td>
<td>More than 500 complaints referred to the ombudsman</td>
</tr>
<tr>
<td>737</td>
<td>3%</td>
<td>2 complaints</td>
</tr>
<tr>
<td>748</td>
<td>3%</td>
<td>Between 4 and 10 complaints</td>
</tr>
</tbody>
</table>

annual review 1 April 2005 to 31 March 2006
Our research programme gauges the views of the firms we deal with on how we handle complaints and accommodate their particular needs and concerns. Every two years this includes a general industry-wide survey. We will be carrying out the next survey during 2006, and will ask firms from all sectors of the financial services industry, ranging from sole proprietor businesses to the largest financial groups, to participate.

During 2005/06, we carried out some focused smaller-scale research, aimed at getting a better understanding of the different types of relationship we have with firms. This took into account, in particular, the fact that the majority of firms have little or no direct experience of us, while a small minority have very regular contact with us. (The chart on page 54 of this annual review gives more details about this.)

Our industry-based research during the year included a survey of mortgage intermediaries, who were brought under our remit on a statutory basis in the autumn of 2004. We carried out a special survey to learn more about how these firms had found the experience of coming under the ombudsman service for the first time. Highlights of the survey’s findings are shown on the right.

### how do firms rate the service we provide?

- 75% of firms responding to the survey thought the ombudsman service provided a good independent dispute-resolution service.
- 92% of firms said they understood how the ombudsman service handled complaints.
- 60% of firms thought the ombudsman service had a good reputation among mortgage intermediary firms.

### industry view of the ombudsman service

- 78% of firms responding to the survey said the information we provide to firms about initial complaints and enquiries gives them the opportunity to sort out problems themselves, without our further involvement.
- 87% of firms said that letters from adjudicators and ombudsmen were clear.
- 76% of firms said that letters from adjudicators and ombudsmen were concise.

### direct contact with the ombudsman service

- 70% of firms responding to the survey said they received the right amount of information about the ombudsman service.
- 68% of firms felt that they were kept up-to-date with ombudsman news and developments.
In addition to resolving individual disputes between consumers and firms, our work includes a range of other activities. This includes working with external stakeholders who have an interest in our service – and working internally on the management of operational, policy and legal issues.

This chapter highlights just some of the past year’s activities. Our three-year corporate plan, published in January 2006 and available in the publications section of our website, gives a comprehensive view of our work.

As noted in last year’s annual review, National Savings & Investments (NS&I) joined our voluntary jurisdiction on 1 September 2005 – replacing the former Adjudicator for National Savings & Investments.

In November 2005, HM Treasury announced the outcome of its review of the regulation of investment trust companies. It decided that the activities of these companies themselves would not be regulated by the Financial Services Authority (FSA) nor made subject to our jurisdiction. However, regulation by the FSA continues to cover advice on buying shares in investment trust companies and the management of unit trusts and ISAs that hold their shares. Our jurisdiction therefore also covers these areas.

The Consumer Credit Bill was reintroduced following the general election. We worked closely with the Department of Trade and Industry (DTI) and the Office of Fair Trading (OFT) during the Bill’s passage through Parliament, and it passed into law on 30 March 2006.

We already cover many consumer credit activities, if they are carried out by any of the 26,000 FSA-regulated firms in our compulsory jurisdiction, such as banks and building societies. When the relevant provisions of the Consumer Credit Act 2006 come into force in April 2007, our new consumer credit jurisdiction will cover up to 100,000 firms in total that have consumer credit licences issued by the OFT. We continue to work closely with DTI and OFT in planning the implementation of this new jurisdiction.

We also worked closely with the FSA on other forthcoming extensions to our jurisdiction, arising from the government’s planned extension of FSA-regulation to home-reversion plans, Islamic mortgages and self-invested personal pensions (SIPPs). And we reviewed with the FSA the implications for the ombudsman service of the implementation of the EU Markets in Financial Instruments Directive (MiFID). We believe that our jurisdiction and powers are likely to remain largely unchanged as a result of MiFID, despite changes in the regulatory underpinning.

During the year the FSA consulted publicly on the £100,000 upper limit on binding awards that the ombudsman can make under the compulsory jurisdiction.
The FSA sets the rules for this jurisdiction. At the same time we consulted on the same upper limit on awards that applies under the rules for the voluntary jurisdiction, for which we are responsible. This limit was first set as long ago as 1981 for the Insurance Ombudsman Bureau. Only 3% of the cases we currently handle involve a loss greater than £100,000. However, we are concerned that the limit should not remain fixed indefinitely into the future, resulting in the erosion of our role through inflation.

In June 2006 the FSA confirmed that the limit would remain at its existing level – and that it would review this matter again in 2009.

There is significant national and international interest in our work, as mentioned by the chief ombudsman in his report on page 6.

We liaise regularly with HM Treasury, as our sponsoring government department, and we were particularly pleased to receive a visit by the then Economic Secretary to the Treasury, Ivan Lewis MP, in February 2006. Alongside the FSA, we worked with HM Treasury to facilitate the future operation of the basic-advice regime for “stakeholder” products.

Over the year the chief ombudsman took part as an observer-member in a number of meetings of the Retail Financial Services Group. The Group was recently established, at the suggestion of the House of Commons Treasury Select Committee, as a forum for key figures from the financial services sector and the consumer world.

We liaised with the Department for Constitutional Affairs (DCA) on the Compensation Bill. We welcomed the prospect of regulation for claims intermediaries as part of this proposed legislation, but were concerned that the definition was so widely-drawn that it covered some of our own activities. DCA sponsored a Parliamentary amendment to make it clear that we, and other statutory bodies, were outside the Bill’s scope.

The European Commission’s action plan on financial services included a review of the future development of FIN-NET’s role. FIN-NET is a Commission-sponsored European network of financial out-of-court redress bodies, designed to ease the handling of cross-border disputes in financial services. The Financial Ombudsman Service was a founder member of FIN-NET – and our corporate director was a member of the review group, whose recommendations were fully accepted.

The role of the Financial Ombudsman Service is to resolve individual disputes, as an alternative to the civil courts. We are not a regulator. However, we are part of the statutory arrangements designed to underpin confidence in financial services. So we work closely with the FSA – the
regulator – so far as this is consistent with our independent roles. This involves frequent liaison with the FSA itself and also periodic liaison with the statutory Financial Services Consumer Panel and the Financial Services Practitioner Panel, as well as the FSA’s Smaller Businesses Practitioner Panel.

During the year, our joint work with the FSA has included operating the “wider-implications” process, which has successfully addressed concerns about potential overlaps between the FSA and the ombudsman service. Full details of the wider-implications process have been published on the special website set up for this purpose – www.ombudsmanandfsa.info – which also includes case studies detailing issues that have been resolved to date.

We have worked closely with the FSA on a number of issues – ranging from firms’ handling of mortgage endowment complaints to guidance on the application of the Unfair Terms in Consumer Contract Regulations, and from the development of the FSA’s treating customers fairly initiative to the implications of a move towards more principle-based regulation.

Treating customers fairly encourages a firm’s senior management to create systems that support fair treatment of all customers – but it does not impose any new rules. So although treating customers fairly should improve the way that financial firms treat their customers, it does not affect how we decide individual complaints at the ombudsman service.

We recognise that a move to more principle-based regulation is a key part of the FSA’s strategy over the coming years, and we are keen to play our part. Our role in resolving individual cases is one of the key factors that helps the FSA focus on the broader picture of risk-based and more principle-based regulation. Together with the FSA we will continue to review the practical implications of principle-based regulation as it develops. We will be assisted by our existing experience of working with industry codes of practice, and of dealing with complaints relating to sectors of the financial services industry where there are no detailed “conduct of business” regulations.

The industry welcomes information about the ombudsman service’s approach, to help firms resolve as many cases as possible themselves. We will look with the FSA at how to reconcile the provision of such information with ensuring our decisions are not misinterpreted as having a quasi-regulatory status. The ombudsman service has no wish to be viewed as a quasi-regulator, whose decisions fill any “gap” left by more principle-based regulation.

We have worked with the FSA and the Financial Services Compensation Scheme (FSCS) to make our respective roles clearer for consumers and for firms. This has involved producing a joint guide (available on our website) explaining our separate but complementary roles. So far as is consistent with our respective independent roles and with the relevant data protection legislation, we and
FSCS have also reviewed our processes, to ease the transition where we pass on pending cases to FSCS, once FSCS has formally stepped in and declared a firm “in default”.

**in the courts**

During the year the courts provided helpful clarification on two issues directly relevant to our decision-making.

First, the High Court confirmed that an ombudsman may decide – in the circumstances of a particular case – that a fair outcome differs from what the outcome might be in court. Though most of our decisions produce the same outcome as a court, this ruling excited some lawyers. But it does no more than confirm that section 228 of the *Financial Services and Markets Act 2000* means what it says, when it requires an ombudsman to determine a complaint by reference to what is, in the ombudsman’s opinion, fair and reasonable in all the circumstances of the case.

Second, in a case where the ombudsman had awarded a consumer the maximum £100,000 – with the recommendation that the firm pay a higher figure – the High Court rejected a challenge by the firm to our statement that “if [the firm] does not pay the recommended balance and [the complainant] decides to sue for the balance in court, the court would make its own decision on whether or not to award anything”.

**smaller firms’ taskforce**

Half of the complaints referred to us during the year related to just 12 of the largest financial services groups. In contrast, less than 10% of our work comes from the 99% of firms that each send us fewer than 25 complaints annually. We have set up an internal taskforce to look at how we handle complaints about firms that have only very few complaints with us. We have already improved the guidance we give to these firms at the initial stages of our process. But we want to look at additional ways of improving the information we give these firms – and at increasing the efficiency with which we handle their cases.

**quality**

During the year we brought together our various quality-improvement activities at the ombudsman service into a new “quality, information and knowledge” department. This department co-ordinates initiatives and activities across the whole organisation – to help identify, implement and measure improvements to our service. These improvements can be initiated in a number of ways, including:

- input from consumers or firms;
- our market research activities;
- analysis of the results of our own extensive quality-assurance system;
- complaints about our own service; and
- suggestions from staff themselves.
We have in place a project-management system for implementing major changes. A small team of project managers leads these changes, as well as supporting colleagues from all areas of the service in implementing numerous smaller-scale changes as part of our programme of continuous development.

As we describe on page 49 of this report, we plan to compare our performance with that of other organisations – starting with benchmarking our customer satisfaction survey results with members of the Consumer Action Network. We aim to extend these benchmarking activities over the year.

Our knowledge management systems continue to help both new and experienced casework staff – with over 85% of regulated products and services now covered by “KIT”, our in-house knowledge-management toolkit. During the year we have significantly extended our research and library service, so that staff have easy access to external information they might need. In addition to the regular “clinics” held by ombudsmen for adjudicators, we also run a series of regular briefings on topical subjects.

We know that, like most organisations, we can and do get things wrong. We believe that an important test by which we should be judged is the way in which we recognise, deal with and learn from any shortcomings. This is why – just like the firms whose complaints we decide – we have a formal complaints procedure, to deal with any dissatisfaction with the level of service we have provided.

A specialist team of complaints handlers – our service review team – works as part of our quality, information and knowledge department and handles all complaints about the level of our service that we cannot easily sort out straight away. Where our service review team cannot resolve a complaint, it can be referred to our own “watchdog” – the independent assessor. The independent assessor provides our board with an annual report, which is published in full each year as part of this annual review.

Our quality system involves measuring our performance and fuelling improvement – to equip our staff to understand and meet the needs of our stakeholders. At a wider level, it is also about engaging externally in the development of complaints-handling standards – within the financial services industry and in other sectors, both nationally and internationally.
Our work gives us a unique insight into how complaints arise and how they might be prevented from arising in the first place. There are valuable lessons from this for both the financial services industry and for consumers – and we carry out a wide range of activities to share our experience and knowledge with the outside world. Over the year these external liaison and outreach activities have included:

- taking part in industry conferences, seminars and events – including roadshows and regional conferences run by the Association of IFAs, the Association of Mortgage Intermediaries, the Chartered Insurance Institute, the Institute of Financial Planning, Financial Adviser, Money Marketing and the Personal Finance Society;

- meeting and training consumer advisers – from Age Concern Scotland to Havering Consumer Support Network, from the Cambridge Parliament for people with learning difficulties to Truro Money Matters;

- running our technical advice desk – a dedicated service for people handling complaints in the financial services sector and the consumer advice world;

- publishing our regular newsletter, ombudsman news, and distributing over a million copies of our consumer leaflet and other publications; and

- answering queries and providing information for publications and programmes ranging from the Financial Times to Take a Break, Cumbria News & Star to Health Insurance magazine, Tonight with Trevor McDonald to Kismat Radio 1035 AM.
<table>
<thead>
<tr>
<th>our work with stakeholders and customers</th>
<th>year ended 31 March 2006</th>
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<tbody>
<tr>
<td><strong>workingtogether</strong> conferences**</td>
<td>We ran 7 flagship <em>workingtogether</em> conferences; 2 <em>workingtogether</em> special-interest forums; and 11 <em>workingtogether</em> regional training-days for consumer advisers – from Truro to Belfast, Glasgow to Cardiff.</td>
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| **tradeshows and consumer events** | We took our exhibition stand to 80 roadshows, trade fairs and consumer events including:  
- Mortgage Business Expo at Olympia  
- BBC Good Homes show at the NEC  
- Trades Union Congress in Brighton  
- Business SouthWest show in Exeter  
- Citizens Advice Scotland annual conference  
- NewStart Northern Ireland in Belfast. |
| **speeches and presentations** | We spoke at 112 seminars, conferences etc. |
| **meetings and visits with consumer advisers** | We took part in 89 meetings with national and regional consumer advice organisations, including trading standards departments and citizens advice bureaux. |
| **visits and training for firms** | We took part in 214 meetings with financial services firms – from friendly societies to private client banks. |
| **industry meetings and seminars** | We took part in 189 meetings for groups of financial services practitioners – including our industry liaison forums (attended by trade bodies and industry representatives). |
| **media enquiries** | We handled 3,500 enquiries from newspapers, magazines and TV/radio stations – and took part in programmes ranging from *BBC Watchdog* to *Farming Today*. |
| **MPs** | We responded to 420 letters from MPs and 176 ministerial enquiries – and provided replies to 21 Parliamentary Questions. |
| **website visits** | Over 125,000 people a month logged on to www.financial-ombudsman.org.uk |
| **publications** | We printed and distributed a million copies of our publications (including our leaflet, *your complaint and the ombudsman*, and 10 editions of our newsletter, *ombudsman news*).  
We translated our letters and publications into over 20 languages as well as providing them in different formats (Braille, audiotape etc). |
| **our technical advice desk** | Our technical advice desk handled 20,595 enquiries, comprising:  
- 18,316 calls from financial services practitioners  
- 1,749 enquiries from consumer advisers  
- 530 calls from trade associations, researchers, official bodies etc. |
The independent assessor’s role is to carry out a final review of the service provided by the Financial Ombudsman Service, in cases where a user of our service (whether a consumer or a firm) has already referred the matter to our service review team for investigation but remains dissatisfied.

Under his terms of reference, the independent assessor can consider complaints about our procedures and the behaviour of our staff. Disagreements about the merits of decisions are excluded from his jurisdiction. The independent assessor is authorised to make findings and recommendations for redress in cases where he believes it is justified.

During the year ended 31 March 2006, 322 cases were initially referred to me – almost exactly the same number as in the previous year (when I dealt with 319 referrals).

I carried out a full investigation and review of the file in 186 of these cases – a 13% increase on the 164 cases I investigated in 2004/05. The number I investigated represents 0.15% of the total caseload of the ombudsman service. Of the 136 cases where I did not carry out a full investigation:

- 72 had been referred to me too early in the process – for example, before the service review team at the Financial Ombudsman Service had first been given the chance to resolve the matter;
- 53 were enquiries rather than actual complaints;
- 9 cases were outside my jurisdiction, either because they were referred to me more than three months after the service review team’s final response, or because they raised issues that were unrelated to the ombudsman service; and
- 2 cases were not pursued further by the complainant.
I upheld the complaint about the ombudsman service (either wholly or in part) in 76 cases (compared with 58 in the previous year). In 68 of these 76 complaints, I recommended that the ombudsman service pay compensation for distress or inconvenience caused to the complainant. The amount of compensation I recommended ranged from £50 to £750, with most awards falling between £200 and £400. It should be noted that in 31 of these cases, the service review team at the ombudsman service had already offered apologies or compensation – but I took the view that additional compensation was required. Again, I am glad to report that the ombudsman service accepted all my recommendations.

Delay continues to be the most common cause of complaint – followed by allegations of unfair treatment and poor service of one kind or another. Although they represent only a small proportion of the complaints I see, there has been an increase in the number of cases where a successful complainant is not satisfied that the ombudsman service has done enough to ensure the firm’s calculation of loss is in accordance with the ombudsman’s decision.

Typically, this can arise in cases where the ombudsman is unable to quantify the compensation due, when he or she issues their final decision – and instead specifies the calculations that the firm needs to carry out in order to establish the extent of the loss. The fact that it is the firm that carries out the calculation worries some complainants. One voiced her concern as follows:

“What further input can be expected from the ombudsman, if the firm is dilatory in implementing the settlement, or attempts to manipulate figures or otherwise present calculations in a manner that is not clear or transparent?”

In mortgage endowment cases, for example, consumers sometimes complain that the firm has not used the correct interest rates in applying the formula prescribed by the regulator, the Financial Services Authority (FSA). The most difficult cases, however, tend to be those involving mis-sold pensions, or investments such as “precipice bonds” and split-capital investment trusts. In one complicated pension case referred to me recently, the ombudsman had specified as many as seven preliminary calculations that needed to be carried out, before the loss could be established. My response to the complainant in such cases is to say that I will ask the service review manager at the ombudsman service to intervene further with the firm, to try and obtain an agreed settlement.
However, the Financial Ombudsman Service is not in a position to enforce settlement. If all else fails, it is the consumer who has to seek to have the ombudsman’s decision enforced by the courts. Even then, the consumer may not obtain the compensation due – if the case is vigorously contested by the firm.

In another case referred to me during the year – where the ombudsman’s final decision had to be read in conjunction with his earlier provisional decision – the consumer ended up getting substantially less compensation than the ombudsman had clearly intended, when the matter came to court.

It is very difficult to say quite what the answer to this problem is. At the present time, the Financial Ombudsman Service has only limited actuarial resources, and can undertake to check firms’ calculations only in a small number of cases, where exceptional circumstances exist. To provide a routine checking service would probably entail setting up a whole new department – with all the additional costs this would involve. Whether there is scope for ombudsmen to make their formulaic awards more transparent – and less open to interpretation – is not for me to say. I merely flag up the problem, because it seems to me to be a matter to which the board of the Financial Ombudsman Service, and possibly the FSA, should give further consideration.

I have also seen an increase during the year in the number of complaints made by firms. I upheld 6 out of the 13 complaints I received from firms, most of which were independent financial advisers or stockbrokers. Roughly half the complaints related to case fees that had been charged, when the complaint had subsequently been dismissed without consideration of the merits or had been deemed to be outside the ombudsman’s jurisdiction. However, only in one case did I consider that the £360 case fee should be refunded in full. This is because it is often only after a case has been passed for assessment – thereby triggering the case fee – that it becomes clear that the complaint is not one that the ombudsman service can investigate.

Finally, I must repeat my customary warning that the cases I investigate represent only the smallest fraction of the total number of complaints handled by the ombudsman service – so care must be taken in drawing any general conclusions from my observations.

Michael Barnes CBE
April 2006
organisation chart
as at 31 March 2006

executive management team

Walter Merricks
chief ombudsman

Tony Boorman
principal ombudsman and decisions director

Barbara Cheney
company secretary

Estelle Clark
quality director

David Cresswell
head of communications

Roy Hewlett
operations director

Jeremy Kean
finance and IT director

Peter Stansfield
human resources director

David Thomas
principal ombudsman and corporate director

panel of ombudsmen

Walter Merricks
chief ombudsman

Tony Boorman
principal ombudsman and decisions director

David Thomas
principal ombudsman and corporate director

ombudsmen: Audrey Baxter
David Bird
Mike Boyall
Juliana Campbell
Melissa Collett
Philip Cooper
Reidy Flynn
Adrian Hudson
Michael Ingram
Steve Lilley
Doug Mansell
David Millington
Roy Milne
Clare Mortimer
Richard Prior
Philip Roberts
Mark Sceney
Robert Short
Chris Tilson
Richard West
Sue Wrigley
Roger Yeomans

Appointments to the panel of ombudsmen are made under paragraphs 4 and 5 of schedule 17 of the Financial Services and Markets Act 2000. Ombudsmen make formal decisions in the 8% of disputes that our adjudicators cannot resolve.

senior operational staff

Roy Hewlett
operations director

Paul Bentall
general counsel

Sindy Grewal
head of knowledge & information services

Paul Kendall
head of customer contact division (front-line consumer enquiries)

Ray Neighbour
service review manager (handling complaints about our service)

Chris Smith
financial controller

service managers:

Simon Coe
Julia Hawkins
Caroline Wayman
Ken Webb
(managing our teams of adjudicators)

communications and policy:

Fiona Boyle
Adrian Dally
Alison Hoyland
Brigitte Philbey
Caroline Wells

Nick Clansey
Sharon Jones
heads of IT

ombrepden: mortgage endowments
Heather Clayton
general insurance
Peter Hinchliffe
banking & credit
Jane Hingston
pensions & securities
Tony King
general investment
Caroline Mitchell

Appointments to the panel of ombudsmen are made under paragraphs 4 and 5 of schedule 17 of the Financial Services and Markets Act 2000. Ombudsmen make formal decisions in the 8% of disputes that our adjudicators cannot resolve.
the board
as at 31 March 2006

Sir Christopher Kelly KCB
(chaired)
- chairman of NSPCC
- a director of the National Consumer Council
- permanent secretary at the Department of Health
- director of monetary & fiscal policy and director of the budget & public finances at HM Treasury

Caroline Banks
- a director of the Consumer Policy Institute
- a member of the Civil Service Appeal Board
- a member of the Association of Energy Suppliers’ Code Panel
- director of the consumer, regulation and enforcement division at the Office of Fair Trading
- director of the consumer affairs division at the Office of Fair Trading

David Croughter
- a member of the Professional Oversight Board for Accountancy
- a non-executive director of TT electronics plc
- head of global risk management & partner at PricewaterhouseCoopers LLP

Richard Hampton
- director of HSBC Reinsurance (Ireland) Limited
- managing director of HSBC General Insurance (Services) Limited
- head of general insurance at HSBC Bank plc
- management consultant at Coopers & Lybrand Deloitte

Ed Hucks
- a member of the Court, University of Leeds
- a non-executive director of West Bromwich Building Society
- a non-executive director of Empiricom
- customer services director at NPI
- a director of the former National & Provincial Building Society

Roger Jefferies
- a director of the Telecommunications Ombudsman Service
- Independent Housing Ombudsman
- chief executive of Hounslow and Croydon London Boroughs
- a director of the National Clinical Assessment Authority
- chairman of an NHS disciplinary tribunal

Kate Lampard
- a trustee of Esmée Fairbairn Foundation
- chair of Kent and Medway Strategic Health Authority
- chair of the Independent Housing Ombudsman Limited
- chair of the Invicta Community Care NHS Trust

Julian Lee
- justice of the Peace to the North Sussex Bench
- crisis & change management consultant
- chairman, then chief executive, of the Allied Carpets Group
- chief executive of the Bricom Group

Roger Sanders OBE
- deputy chairman of Helm Godfrey Partners Ltd
- director of Helm Godfrey Benefits (incorporating Roger Sanders Associates)
- joint chairman of the FSA’s Smaller Businesses Practitioner Panel
- deputy chairman of the Association of Independent Financial Advisers
- member of the Financial Services Practitioner Panel
- a director of the Personal Investment Authority (PIA) Ombudsman Bureau
- a PIA board member
our aims and values

The Financial Ombudsman Service was set up by law as an independent public body. Our job is to resolve individual disputes between consumers and financial services firms – fairly, reasonably, quickly and informally.

fairly
Established by law, we are neither a consumer champion nor an industry trade-body. We are completely independent and deal with disputes fairly and impartially.

Our service is for everyone. We aim to be accessible and to meet any particular needs our customers may have. This includes, for example, communicating with them in the format or language they need.

We look at the facts of each complaint – not at how well people present their case. So no one should need any special expertise or professional help in order to bring their complaint to us.

reasonably
We aim to give clear, jargon-free reasons for our decisions – so that any fair-minded person can understand why we reached a particular conclusion.

And we actively share our knowledge and experience with the outside world – to help consumers and firms settle disputes without the need for our involvement – and to try to help prevent the need for complaints in the first place.

quickly
Because we deal with thousands of disputes every week, we have to be practical and business-like in our approach. We set ourselves challenging targets and aim to produce a fair outcome in each case, as speedily as we can.

informally
Our service is an informal alternative to the courts, and our approach is very different. We do not usually have formal hearings or face-to-face cross-examinations. We are not bound by rigid procedures and we aim to be as flexible as possible in our approach.

about the print and paper used in this annual review

This document is printed on Challenger Offset paper – made from ECF (Elemental Chlorine-Free) wood pulps, acquired from sustainable forest reserves. Much of the raw material is the by-product from other production processes, such as sawmill waste and waste resulting from forest thinning.

Challenger Offset is fully recyclable, with no harmful residue. Process chemicals and metals used in the printing process are treated and disposed of in accordance with the 1990 Environmental Protection Act and all other relevant UK Legislation.
services for firms and consumer advisers

how we can help

our technical advice desk offers:
- information on how the ombudsman service works
- help with technical queries
- general guidance on how the ombudsman might view specific issues.

email technical.advice@financial-ombudsman.org.uk
phone 020 7964 1400

our external liaison team can:
- provide training for complaints handlers
- organise and speak at seminars, workshops and conferences
- arrange visits and meetings.

email liaison.team@financial-ombudsman.org.uk
phone 020 7964 1400

our website www.financial-ombudsman.org.uk gives you online access to:
- news and frequently-asked-questions (FAQs)
- help for consumers and technical guidance for firms
- publications, briefing notes and ombudsman news – our monthly newsletter containing case studies and commentary.

... an independent service for resolving financial complaints

key facts about the Financial Ombudsman Service

We were set up under the Financial Services and Markets Act 2000 to help settle individual disputes between consumers and financial firms – fairly, reasonably, quickly and informally.

We can consider complaints about a wide range of financial matters – from insurance and mortgages to pensions and investments.

We are completely impartial – just as a judge would be, if a complaint went to court instead of to us.

Our service is free to consumers.

Consumers must complain to the firm first, before we can look at their case.

Consumers do not have to accept any decisions we make – they are always free to go to court instead. But if a consumer accepts an ombudsman’s decision, it is binding on both the consumer and the firm.

We do not write the rules for financial firms – or punish and fine firms if rules are broken. That is the job of the regulator.

Our service is confidential – we do not publish the names of those firms and consumers whose complaints we handle.

We cannot give personal advice about financial matters or debt problems. But we actively share our knowledge and experience with the outside world – to help consumers and firms settle problems themselves and to help prevent the need for complaints in the first place.

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- help for consumers and technical guidance for firms
- publications, briefing notes and ombudsman news – our monthly newsletter containing case studies and commentary.
how to contact the Financial Ombudsman Service

write to us
Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR

phone us
For consumer enquiries 0845 080 1800
Switchboard 020 7964 1000
Technical advice desk 020 7964 1600

email us
complaint.info@financial-ombudsman.org.uk

look at our website
www.financial-ombudsman.org.uk

We can help if you need information in a different format (eg Braille, audiotape etc) or in a different language. Just let us know.