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

If a business can't resolve a customer's complaint, we'll see if we can settle the dispute. But the business must first have the chance to sort things out itself.

We are completely independent and impartial – just as a judge would be, if the consumer went to court instead.

If a business can't resolve a customer's complaint, we'll see if we can settle the dispute. But the business must first have the chance to sort things out itself.

Our service is confidential – we do not publish the names of businesses and consumers whose complaints we handle.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 businesses settle problems themselves and to help prevent the need for complaints in the first place.

The independent experts resolving in settling financial disputes

**Key facts about the Financial Ombudsman**

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 investments and bank accounts.

We are completely independent and impartial – just as a judge would be, if the consumer went to court instead.

If a business can't resolve a customer's complaint, we'll see if we can settle the dispute. But the business must first have the chance to sort things out itself.

Our service is free to consumers.

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 them and the business.

We do not write the rules for businesses providing financial services – or fine businesses if rules are broken. That is the job of the regulator.

Our service is confidential – we do not publish the names of businesses and consumers whose complaints we handle.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 businesses settle problems themselves and to help prevent the need for complaints in the first place.
We saw a 47% increase in banking-related cases, a 10% increase in insurance-related cases, and an 21% decrease in cases involving investments other than mortgage endowments.

More than 8 out of 10 of the financial services businesses we cover had no disputes referred to the ombudsman service.

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

We handled 672,814 initial enquiries and complaints from consumers – of which 1 in 6 turned into cases requiring the involvement of our adjudicators and ombudsmen.

We operated on a budget of £59 million and our total number of staff averaged 960.

We handled 46,134 new mortgage endowment cases during the year – around 175 new cases every working day, compared with 250 cases a day in the previous year.

We resolved 111,673 cases – 94% of which were settled informally, without the need for formal ombudsman decisions.

We resolved over half of all disputes about banking, insurance and investments other than mortgage endowments within three months; and two-thirds of mortgage endowment cases within nine months.

All figures relate to the year ended 31 March 2007.
This annual review – providing an overview of the work of the Financial Ombudsman Service in the financial year 2006/07 – is published in accordance with paragraph 7 of schedule 17 of the Financial Services and Markets Act 2000.
an overview of
our case-handling process

672,814 initial enquiries and complaints
handled by our front-line customer contact division
(see page 12 for more details)

94,392 new cases
referred to our adjudicators and ombudsmen for further dispute-resolution work (see page 14 for more details)

104,831 cases resolved by our adjudicators
by mediation, recommended settlements and adjudications (see page 44 for more details)

6,842 cases resolved by our ombudsmen
making formal decisions at the final “appeal” stage of our dispute-resolution process (see page 44 for more details)

All figures relate to the year ended 31 March 2007.
In my foreword to the annual review last year, I wrote that the Financial Ombudsman Service appeared to be at a pivotal point in its history. After five consecutive years in which the volume of disputes referred to the ombudsman service had increased substantially year-on-year – with the number of new complaints rising in some years by more than half – the indications were that complaints were finally starting to level off.

This has now indeed happened. For the first time, the overall volume of new complaints reduced during the year – by 16%. This figure still means that our overall workload is three times the size it was when the Financial Ombudsman Service was first set up. But seeing a peak finally emerge on a chart that has previously shown only a steep line pointing upwards is a significant and welcome event.

The challenge for us now is to take stock of a complaints landscape with changing and uncertain features. It remains difficult to predict with accuracy the nature of the terrain ahead. And experience has taught us that predicting with any accuracy the future volumes of – and trends in – complaints is more an art than an exact science. In planning our work we have to continue to be flexible in response to a changing environment.

It was the seismic effect of mortgage endowment complaints that created the mountain we have climbed in recent years – a mountain that has cast a deep shadow across the landscape for both the ombudsman service and the financial services sector more generally. In the last few years, the ombudsman service has now handled well over a quarter of a million mortgage endowment disputes – probably around one in eight of such complaints dealt with by the financial services industry itself.
However, from the twin peaks of 69,700 and 69,150 mortgage endowment cases in the financial years 2004/05 and 2005/06 respectively, the number of endowment cases referred to the ombudsman service has this year fallen by a third to 46,100. It is this decrease that lies behind the overall reduction in new cases handled by the ombudsman service this year.

We have, of course, been anticipating this fall in mortgage endowment cases for a number of years. In previous annual reviews we have highlighted the impact that “time barring” would be likely to have on complaints numbers, as consumers ran out of time to bring mortgage endowment disputes to us. The challenge has been to predict exactly when and how the impact of this would make itself felt on our workload.

The falling number of mortgage endowment complaints is only one part of our landscape. In other areas we are seeing significant increases in activity. Banking-related disputes, for example, have risen by almost 50% over the year – fuelled largely by consumer dissatisfaction with the level of bank charges. Media and internet campaigns have resulted in up to 3,000 enquiries a day to our consumer helpline on this subject alone.

There has also been significant media coverage of loan protection insurance, with a number of bodies launching inquiries into how this insurance product is sold and the way the market works. This attention has doubtless contributed to the 39% increase in the number of disputes referred to us this year about loan protection. Some commentators are suggesting that it is only the tip of the iceberg – and that we should stand ready to see much larger volumes of complaints about this product in future.
Consumer credit is another area where we expect to see an increase in our workload over coming years. Already we cover around 70% of the consumer-credit market by value – mortgages and loans provided by banks and building societies have been covered by the ombudsman for many years now. Over the year, however, we put a significant amount of resource into preparations for the statutory extension of our consumer-credit remit. Under the new Consumer Credit Act, from 6 April 2007 our remit has included the consumer-credit activities of some 80,000 businesses who have a standard consumer-credit licence. There are more details in a later chapter of this report about the work we have done in preparation for this important widening of our service.

6 April 2007 also marked the extension of our remit to cover complaints about home-reversion schemes, home-purchase products and self-invested personal pensions (SIPPs). This broadening of our remit is an integral part of the new regulatory framework for these products – with the Financial Services Authority (FSA) taking on regulatory responsibilities for these areas from that date.

These changes and developments mean that the environment ahead is likely to expose us to some degree of unpredictability and uncertainty. This is nothing new. In our relatively short existence, we have become accustomed to working in uncharted terrain so far as complaints volumes and trends are concerned.

As in previous years, we have published in full – as part of this annual review – the latest report by the independent assessor, Michael Barnes. The independent assessor’s role is to investigate complaints from businesses and consumers about standards of service provided by the Financial Ombudsman Service. Like all
organisations – including the financial businesses we cover – we recognise that we can and do get things wrong. It’s important that we have a formal redress-mechanism in place for people unhappy with our service – and we want to learn from mistakes we make. This is why the independent assessor reports directly to me and my board colleagues, as part of the framework we have in place for feedback and scrutiny on all aspects of our performance. I am most grateful to Michael Barnes for carrying out his duties as independent assessor with such continued vigour and commitment.

Sir Christopher Kelly KCB
May 2007
This annual review describes the work of the Financial Ombudsman Service in the year ended 31 March 2007 – a year that marked the completion of over 500,000 financial disputes since we began operations in April 2000. Of these cases around half have been complaints about mortgage endowments.

Our latest corporate plan, published in January 2007, set out our objectives for the year ahead – and looked forward to a world that will no longer be dominated by mortgage endowment complaints. However, as the numbers of disputes involving mortgage endowments finally reduce – as we have long anticipated would happen – complaints to the ombudsman service about consumer-credit products and services look likely to feature more prominently.

This results from the extension of our remit, from April 2007, to cover all businesses with a standard consumer credit licence. So a significant gap in our otherwise pretty comprehensive remit has finally been closed – a gap which had troubled me from the time that plans for a single ombudsman scheme for financial services were first being put in place. In the first annual review of the Financial Ombudsman Service – even before we had our own formal powers – I highlighted the anomaly of a unified complaints-handling scheme for financial services that could deal with disputes about savings and investments but not with disputes about unsecured loans and credit cards, unless they involved banks or building societies.
This means that, until now, we have had to turn away thousands of consumers with potentially valid complaints about something which they could reasonably call a financial service – but which did not, in fact, fall under our remit. So the statutory extension of our remit to cover consumer credit is not just a technical issue.

Covering 80,000 or so consumer-credit businesses that have never before been under an ombudsman scheme, or needed to have in place formal complaints-handling procedures, gives us the opportunity to re-focus on our core values – and how we can reinforce them in the new environment.

A significant number of these businesses serve members of the community who are likely to have different concerns from many of the consumers we have been used to encountering. For example, mortgage endowment complaints – almost by definition – involve home owners rather than housing association or council tenants. And the disputes we currently handle about investment portfolios and pension funds are a long way from some of the complaints about home credit and debt collection that will figure in our new remit.

This means it is particularly important that our services should be accessible to all consumers. We already deal with a very large cross-section of the community – as our figures on the types of consumer who use the ombudsman service show (see page 51 for more details). We know from experience that the determined middle-classes are sufficiently empowered to deal with – and challenge – bureaucracy. But those less confident about interacting with “officialdom” can feel disadvantaged and dissuaded from pursuing a complaint – to the detriment of the justice of their case. And the needs of minority-language and hard-to-reach communities require particular attention.
We have already done much to try to ensure that the ombudsman service is approachable and easy to use. But barriers of perception remain deeply entrenched. Only recently, during a debate in the House of Commons, Brian Binley MP commented: “In my experience when one mentions the word “ombudsman”, people sometimes become frightened: they feel that going to the ombudsman is a pretty heavy judicial process, and they have been warned not to get involved with the law because it is an expensive business. I realise that that is not necessarily true in relation to the ombudsman, but the general feeling remains.” (Hansard, 19 March 2007, Col 631).

Similar issues apply to the businesses newly-covered by the ombudsman service. Many are small traders who have no experience of “regulation” or “compliance” – and who are used to operating without the need for documented complaints-handling procedures. How can we ensure the experience of interacting with our service is not one that these businesses will find daunting or oppressive?

In seeking to ensure that we can identify and serve the distinct needs of this new community, we have been looking at the extent to which our structure, style and process might inhibit some consumers from accessing our service, or might unduly limit the ability of businesses (in particular small businesses) to participate in, and contribute to, the satisfactory resolution of complaints made against them. This work will continue during the forthcoming year under the auspices of the high-level internal taskforce we have set up, which has executive responsibility for prioritising and co-ordinating policies and activities relating to “accessibility” issues.

We are not alone among public bodies in focusing on ways in which we can improve our service to customers. Currently, there is hardly a service-delivery organisation in the UK that is not emphasising its
commitment to improving its service standards. Some are relying on new technology and modern systems to provide the promised higher service levels. But while efficiently functioning systems are clearly important, it is the people who work for the organisation who can make all the difference for their customers. This can be the difference between a positive, connected experience – or just a dull and bureaucratic transaction. So we must look both at the procedural aspects of what the ombudsman service offers – and at how we can make real for customers the values to which we are committed.

By necessity, the huge volumes of mortgage endowment complaints which we have had to cope with over the past five years have forced us to concentrate on systems and processes, to drive through the numbers. But my vision for the ombudsman service in the coming years is one that will allow us to connect more personally with the businesses and consumers who constitute our “customers”. Although we are a “distance service” – helping to settle complaints over the phone and in writing – we need to respond to the needs of our customers individually and flexibly, taking care to understand what has brought both sides to the point of dispute.

We need to become more visible in communities where there may be doubt or misunderstanding about what we can offer. Playing the part of the honest broker and candid friend, the ombudsman service is ideally placed to reduce the mutual suspicions that often characterise the relationship between consumers and the financial services sector. With the increasing diversity of the consumers and businesses with whom we interact, we can help bring a clearer insight – and better value – to the UK’s financial services community and its customers.

Walter Merricks
May 2007
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 627,814 initial enquiries and complaints from consumers – a 7% decrease on the previous year. This largely reflects the increasing trend for consumers to access the information they need directly from our website, rather than by phoning us or writing to us.

**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>2007</td>
<td>286,359</td>
<td>341,455</td>
<td>627,814</td>
</tr>
<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>548,148</td>
</tr>
<tr>
<td>2004</td>
<td>291,892</td>
<td>548,338</td>
<td></td>
</tr>
</tbody>
</table>

year ended 31 March

An average of 5,000 people now visit www.financial-ombudsman.org.uk every day – a 20% increase on the previous year’s figure. 225,000 complaint forms were downloaded from our website during the year. The other most regularly-used of our online resources were the “how to complain” page, our consumer leaflet, and the new “frequently-asked-questions” section on bank-charge complaints. There are more details about our website and the people who use it on page 57.

Only around one in six of these initial enquiries go on to become “full-blown” cases requiring the involvement of our adjudicators or ombudsmen. Our customer contact division aims to resolve as many of these initial problems and complaints as possible at this early stage. This usually involves sorting things out for consumers over the phone, as we know from experience that most people prefer this quick and simple way of resolving problems.

We are committed to providing access to justice for people from all backgrounds and sections of the community – not just for those who feel sufficiently confident and articulate to complain. No one should be prevented from accessing our services 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/CD, to suit individual customers’ needs.

Many consumers are unsure how to go about complaining – or don’t know who to complain to at the business they are unhappy with. Where consumers get in touch with us first, before the business involved has had the opportunity to sort matters out, our customer contact division forwards the complaint direct to the business – 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 business is not then able to resolve their complaint within eight weeks.

Where a consumer has already complained to the business in question – and contacts us to say they remain dissatisfied with the business’s response – our customer contact division sorts out the paperwork and details we need to be able to look at the case. We can often get much of the relevant information by guiding the consumer through our complaint form over the phone. This can be the most efficient way for us to get the details we need – and consumers clearly value the reassurance of personal contact by phone.

Our customer contact division also offers frontline advice and general guidance to consumers. This includes explaining the complaints process and discussing individual cases, where consumers are confused about any redress already on offer, or are uncertain how – or whether – to proceed with a complaint.

We are always looking for ways to help nip problems in the bud at this early stage – before they escalate into full-scale disputes. This can involve intervening directly to sort things out – for example, where the problem is clearly just a simple administrative error or misunderstanding between the customer and the business.

Where further work is needed to resolve complaints, our customer contact division acts as the gateway to our specialist casework teams of adjudicators.
In the year ended 31 March 2007, our customer contact division referred **94,392** new cases to our adjudicators and ombudsmen for more detailed dispute-resolution work.

This is 16% fewer cases than the record **112,923** new cases recorded in last year’s *annual review*. It reflects the 33% decline during the year in the volume of mortgage endowment disputes referred to the ombudsman service. We have been anticipating this reduction in mortgage endowment complaints for some time, as increasing numbers of consumers reach the final date by which they must have complained. There is more information about mortgage endowment complaints and the effect of the “time bar” rules on page 20.

This means that our workload is now finally starting to return to the more normal levels at which we were operating around three years ago – before mortgage endowment disputes started flooding in at rates of over 250 new cases every day. Even so, almost half of our annual caseload still involves mortgage endowments. And our overall workload remains three times the size it was in the financial year 2000/01, when our predecessor ombudsman schemes merged to form the Financial Ombudsman Service.

The majority of people who bring complaints to the ombudsman service do so in their own personal capacity as individual consumers. However, we can also look at complaints brought by small businesses, charities and trusts that have an annual turnover, income or net asset value of up to £1 million.

### number of new cases

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>Number of New Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td><strong>94,392</strong> new cases</td>
</tr>
<tr>
<td>2006</td>
<td><strong>112,923</strong> new cases</td>
</tr>
<tr>
<td>2005</td>
<td><strong>110,963</strong> new cases</td>
</tr>
<tr>
<td>2004</td>
<td><strong>97,901</strong> new cases</td>
</tr>
<tr>
<td>2003</td>
<td><strong>62,170</strong> new cases</td>
</tr>
<tr>
<td>2002</td>
<td><strong>43,330</strong> new cases</td>
</tr>
<tr>
<td>2001</td>
<td><strong>31,347</strong> new cases</td>
</tr>
</tbody>
</table>
Sole traders and people running small businesses may not always register a complaint with us specifically as a business dispute, because they often see the issues as essentially personal rather than commercial. This means that, in practice, the proportion of complaints made by smaller businesses may be slightly higher than the figure officially recorded in the chart above.

People wishing to bring their complaint to us can appoint someone else to do this on their behalf – for example, a member of their family, a friend or Citizens Advice. In recent years, an increasing number of consumers have been employing claims management companies to handle their mortgage endowment complaints for them.

We do not think consumers should need the help of a commercial third-party – such as a claims management company or solicitor – to bring a complaint to us. We decide cases by looking at the facts – not at how well the arguments are presented. We prefer to hear from consumers in their own words. If people employ someone else to present their case for them, this could mean they end up paying them out of any compensation that is due.

There is more information (on page 51) about the type of consumers who use our service.
what the complaints were about

**new cases by type of complaint**

- **2007**
  - **46,134** mortgage endowment cases (49% of all complaints)
  - **12,429** other investment-related cases (13% of all complaints)
  - **20,099** banking-related cases (21% of all complaints)
  - **15,730** insurance-related cases (17% of all complaints)
  - **94,392** new cases in total

- **2006**
  - **69,149** mortgage endowment cases (61% of all complaints)
  - **15,795** other investment-related cases (14% of all complaints)
  - **13,709** banking-related cases (12% of all complaints)
  - **14,270** insurance-related cases (13% of all complaints)
  - **112,923** new cases in total

- **2005**
  - **69,737** mortgage endowment cases (63% of all complaints)
  - **19,251** other investment-related cases (17% of all complaints)
  - **10,491** banking-related cases (9.5% of all complaints)
  - **11,484** insurance-related cases (10.5% of all complaints)
  - **110,963** new cases in total

- **2004**
  - **51,917** mortgage endowment cases (53% of all complaints)
  - **25,157** other investment-related cases (26% of all complaints)
  - **9,798** banking-related cases (10% of all complaints)
  - **11,029** insurance-related cases (11% of all complaints)
  - **97,901** new cases in total

- **2003**
  - **13,570** mortgage endowment cases (22% of all complaints)
  - **23,872** other investment-related cases (38% of all complaints)
  - **15,070** banking-related cases (24% of all complaints)
  - **9,658** insurance-related cases (16% of all complaints)
  - **62,170** new cases in total
what financial products the new cases involved

- mortgage endowments: 49%
- current accounts: 8.5%
- single-premium investment bonds: 3.5%
- buildings & contents insurance: 3%
- credit cards: 2%
- loans other than mortgages: 2%
- loan protection insurance: 3%
- whole-of-life policies: 4%
- personal pension plans: 4%
- mortgage products: 4.5%
- motor insurance: 4.5%
- personal pension plans: 4%
- single-premium investment bonds: 3%
- buildings & contents insurance: 3.5%
- credit cards: 2%
- loans other than mortgages: 2%
- loan protection insurance: 3%
- mortgage endowments: 49%
- current accounts: 8.5%
- single-premium investment bonds: 3.5%
- buildings & contents insurance: 3%
- credit cards: 2%
- loans other than mortgages: 2%
- loan protection insurance: 3%
- whole-of-life policies: 4%
- personal pension plans: 4%
- mortgage products: 4.5%
- motor insurance: 4.5%
- personal pension plans: 4%
- single-premium investment bonds: 3%
- buildings & contents insurance: 3.5%
- credit cards: 2%
- loans other than mortgages: 2%
- loan protection insurance: 3%
- mortgage endowments: 49%
- current accounts: 8.5%
- single-premium investment bonds: 3.5%
- buildings & contents insurance: 3%
- credit cards: 2%
- loans other than mortgages: 2%
- loan protection insurance: 3%
- whole-of-life policies: 4%
- personal pension plans: 4%
- mortgage products: 4.5%
- motor insurance: 4.5%
- personal pension plans: 4%
- single-premium investment bonds: 3%
- buildings & contents insurance: 3.5%
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- loans other than mortgages: 2%
- loan protection insurance: 3%
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- single-premium investment bonds: 3.5%
- buildings & contents insurance: 3%
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- loan protection insurance: 3%
- whole-of-life policies: 4%
- personal pension plans: 4%
- mortgage products: 4.5%
- motor insurance: 4.5%
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- single-premium investment bonds: 3.5%
- buildings & contents insurance: 3%
- credit cards: 2%
- loans other than mortgages: 2%
- loan protection insurance: 3%
- whole-of-life policies: 4%
- personal pension plans: 4%
- mortgage products: 4.5%
- motor insurance: 4.5%
- personal pension plans: 4%
- single-premium investment bonds: 3%
- buildings & content
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.
**Annual Review 1 April 2006 to 31 March 2007**

To join our mailing list for free copies of *ombudsman news*, please email publications@financial-ombudsman.org.uk. All issues of *ombudsman news* are also available in the “publications” section of our website.

On the following pages we highlight the issues behind the key areas of complaint during the year.

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<table>
<thead>
<tr>
<th>Category</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other banking services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Including complaints about</em></td>
<td>1,748</td>
<td>1,360</td>
</tr>
<tr>
<td>- Cheque clearing</td>
<td>547</td>
<td>467</td>
</tr>
<tr>
<td>- Money transfer</td>
<td>378</td>
<td>309</td>
</tr>
<tr>
<td>- Electronic payment</td>
<td>369</td>
<td>183</td>
</tr>
<tr>
<td>- Cash machines</td>
<td>291</td>
<td>279</td>
</tr>
<tr>
<td>- Safe custody</td>
<td>46</td>
<td>47</td>
</tr>
<tr>
<td><strong>Travel insurance</strong></td>
<td>1,670</td>
<td>1,787</td>
</tr>
<tr>
<td><strong>Other types of general insurance</strong></td>
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<td>1,220</td>
</tr>
<tr>
<td><em>Including complaints about</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Commercial policies</td>
<td>520</td>
<td>480</td>
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<tr>
<td>- Pet insurance</td>
<td>273</td>
<td>222</td>
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<tr>
<td>- Roadside assistance</td>
<td>202</td>
<td>115</td>
</tr>
<tr>
<td>- Caravan insurance</td>
<td>77</td>
<td>76</td>
</tr>
<tr>
<td><strong>Savings and deposit accounts</strong></td>
<td>1,438</td>
<td>1,233</td>
</tr>
<tr>
<td><em>Including complaints about</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Cash ISAs</td>
<td>252</td>
<td>314</td>
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<tr>
<td>- “Guaranteed” bonds</td>
<td>186</td>
<td>45</td>
</tr>
<tr>
<td>- Re-discovered passbooks and dormant accounts</td>
<td>95</td>
<td>71</td>
</tr>
<tr>
<td><strong>Contents insurance</strong></td>
<td>1,238</td>
<td>1,224</td>
</tr>
<tr>
<td><strong>Income protection insurance</strong></td>
<td>891</td>
<td>1,103</td>
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<tr>
<td><strong>Extended warranty insurance</strong></td>
<td>713</td>
<td>543</td>
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<td><strong>Critical illness insurance</strong></td>
<td>680</td>
<td>799</td>
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<tr>
<td><strong>Stockbroking</strong></td>
<td>599</td>
<td>529</td>
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<td><strong>Legal expenses insurance</strong></td>
<td>445</td>
<td>395</td>
</tr>
<tr>
<td><strong>Private medical insurance</strong></td>
<td>388</td>
<td>389</td>
</tr>
<tr>
<td><strong>Portfolio and fund management</strong></td>
<td>375</td>
<td>446</td>
</tr>
<tr>
<td><strong>Free-standing additional voluntary contribution (FSAVC) schemes</strong></td>
<td>255</td>
<td>416</td>
</tr>
<tr>
<td><strong>Personal accident insurance</strong></td>
<td>177</td>
<td>172</td>
</tr>
<tr>
<td><strong>“Splits” and “zeros” (in relation to investment trust companies)</strong></td>
<td>78</td>
<td>333</td>
</tr>
<tr>
<td><strong>Derivatives</strong></td>
<td>57</td>
<td>45</td>
</tr>
<tr>
<td><em>Including complaints about</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Spread-betting</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td><strong>Total number of new cases</strong></td>
<td>94,392</td>
<td>112,923</td>
</tr>
</tbody>
</table>

At the start of the 2006/07 financial year, we introduced a slightly different method of categorising and recording data about some cases. However, this has had no significant impact on the way in which some statistics have been presented in this year’s annual review.
Complaints about the mis-sale of mortgage endowments continued to dominate our workload during the financial year 2006/07. Although the number of new disputes involving mortgage endowments fell by a third – from 69,149 cases to 46,134 – endowment complaints still accounted for half the new caseload of the ombudsman service during the year. However, in previous years mortgage endowment disputes referred to the ombudsman service were responsible for as much as 63% of our overall workload. This anticipated – and very welcome – decrease in the volume of these cases over the year is clearly attributable to two factors: improved standards of complaints-handling by firms, in response to the programme of work set out by Financial Services Authority (FSA) in its document, *mortgage endowments: progress report and next steps*, published in July 2005; and the effect of “time barring”, as increasing numbers of consumers reached the final date by which they must have complained.

As a direct result of the continued regulatory focus – with the FSA stressing the importance of firms handling mortgage endowment complaints fairly and properly – we saw a marked improvement during the year in the quality of complaints-handling, especially across the larger financial services groups. This, in turn, resulted in an increase in the proportion of cases where we decided that the complaint referred to us by the consumer had been properly investigated by the firm involved – and that the right outcome had been reached.

However, more than six years after the FSA published its first guidance on handling mortgage endowment complaints, a growing number of smaller firms – as well as some claims management companies – were still telling us they were unsure about our approach. This reflected the proportionate increase over the year in the number of mortgage endowment cases referred to the ombudsman service that involved smaller businesses – particularly independent financial advisers (IFAs) – with less knowledge and experience of the way the ombudsman service works.
As a result, we focused more resource during the year into providing direct support and guidance for smaller businesses – each with only relatively few mortgage endowment complaints. This has meant, however, that we have been less able to benefit from the economies of scale that applied when the majority of mortgage endowment cases related to just a small number of the largest financial services providers.

To help the growing number of smaller businesses faced with mortgage endowment complaints for the first time, we published two sets of comprehensive technical notes during the year, which consolidated much of the material that had been published over the years on handling mortgage endowment complaints. These technical notes are available in the publications section of our website.

During the year a significant number of consumers with mortgage endowments received so-called “re-projection” letters from their insurance company, telling them the final date by which they would need to have complained – before their complaints became “time barred” for good. In last year’s annual review we explained that the impact these “time bars” might have on the number of complaints was unclear.

In particular, there was speculation about a possible peak in complaints – as the final date for complaining loomed for many people and consumers rushed to get their complaints in on time. In the event, no such peak materialised. Instead, there was a steady decline in the number of new cases throughout the year – as final dates for complaining passed by and firms saw their own complaint volumes start to fall.

In January 2007 the FSA published its review of firms’ approach to time barring mortgage endowment complaints. The FSA confirmed that most firms were “time barring” the vast majority of complaints in accordance with its rules – and it found only a few areas where it said firms needed to tighten up procedures. These findings were generally in line with our own experience over the year. However, the rules on “time bars” – and their interpretation – remain subject to continued threats of legal challenges from firms and claims management companies.
what the complaints were about

22

investment-related complaints (other than mortgage endowments)

- whole-of-life policies and savings endowments: 30%
- personal pensions: 25%
- single-premium investment bonds: 21%
- stockbroking: 5%
- investment ISAs: 4%
- portfolio and fund management: 3%
- FSAVs: 2.5%
- annuities: 2%
- income draw-down: 1%
- other products: 5%
- small self-administered pension schemes: 1.5%
In last year’s annual review, we reported a 29% decline in the number of new cases received about “packaged” investment products such as single-premium investment bonds and investment ISAs. This decline continued throughout the 2006/07 financial year – with the number of disputes referred to the ombudsman service about these products decreasing over the year by a further 37%.

This welcome drop in the number of complaints in this area – a fall of more than a half in two years – largely reflects the fact that we now rarely see cases involving “precipice bonds”, which were responsible for significant increases in our workload a few years ago (for further details see our annual review for 2003/04).

The smaller firms’ taskforce – the initiative we launched during the year to focus on the issues faced by small businesses in relation to complaints-handling and the ombudsman – has been particularly relevant for investment-related disputes, where 12% of the cases we deal with involve independent financial advisers (IFAs).

We appreciate the difficulties faced by some smaller firms of IFAs in handling complaints against themselves. For example, we recognise that the calculation of redress in some types of investment dispute can be particularly problematic for businesses that do not have access to in-house actuarial guidance or certain software.

As part of a range of activities initiated by the smaller firms’ taskforce, we therefore looked at ways of providing more practical information for smaller businesses at various stages of the complaints-handling process – including producing a series of quick guides focusing on technical issues such as calculating redress. There is more information about the work of our smaller firms’ taskforce on page 72.
During the year, we continued to receive a steady stream of complaints about whole-of-life policies. However, the overall number decreased year-on-year by 10%, following a similar pattern in the previous year.

A significant number of the disputes in this area related to so-called “reviewable” whole-of-life policies. These complaints generally involved consumers complaining that they had not been warned – at the time they were sold the policy – about the implications of the insurance company reviewing the policy later on. In the cases we saw, these reviews had resulted either in premiums being increased or benefits being reduced – which the consumers concerned saw as particularly unfair.

We consider each case on its own individual merits. As these policies are frequently used as part of inheritance-tax planning, the issues can be complex – and it can be a challenge to establish appropriate redress, where we uphold complaints of this nature.

We continued to receive a significant number of complaints during the year about endowment policies taken out purely for savings or investment purposes – rather than to support a mortgage. These products are sold as with-profits regular-premium policies, usually with a term of ten years.

In the cases we have upheld, we regularly found that the policies in question had very little – if any – chance of producing a worthwhile return. This was because the charges levied on the policies, including the cost of life assurance, placed such “drag” on investment performance that many consumers received less when their policies matured than the amount they had paid in premiums. In these cases we have usually decided that, on the basis of the information available at the time they were sold, the policies were unlikely to have been suitable for the purpose for which they were taken out (savings).
Pension disputes referred to the ombudsman service mostly relate to advice given to consumers to take a particular approach in their pension planning – for example, to transfer out of an employer’s scheme or the state scheme, or to use a pension as a means of repaying a mortgage. This means that related investment advice is also frequently involved – for example, advice on what investments should be held within a self-invested personal pension.

When consumers need to draw their pension there are further decisions to be made – should an annuity be bought and from where? Or should an income be taken from the fund – and if so, how should the fund be invested? In disputes about advice in these areas, the core issues are the associated risk and the overall suitability of the advice.

We are careful, as ever, not to apply hindsight in what can be difficult and contentious cases – involving significant sums of money and with consequences for the consumer’s financial position well into the future.

The numbers of new pension-related complaints have continued to fall gently for the third successive year. We still see some cases relating to the industry-wide Pensions Review, instigated by the regulator over ten years ago. But the number of these cases that we can deal with is diminishing. Many are now either outside the time limits set by the FSA, or are cases where the redress required under the Pensions Review has already been paid.

The pension tax-changes that took place in April 2006 have not resulted in significant numbers of new complaints being referred to the ombudsman service. However, this could simply relate to the time lag we frequently see between the consumer being given advice and their later identifying that the advice may have caused a problem.
Despite some stock-market volatility, the outlook over the year has been relatively positive in relation to single-premium investment bonds – and this has contributed to a continued decline in the number of complaints to the ombudsman service about these products. The 43% fall in the number of new cases during the year follows a 28% decrease in the previous year.

However, so-called “market value reductions” (MVRs) continue to be applied to some with-profits bonds when consumers cash them in – and this is a source of continued customer dissatisfaction. We are now well used to dealing with complaints from consumers that they were not told about the possibility of MVRs when they bought the bonds – or that the impact of MVRs was under-played. As we have explained in previous annual reviews, we deal with these disputes on the basis of the facts and circumstances of each individual case.

During the year we have also received complaints from consumers who are unhappy that improved stock-market conditions have not been reflected in the amount they receive, when they surrender their bond and find that an MVR has been applied. In these cases, the complaint is effectively about the way that the fund in which the bond is invested is being managed.

As part of the “wider implications” process – that we run jointly with the FSA to deal with complaints that potentially concern both the ombudsman and the regulator – we and the FSA agreed a procedure in 2005 for handling disputes about “closed” with-profits funds, where we receive complaints relating to so-called “management actions” taken by a fund. We explained this procedure in last year’s annual review. In response to new complaints we received during the year about funds that are still open to new business, we and the FSA extended this procedure in 2006 to include open funds as well as closed funds.

This means that in these circumstances, the FSA takes an overview as to whether the investment approach taken by a particular fund properly represents the legitimate exercise of its commercial judgement – taking into consideration what the complaints were about
the interests of all its policyholders as a group. The FSA then passes us relevant information about the view it has taken at a general level about that particular open fund – so that we can consider, in an individual case, whether the fund’s investment decisions should be regarded as a legitimate business decision. If we believe this is so, we will not investigate an individual complaint, because we are satisfied the broader issues involved are general matters for the regulator.

**other investment-related complaints**

The total number of disputes relating to investment services such as stockbroking and portfolio management – rather than to “packaged” investment products such as single-premium investment bonds and whole-of-life policies – has barely altered year-on-year. However, the underlying pattern of complaints has shifted slightly, with a proportionate rise in cases involving higher-risk specialist investments such as contracts for differences and shares in smaller companies listed on London’s Alternative Investment Market (AIM) exchange.

This shift may reflect the fact that in a generally rising market – when more traditional investments such as direct equities, investment trusts and unit trusts perform well – consumers tend not to question the suitability of the investment management or advice they receive. Increased confidence in benign markets also tends to lead more people to accept advice to enter into higher-risk investments – which may not then meet expectations.

Over the year we have handled cases about both direct advice given to consumers, and the way in which portfolio managers have exercised discretion in making investment decisions on behalf of consumers. Both sides in these disputes usually feel very strongly about the outcome. For consumers, the funds may represent most of their (non-property) assets. For businesses, the complaint may seem to call into question the professionalism of an individual manager. For this reason, a relatively high proportion of these cases are finally settled only with an official decision by an ombudsman – rather than at an earlier, less formal stage involving conciliation.

We have also continued to receive complaints relating to administrative issues involving stockbroking and portfolio management. Most frequently, these disputes concern the way in which consumers’ instructions have – or have not – been acted on.
what the complaints were about

banking-related complaints

- 40% current accounts
- 22% mortgage products
- 13% credit cards
- 9% loans other than mortgages
- 7% savings and deposit accounts
- 9% other banking services

The chart shows the distribution of complaints, with current accounts being the most common category, followed by mortgage products, credit cards, loans other than mortgages, savings and deposit accounts, and other banking services.
The number of disputes referred to the ombudsman service about current accounts more than doubled during the year – following a substantial 40% increase in the previous year. This increase has been driven by the flood of enquiries and complaints about current-account charges for customers who go overdrawn without prior authorisation.

In response to high-profile and prolonged media and internet campaigns, our consumer helpline has received up to 3,000 enquiries a day about bank charges. By the end of the financial year, significant numbers of these enquiries were turning into formal complaints requiring our intervention. At the end of March 2006, we were handling fewer than 10 disputes a week about bank charges. A year later, in March 2007, the number of these cases had escalated sharply to 500 a week.

Following our intervention, the current-account providers concerned have so far refunded the disputed charges in every case – so we have never reached the stage of making a detailed investigation or decision about these types of charge. We stand ready, however, to intervene more formally – making official decisions as necessary – if circumstances require this.

Meanwhile, the Office of Fair Trading (OFT) is considering the wider issues involved in retail bank pricing. The OFT is separate from the ombudsman service and has different powers from us. Unlike us, the OFT does not deal with individual customer complaints.

We have also received complaints from consumers who had challenged these charges and received refunds from their current-account providers – but were then given notice that their accounts were to be closed. In some of these cases, we considered that the current-account provider had decided to close the account purely because the customer had raised a complaint, which we felt was unfair.

Another category of complaint involving current accounts – where we have received an increased number of complaints over the year – involves the so-called “upgrading” of ordinary current accounts to fee-bearing accounts with added benefits. These complaints are from consumers who said either that their accounts had been upgraded without their knowledge, or that the fee structure had not been made clear to them.
Mortgage complaints have increased by 11% during the year – following an increase of a third in the previous year. Disputes involving mortgage-related charges have continued to feature among these complaints. The issue of the fairness of “mortgage exit” administration fees – the charge that the lender makes when consumers repay their mortgage – was considered during the year under the “wider implications” process that we operate jointly with the Financial Services Authority (FSA).

This “wider implications” process was set up, after public consultation, to help identify and deal with issues relating to regulation and redress which affect, for example, a significant number of consumers and/or businesses and involve a common industry practice. There is more information about the “wider implications” process on page 70 of this review.

In January 2007 the FSA issued a statement of good practice to mortgage lenders, which set out some areas of potential unfairness in the way these fees were set and raised – and suggested a range of options that lenders might adopt, where customers (or former customers) query the fee they have been charged. We believe this is likely to reduce the number of complaints which the ombudsman service receives in future about “mortgage exit” administration fees – although we will still continue to deal with individual complaints that consumers refer to us.

During the year we have also received a growing number of complaints about the fairness of “mortgage arrears” administration fees.

This has been our second complete year of handling complaints involving mortgage intermediaries – who came under our remit on 31 October 2004. Many of the cases we have seen this year about intermediaries relate to fees associated with arranging and setting up mortgages, and the disputes frequently turn on whether these were properly explained to the customer at the outset.

The range and complexity of residential mortgage products continues to grow, and lenders continually review and refresh the features of their product portfolios. So it is not surprising that a significant number of the cases we see involve disputes about what the clauses of the mortgage actually mean – and whether they were adequately explained by the lender or intermediary involved.
The 29% rise in complaints to the ombudsman service about credit cards results from the continuing impact of card fraud. A substantial number of these cases related to disputed point-of-sale purchases and cash machine withdrawals. The widespread use of “chip and PIN” technology as a security feature in card transactions does not seem to have reduced our workload in this area. However, the enhanced audit trail created by “chip and PIN” is often helpful to us in our investigation of these complaints.

We continue to receive a substantial number of disputes relating to section 75 of the Consumer Credit Act 1974 – under which the credit-card provider may be jointly liable with the supplier of the goods or services, if a consumer has a valid claim for misrepresentation or breach of contract. During the year, cases involving claims under section 75 have included a significant number of complaints from consumers who have used their credit card to buy membership of “holiday clubs” offering deals on flights and accommodation – deals that apparently prove not quite so advantageous when actually booked.

We also continue to see a growing number of complaints from consumers who have taken up special credit card offers, typically involving the card-issuer offering a “0% deal” for a specific period on outstanding balances transferred from another card account. Based on the disputes we deal with, it appears that many consumers have difficulty understanding how their repayments will be applied to the transferred balance and at what point interest will start to be charged on the debt.
In last year’s *annual review*, we commented on the increasing number of disputes brought to us about loans that consumers felt had been unaffordable from the outset. This trend has continued during the year. Cases we have dealt with have included disputes about the way in which debts have been re-scheduled – sometimes leaving the consumer in no better position than before. In many cases, these disputes also include claims that the lender has not acted fairly in negotiations about repayment of the debt.

Consumers continue to bring complaints to the ombudsman service about their bank or building society introducing new savings accounts that offer better rates of interest than their older “superseded” accounts. Although, over the years, the provisions of the *Banking Code* which set out how customers should be notified about interest-rate changes have improved, the disputes we see indicate that many savers still see this as a problem area.

We have also continued to receive complaints about the sale of “guaranteed-capital bonds” – something we have commented on in our last two *annual reviews*. These bonds involve a guarantee that the original capital will be returned in full at the end of the bond’s term – so they are technically “deposits” rather than...
“investments”. This means that the FSA’s rules on the sale and marketing of investments do not apply.

However, the amount of interest earned on “guaranteed-capital bonds” is generally dependent on the movement of a specified investment index. This leads some consumers to believe that these bonds are regulated “investments”. In the disputes that are referred to us to settle, consumers often argue that they were encouraged to take out these bonds on the back of misleading assurances about the level of interest they are likely to receive.

Newer savings products with complicated interest-rate structures – including those that require the consumer to take various steps in order to achieve the advertised “headline” rate – have started to give rise to complaints this year. In particular, consumers have complained to us where these steps include having to give notice if they want to move their money elsewhere without forfeiting interest.

During the year we have seen a significant number of complaints from consumers who have fallen victim to a widespread scam involving fraudsters who pose as buyers of goods and then pay with a stolen or counterfeit cheque. Innocent sellers release the goods at the point they expect the cheque to have “cleared” – only to discover a day or two later that the cheque was fraudulent.

In these circumstances, consumers normally complain to us where they believe that the bank told them – or allowed them to believe – that the cheque in question had been paid. They argue that they would not have released the goods until they were certain the cheque would not bounce – if the bank had been clearer in its communications.

These complaints highlight the continuing difficulty experienced by many consumers – and by many bank employees – in understanding and explaining how the cheque-clearing system works. This may explain the 17% increase in cases referred to the ombudsman service during the year about cheque clearing.
Against the background of these complaints, we welcome the certainty that consumers will gain through the measures to be adopted by November 2007 in relation to cheque clearing. These measures follow the report published by the OFT’s Payments Systems Task Force, which agreed to introduce a maximum time-limit in which a cheque may be returned unpaid.

During the year we have also received a steady stream of complaints from people who have bought or sold items on internet-based auction-sites using electronic payment facilities. The number of these disputes referred to us doubled during the year.

Many of these complaints relate to alleged fraud by the person with whom they dealt to buy or sell the goods, rather than by anything the electronic-payment provider had done wrong. However, we also see complaints where the consumer argues that the information they were given by the electronic-payment provider was misleading or unclear – as well as disputes about so-called “claw-back” by the electronic-payment provider of money already received.
what the complaints were about

insurance-related complaints

- 27% motor
- 12.5% buildings
- 11.5% loan protection
- 10.5% travel
- 8% contents
- 5.5% income protection
- 4.5% other
- 4.5% critical illness
- 4.5% extended warranty
- 3.5% commercial
- 3% legal expenses
- 1.5% pet
- 1% personal accident
- 2.5% private medical
- 1% private medical

annual review 1 April 2006 to 31 March 2007
The number of motor insurance disputes referred to the ombudsman service increased by a further 25% this year – following an increase of 31% in the previous year. We continue to see a very wide range of issues and concerns emerging from our work settling complaints relating to car and motorcycle insurance.

However, the majority of cases involve disputes about the repair of vehicles following an accident; the alleged failure by drivers to fully disclose relevant information to their insurance company; and the valuation of cars that are written-off as a total loss.

It is particularly disappointing that we continue to see so many poorly-handled complaints about write-off values in relation to motor insurance policies. The ombudsman’s general approach to settling disputes about the valuation of cars that have been written-off is well established. We believe that any insurer in the motor business should be capable of offering a fair price where a vehicle is a total loss – using the methodology and tools that have been available to the sector for many years and following the standards of good faith that have long applied to insurance.

For consumers, the valuation of cars remains a problematic issue, given the frequent difficulty of finding an identical match for the car concerned, and the discrepancy between prices advertised – for example, on garage forecourts, on the internet or in local newspapers – and the actual agreed selling price of a vehicle. However, in many cases, a clear explanation from the insurance company about their approach to valuation might have been enough to have prevented the misunderstanding about this escalating into a dispute.

We are also seeing an increasing number of enquiries and complaints about the way in which insurers operate their no-claims discount policy.
The number of disputes to the ombudsman service about household insurance has remained remarkably steady year-on-year – with exactly the same number of complaints about buildings insurance and just 14 more complaints about contents insurance than in the previous year. We are optimistic that this results from the successful dialogue we continue to have with insurers and intermediaries in this market. Consumers' increased familiarity with – and confidence in – the way these policies work might also be helping to reduce the number of misunderstandings leading to disputes.

Certainly, we are aware of significant improvements in recent years in the clarity of many policy documents relating to buildings and contents cover. This is a major step forward for consumers, who are not only more likely to understand a clear, well written policy – but should also have more realistic expectations of what the policy will cover in the event of a claim.

Disputes involving claims for subsidence remain some of the most difficult and time-consuming insurance cases we handle. In a recent issue of *ombudsman news* (issue 59), we published a selection of case-studies involving subsidence, to show the types of issues and problems these disputes entail. Subsidence is one of several areas of household insurance where the size and complexity of the disputed claim – and the extent of the damage to the consumer's home – means that, if the ombudsman did not exist as an alternative dispute-resolution service, these cases would probably only be capable of being settled in court.

We continue to receive a significant number of insurance complaints about the quality of repairs to properties under household policies and the timescales involved in repair work.
During the year we have seen a significant increase in the number of disputes referred to the ombudsman service about loan protection policies (sometimes called PPI – payment protection insurance). However, the 39% increase in the number of these cases is still surprisingly low, given the extent of adverse publicity that payment protection insurance has attracted in the media throughout the year.

On the basis of the cases we continue to see, we share many of the concerns of commentators about the sale of this product. We have reviewed and strengthened our complaints-handling process for loan protection disputes, so that we will be able to deal efficiently with any significant future increases in the volume of these cases – which many people are now predicting.

The disputes we deal with relating to loan protection insurance usually arise at the point when the consumer makes a claim on the policy – and the claim is turned down. However, the increase in the number of loan protection cases this year reflects a new type of complaint, as we start to see more disputes about the original sale or about the administration of these policies. The issues include complaints that a policy had not been requested; that the consumer is unable to get a refund (or an acceptable level of refund) if the loan is repaid early; that the total cost of the insurance was concealed; and that the policy was sold to someone who already had insurance cover.

It is clear from the complaints we handle that there are particular problems relating to payment protection policies that require a single up-front premium – funded by a loan and involving specific costs or difficulties if the policy is cancelled early (for example, if the loan is repaid early on). We have shared our concerns about this with the FSA, as part of its continuing review of loan protection.
Our overall workload in relation to travel insurance disputes has declined slightly this year. This is a welcome development – although based on the cases we handle, we remain concerned about difficulties that appear to exist in this market.

Policy documents we see are still often poorly written – and rarely read and properly understood by consumers, who seem happy to buy on the basis of price alone. There is clearly a mismatch in many of the complaints we deal with between what insurers intend to offer and the cover that consumers believe they are buying.

The disputes referred to the ombudsman service have frequently arisen because little or no advice was given on the policy at the time it was sold. And the fact that travel insurance is frequently sold as an add-on to other travel or financial products means there can be confusion on both sides about the exact nature of the policy cover.

The growth in popularity of annual travel policies and long-term travel cover linked – for example – to premium bank-accounts and credit cards, has led to complaints about the provisions in these policies that relate to changes in health and changes in risk during the life of the policy in question. We have made a number of decisions on the basis that insurers cannot simply withdraw cover under a policy, just because the risk of a claim has increased.

On the other hand, consumers cannot expect an insurance company to pay out when they have carried on with their travel plans in the face of a doctor’s clear advice not to travel – or when their behaviour on holiday goes beyond the exuberance that might be associated with holiday high-spirits.

Around one in five of the travel-insurance complaints we see arise from the sale of policies by intermediaries – travel agents – who are not regulated by the FSA and are therefore not covered by the ombudsman service. We cannot help in these cases. During the year we responded to the review carried out by HM Treasury into regulation and complaints-handling in relation to this sector.
We are pleased to record a 17% decline in the number of disputes we received during the year relating to income protection and critical illness insurance. This follows what has previously been a steady pattern of year-on-year growth in the number of health insurance complaints.

Disputes relating to health insurance involve some of the most distressing and complex cases we deal with. Assessing the relative disability of an individual – or the accuracy of medical information given in the past by someone who is now critically ill, dying and or bereaved – is challenging and stressful for everyone involved.

Our work in achieving a fair outcome in cases such as these is hindered by the clear injustice of the law in relation to “non-disclosure” in consumer insurance-contracts. The law – as it relates to consumers not disclosing information to their insurance company – was developed over two centuries ago. There have been calls for reform for over half a century from all quarters, including the judiciary itself. Although we are working extensively with the Law Commission in this area, actual reform may well yet be some years away.

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The Financial Ombudsman Service and the insurance industry have, in the meantime, adopted an approach to cases involving “non-disclosure” that differs significantly from the strict legal position – and is considerably more favourable to consumers. This is to the credit of the insurance industry, which has maintained and developed this approach to “non-disclosure” for over two decades.

However, on the basis of the disputes we see, we remain concerned that what some insurers require consumers to disclose about their health is probably beyond many people’s capability and comprehension – especially in the context of a sales process that is hardly conducive to the serious consideration of complex questions about medical history. Many surveys carried out in this area suggest that a significant proportion of people acting honestly and in good faith are unable to provide accurate information about their medical history – and those advising on and selling health policies are in many cases confused or poorly trained, and only contribute to the misunderstandings.

For many consumers, an application for critical illness and income protection policies has become an examination or a memory test, the results of which are only revealed if the consumer ever comes to make a claim. It seems unacceptable that many consumers are then left, at their time of greatest need, without the insurance cover they have paid for and relied on for many years. Cases such as this continue to provide a regular source of damaging publicity that undermines public trust and confidence in insurance products generally.
how we dealt with the complaints

We resolved a total of 111,673 cases in the financial year 2006/07 – including 63,877 mortgage endowment complaints.

### Number of cases resolved

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>Number of cases resolved</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>111,673 cases resolved</td>
</tr>
<tr>
<td>2006</td>
<td>119,432 cases resolved</td>
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<td>2005</td>
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<td>76,704 cases resolved</td>
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</tbody>
</table>

We resolved 10% fewer mortgage endowment cases than in the previous year – primarily as a result of dealing with a larger proportion of more complex cases relating to smaller businesses, where the benefits of scale we have developed when dealing with larger financial services groups are more limited. There is more information on page 20 about the changing face of our work on mortgage endowment complaints.

This decrease in the number of mortgage endowment complaints we settled led to a small reduction of 6.5% in the total number of cases we resolved during the year. However, this overall figure is still the second highest recorded – and is four times the number of cases we resolved in the financial year 2000/01, when our predecessor ombudsman schemes merged to form the Financial Ombudsman Service.

During the year our adjudicators were able to settle most disputes informally – through mediation and recommended settlements. This reflects our aim to take as flexible and pragmatic an approach as possible to resolving complaints – using the dispute-resolution tools most appropriate to the individual circumstances of each case.

For example, mediation usually involves our negotiating a constructive way forward – satisfactory to both sides – without seeking to apportion any blame for what may have gone wrong in the past between the business and its customer.

Where informal intervention does not help settle a dispute, 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 6% of cases during the year. A decision by the ombudsman is final – it is the last stage of our dispute-resolution process.

Where disputes are outside our jurisdiction, this is usually because consumers have left it too late to complain. During the year around one in five of the mortgage endowment disputes we handled turned on whether the business involved had correctly applied the endowment “time bar” rules (as set out in the FSA’s complaints-handling rules – the “DISP” section of the FSA’s Handbook).

**outcome of cases resolved by adjudicators**
(resolved by mediation, recommended settlements and adjudications)

### mortgage endowment cases

- In 20% 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 customer withdrew their complaint.
- In 22% of cases, the adjudicator found that the business had not treated the customer’s complaint fairly.
- In 55% of cases, the adjudicator found that the business had treated the customer’s complaint fairly.
- In 1% of cases, the business had offered the customer insufficient compensation but agreed to increase this to a higher figure recommended by the adjudicator.

### cases other than mortgage endowments

- In 8% of cases, the customer withdrew their complaint.
- In 16% of cases, the adjudicator found that the business had not treated the customer’s complaint fairly.
- In 11% of cases, the business had offered the customer insufficient compensation but agreed to increase this to a higher figure recommended by the adjudicator.
- In 4% of cases, the complaint was found to be outside our jurisdiction (for example, because it was made out of time).
- In 55% of cases, the adjudicator found that the business had treated the customer’s complaint fairly.
- In 6% of cases, the adjudicator found that the business had generally treated the customer’s complaint fairly – but the business still agreed a goodwill payment.
In 6% of cases the business had offered the customer insufficient compensation but agreed to increase this to a higher figure recommended by the ombudsman.

In 2% of cases, the ombudsman found that the business had treated the customer's complaint fairly.

In 53% of cases, the ombudsman found that the business had treated the customer's complaint fairly.

In 34% of cases, the ombudsman found that the business 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 27% 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 business had offered the customer insufficient compensation but agreed to increase this to a higher figure recommended by the ombudsman.

In 29% of cases, the ombudsman found that the business had not treated the customer's complaint fairly.

In 6% of cases the business had offered the customer insufficient compensation but agreed to increase this to a higher figure recommended by the ombudsman.

Other than in exceptional circumstances, we are not able to consider the merits of a complaint where a business has properly applied a “time bar” – and their customer's right to complain has therefore expired. Disputes about “time bars” form a significant part of the workload of the ombudsmen who are called on to make final decisions on our jurisdiction in cases such as these.

Where we do not uphold a complaint in favour of a consumer, we aim to give a clear explanation of why we believe the business has treated its customer fairly. Sometimes, if the business itself had made a better job of doing this, it could have prevented the complaint from arising in the first place. Sometimes our explanation simply reinforces – from an impartial standpoint – what the business has already set out clearly for their customer.
We know that any decision of ours will come as a disappointment to the side that doesn’t hear from us what it most wants to hear. However, whatever the outcome of an individual dispute, we hope we will have “added value” by giving our view on the case fairly, authoritatively and impartially.

We have focused on this as a key message during the year – in the light of research suggesting that consumers frequently thought our sole purpose was to resolve complaints in their favour, as the “consumer champion”. Advertising that we ran on a trial basis – as part of an initiative to improve our accessibility to some ethnic groups who currently use our service less than the majority of consumers – was designed to present a more down-to-earth and realistic picture of what our work in settling disputes achieves.

There is more information about this accessibility initiative on page 56.

different outcomes in different cases

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.

Telling the business to pay redress – to put the consumer in the position they would now be in, if the business hadn’t got it wrong in the first place.

Telling the business to compensate the consumer for particular distress and inconvenience – generally a modest amount between £150 and £500, where we believe the individual circumstances justify it.

Directing the business to take action, to put right what’s gone wrong. This can range from correcting credit references to paying a previously rejected insurance claim.

Telling the business to apologise to the customer.
The chart below shows the time it takes to settle disputes that are referred to the ombudsman service. For complaints about banking, insurance and investments other than mortgage endowments, we resolved over half of the disputes within three months.
Our ability to handle mortgage endowment complaints as quickly as we would have liked has been affected during the year by the increased proportion of these cases now involving smaller businesses. In these cases, we are no longer able to benefit from the efficiencies and economies of scale that we developed when dealing with significant volumes of cases about the largest financial services groups. Mortgage endowment complaints take between six and nine months to settle, on average.

Cases involving hard-fought arguments and entrenched attitudes are also becoming more common, as increasingly some businesses 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.

### Quality

Our “quality, information and knowledge” team co-ordinates our quality-improvement activities – working across all areas of the organisation to develop new approaches to quality and to provide process improvement and project-management expertise.

Underpinning our commitment to continuous improvement is our extensive programme of stakeholder research – by which we can better understand what our customers want, how they rate the service we provide, and where we could do things better. During the year we extended our range of research activities. This included:

- Launching a new cycle of surveys to monitor the views of the businesses we cover.
- Renewing our customer-satisfaction research, to take account of the changing issues and concerns of the people who use our service.
- Carrying out regular awareness-studies to help with our work on accessibility – ensuring that everyone who needs to contact us knows how to find us and how to access our services.
- Initiating a “voice of the customer” system, so that we can take account of customer comments, whoever they are from, whenever they arise, and whatever they are about.

Results and feedback from these various stakeholder-research activities are shown in more detail in the chapters who complained to us and who the complaints were about.

We continue to develop our knowledge-management systems – with over 85% of the financial products and services about which we receive complaints now covered by “KIT”, our in-house knowledge management toolkit. During the year, KIT was further developed to take account of areas of activity that
came under our new consumer-credit remit with effect from April 2007. This was part of a wide range of work in preparation for handling complaints about some 80,000 businesses with a consumer-credit licence, who had not previously been covered by the ombudsman service. There are more details about our extensive preparations for our new consumer-credit remit on page 69.

Recognising where we have made mistakes – and learning from any shortcomings – is a vital part of our commitment to quality. This is why – just like the businesses whose complaints we handle – we have our own formal complaints procedure for people who are unhappy with the service we have provided. These complaints are handled by a specialist group of complaints handlers, working as part of our “quality, information and knowledge” team. Where we cannot resolve a complaint about our service, it can be referred to the independent assessor (see page 74 for the independent assessor’s annual report).

Our quality system feeds back into the organisation everything we have learnt from analysing stakeholder input – as well as data from complaints and our quality audit – against a common root-cause analysis-framework. This includes providing feedback to individuals and teams – so that changes can take place “locally” within the organisation – and to senior management for more strategic improvements.

**our budget and productivity**

The Financial Ombudsman Service is funded by an annual levy paid by the businesses we cover – and by case fees that we charge each business for the third (and any subsequent) dispute involving them that we settle during the year. We do not charge businesses a case fee for the first two disputes each year.

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

Following consultation in January and February 2006, the boards of the FSA and the Financial Ombudsman Service agreed a budget for the ombudsman service – for the financial year 2006/07 – that assumed income of £59.3 million, expenditure of £59.3 million and a unit cost of £472.

The actual figures for the year showed that our income from case fees was £6.9 million below budget – reflecting the impact of dealing with a higher proportion of more complex and time-consuming disputes, many of which involved smaller businesses that did not pay case fees because they had fewer than three complaints during the year. (As explained above, we charge businesses only for the third and any subsequent dispute each year.) Similarly, case fees did not apply in a significant
number of the mortgage endowment disputes where we decided the complaint was “time barred” under the FSA’s rules – and was therefore outside our remit. There is more information about “time barring” and mortgage endowment complaints on page 20.

Our total expenditure for the year of £55 million was £4.3 million below budget – mainly due to lower than expected staff costs. Staff costs fell as the number of our employees declined over the year – from the “headcount” figure of 1,015, as originally approved in our budget for the year, to 956 employees in post at the end of March 2007. This was in line with our general policy not to replace people who left. We explained this policy – as part of our plans for dealing with the reducing volume of new cases – in our corporate plan & budget published in January 2007.

The figures for the year ended 31 March 2007 are drawn from our unaudited management accounts. Both years shown exclude any adjustments for the accounting standard FRS17 on pension accounting. The directors’ report and audited financial statements are available separately – on our website and as hard-copy.
The amount of bad debts during the year was £0.5 million – as a result of businesses covered by the ombudsman service going out of business, leaving case fees unpaid with no realistic chance of recovery. Around a half of this amount related to seven firms.

Our unit cost for the year was £484 – compared with an estimated figure in the budget of £472, and a figure of £433 in the previous year. This increase is due to a combination of our settling fewer “chargeable” cases – and the lower productivity of our adjudicators as the nature of complaints changes. Productivity – which we define as the average number of cases resolved weekly by each adjudicator – was 4.1. In previous years’ annual reviews we have explained that the productivity levels achieved in earlier years reflected exceptional circumstances specific to that period – in particular, the significant economies of scale in connection with handling very large volumes of mortgage endowment cases.

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

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<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>3.7</td>
<td>4.9</td>
<td>4.9</td>
<td>4.4</td>
<td>4.5</td>
<td>4.1</td>
</tr>
</tbody>
</table>
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**our unit cost**

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<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit cost (£)</td>
<td>£684</td>
<td>£518</td>
<td>£473</td>
<td>£496</td>
<td>£433</td>
<td>£484</td>
</tr>
</tbody>
</table>
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*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 who bring complaints to the ombudsman service are typically between the ages of 35 and 64. Seven out of ten people who use our service are in this age bracket – largely reflecting the fact that this is the home-owning generation most likely to have complaints relating to mortgage endowments. Complaints about mortgage endowments make up a half of our total workload.

Consumers under 35 complain to us mostly about banking issues and motor and travel insurance. The number of consumers in this age group who have used our service has increased proportionately over the year from 7% to 10%.

Consumers over 65, on the other hand, bring proportionately the largest number of cases to the ombudsman about securities, investments and pensions.

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.

Of the 2,000 or so people under 25 who referred disputes to us, unsurprisingly, fewer than 1% had investment-related complaints (including one 21-year old who had a pension-related dispute).

... and what gender are they?

- 2% under 25
- 8% 25–34
- 26% 45 to 54
- 21% over 65
- 18% 55 to 64
- 25% 35 to 44

29% female
71% male
where do consumers live who complain to the ombudsman?

This map shows the geographical spread of the consumers whose complaints we worked on during the year. Comparing these figures with regional population data for the UK helps us ensure that awareness and usage of the ombudsman is fairly and proportionately spread across the regions and nations. The location of people using our service continues broadly to reflect the spread of the population across the UK as a whole.

There is no significant variation in where consumers come from – or in their age, occupation or gender – between those who make initial contact with us, with front-line enquiries to our customer contact division, and those who then go on to refer “full blown” disputes to the ombudsman service. This suggests that our complaints-handling procedure – which we explain upfront to consumers when they first contact us – is equally accessible to consumers of all age groups, genders, occupation and regional backgrounds.
Businesses covered by the ombudsman service are required by law to mention the ombudsman, when they deal with a customer for the first time. Businesses also have to give details about us, if a complaint arises which the business cannot resolve to the customer’s satisfaction. This explains why many people with complaints say they first heard about us from the business they complained about. However, the proportion of people who told us that this is how they found out about us fell from 32% to 19% this year.

On the other hand, the proportion of consumers who said that they first heard about our service through the media rose from 27% to 40%. And an increasing number of people said they found out about the ombudsman from friends, relatives and work colleagues – or on the internet. This shows the importance of “word of mouth” and “social media” as ways of increasing awareness about the Financial Ombudsman Service.
Over 95% of people who got in touch with us said that finding our contact details had been easy.

During the year we also carried out market research into levels of awareness of the ombudsman among consumers more generally – as we are particularly interested to hear the views of those who have never used our service. The results of this research showed:

- 55% of the adult population (based on a representative sample) had heard of the Financial Ombudsman Service.

- One in ten were able to name us, unprompted, as the organisation whose job it is to resolve disputes between financial services companies and their customers. During a period of extensive media coverage of consumers complaining about bank charges, this rose to one in five people.

- Two thirds of those who had heard of us knew about us from seeing or hearing something in the media.

Knowing which newspapers are read by consumers who bring complaints to us gives us an insight into the socio-economic background of our customers. 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.

The general pattern of newspaper-reading among people who use the ombudsman service remains broadly similar to that recorded in previous years. However, this year, there has been a significant increase in the number of people who mention the free daily Metro – now distributed in 18 UK conurbations – as the newspaper they read.
what newspapers do consumers read who complain to the ombudsman?

- Daily Mail/Mail on Sunday: 21%
- The Times/Sunday Times: 14%
- The Telegraph/Sunday Telegraph: 11%
- The Guardian/Observer: 6%
- The Mirror/Sunday Mirror: 6%
- The Express/Sunday Express: 6%
- The Sun/News of the World: 8%
- Financial Times: 4%
- The Independent/Independent on Sunday: 4%
- other newspaper (including free, local and regional titles): 20%

consumer diversity

12% of consumers whose disputes we settled during the year told us they had some form of disability (14% in the previous year) – predominantly mobility difficulties. A small but increasing proportion – 1% of consumers – said they had mental health issues.

We recorded proportionately more disability-related requests for help from older customers with sight loss and hearing loss. Of the people who told us about a disability, there was a significantly higher proportion with complaints about pensions, banking and stocks and shares than with mortgage endowment complaints.
There is continued strong demand for information in Braille, large print and on audiotape/CD – 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 research indicates that around 7% of people who used our service during the year defined themselves as “minority ethnic” (5% in the previous year) – a slightly lower proportion than the figure nationally. We have previously worked with an agency specialising in ethnicity-driven market research – to try to identify why proportionately fewer people from minority-ethnic backgrounds refer disputes to the ombudsman service. The research was inconclusive – but indicated that a multiplicity of complex factors were involved, reflecting the different social and economic circumstances of the UK’s diverse ethnic communities.

More detailed research during the year into levels of public awareness of the ombudsman confirmed significant differences between various ethnic groups. While 50% of consumers with Chinese backgrounds knew of the ombudsman service, for example, this figure fell to 30% in the case of South Asian consumers.

In response to these findings, we launched a specific project during the year to work more closely with Asian consumers and help raise awareness of our role. This has included taking part in various “melas” (Asian lifestyle events) and promoting tailored messages, including advertising, in partnership with ZEE, the UK Asian media-network.

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 20 languages – including handling correspondence in Urdu, phone calls in Mandarin and emails in Latvian.
During the year we recorded 40 million hits on our website – www.financial-ombudsman.org.uk – with an average of 150,000 visitors a month. On the busiest day on the website during the year, 12,892 people logged on.

To find out more about our website users – and why they visited us online – we ran a web-based user-survey over a three-month period at the end of 2006. Key findings showed that:

- A third of people were first-time visitors and two-thirds had been on our website previously.
- 62% of users were male and 38% female.
- Just over half were on our website for business purposes – and just under half were consumers visiting for personal use.
- 29% of people who use the website are under 35, but only 10% of this age group actually bring complaints to the ombudsman service; conversely, 17% of people visiting our website are over 55, but 39% of people who complain to us are in this age group.
- 86% of users said they would definitely visit the site again.

how did our website users find out about the site?

- 31% through a friend or colleague
- 27% through an internet search engine
- 24% told by a financial services company
- 12% through a link on another website
- 6% mentioned in a newspaper
who complained to us

what stage are our website users at in pursuing their own complaints?

- 28% thinking about making a complaint to a financial services company
- 24% only browsing at this stage
- 17% waiting for the ombudsman service to make a decision on their complaint
- 11% waiting for a financial services company to reach a decision on their complaint
- 20% thinking about referring an unresolved dispute to the ombudsman service
- 20% only browsing at this stage
how do our website users view the ombudsman service?

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Agree Percentage</th>
<th>Disagree Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>we are helpful and approachable</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>we are independent and impartial</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>we are authoritative and knowledgeable</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>we are capable and efficient</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>we are respected and influential</td>
<td>78%</td>
<td>22%</td>
</tr>
</tbody>
</table>
The chart above shows how consumers who took part in our customer satisfaction surveys over the year rated our service.

We recognise that people’s personal experience of our service – and the way in which they rate their satisfaction with us – is inevitably influenced by the outcome of their own complaint – and this means we cannot please everyone. However, seeking the views of those who have used our service is an essential part of finding out where we can improve.

how do consumers who complain to the ombudsman rate the service we provide?

- we handle complaints efficiently and professionally
  - 70% agree
  - 18% express no view
  - 12% disagree

- we get to the bottom of complaints and deal with the issues thoroughly
  - 63% agree
  - 14% express no view
  - 23% disagree

- our decisions on cases are fair and unbiased
  - 59% agree
  - 19% express no view
  - 22% disagree

- we settle disputes within an acceptable length of time
  - 47% agree
  - 18% express no view
  - 35% disagree

- we provide a good dispute-resolution service for consumers
  - 64% agree
  - 13% express no view
  - 23% disagree
We launched our original customer satisfaction research programme in 2002 – and have published findings from our surveys in each annual review since then. Initially, our research was designed to help us to monitor how well we performed over time against our own set of benchmarks.

However, during 2006 we reviewed the way we carry out this work – recognising that it is just as important to understand how we perform against other comparable organisations.

This has resulted in our introducing new customer-service benchmarks during the year. These involve a series of “satisfaction indicators” that sum up what consumers tell us they expect from our service – as well as reflecting our own organisational aims and values. These satisfaction indicators should help us compare our results more consistently with other organisations.

Moving to this new system of benchmarking has meant there have been some initial fluctuations between our new customer service data and results we recorded in our previous research.

how does the outcome of their complaint affect how consumers rate the service we provide?

- of those consumers who said they felt they had “won” their complaint:
  - 86% were satisfied with our handling of their case;
  - 8% were dissatisfied; and
  - 6% expressed no view

- of those consumers who said they felt they had “lost” their complaint:
  - 48% were satisfied with our handling of their case;
  - 33% were dissatisfied; and
  - 19% expressed no view
These charts show how the new complaints we received during the financial year 2006/07 were spread across the different sectors of the financial services industry.

**Financial services firms complained about**

- 37% life insurance and investment product-providers
- 30% banks
- 12% independent financial advisers (IFAs)
- 11% general insurers
- 4% building societies
- 1.5% mortgage intermediaries
- 1.5% general insurance intermediaries
- 3% other (including fund managers and stockbrokers)

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

- 83% mortgage endowments
- 8% other investments
- 5% pensions
- 2% securities
- 2% other
- 2% other
Disputes involving life insurance and investment product-providers fell by 8% compared with the previous year – reflecting the decrease in complaints about mortgage endowments sold by larger insurance companies.

On the other hand, disputes about banks and general insurers both rose by 4% on the previous year – largely as a result of increases in the numbers of complaints about issues such as bank charges, motor insurance and loan protection policies.

While the overall proportion of disputes involving independent financial advisers (IFAs) fell slightly by 2%, the proportion of mortgage endowment complaints against IFAs rose by 4% during the year – following a 14% increase in the previous year. Mortgage endowment complaints involving banks and insurers fell by 18% and 6% respectively.
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 banking products & services

- 85% banks
- 7% building societies
- 5% mortgage brokers
- 3% other

Complaints about general insurance products

- 66% general insurers
- 9% insurance brokers
- 7% banks
- 1% Society of Lloyd’s
- 2% cash-plan health insurers
- 2% other
- 13% life insurance & investment product-providers

Who the complaints were about
The chart above shows that eight out of ten businesses covered by the Financial Ombudsman Service had no complaints about them referred to us during the financial year 2006/07.

2,637 businesses – 11.5% of all firms we cover – had just one or two complaints referred to us in the year. As in previous years, we again did not charge businesses case fees for the first two complaints during the year.

This meant that only around 6.5% of firms covered by the ombudsman service paid case fees in 2006/07.

Ten 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, 225 cases (0.2% of all complaints) related to friendly societies and just six complaints involved credit unions.
We continue to carry out research to gauge the views of the businesses we deal with – on how we handle disputes and the extent to which we accommodate their particular needs and concerns. During the year we launched a series of quarterly surveys to measure how businesses rate the service we provide.

How do financial services firms rate the service we provide?

We provide a good dispute-resolution service for businesses
62% agree
23% express no view
15% disagree

Our decisions on cases are fair and unbiased
58% agree
24% express no view
18% disagree

Our decisions are consistent
36% agree
23% express no view
41% disagree

Our role is essential for confidence in financial services
50% agree
23% express no view
27% disagree

Our service is good value for businesses who pay the levy/case fees that fund us
35% agree
36% express no view
29% disagree

These surveys cover all sectors of the financial services industry, ranging from sole-proprietor businesses to the largest financial groups. The results of these surveys help us measure our service against a number of “satisfaction indicators”. These are benchmarks that reflect what businesses tell us they expect from our service and our own organisational aims and values.
Our surveys of the businesses we cover show that smaller firms – those with fewer complaints referred to the ombudsman service – generally report lower levels of satisfaction than larger firms. This is especially the case where we measure how businesses rate the consistency of our decisions. It appears that smaller businesses, who have only a few cases with the ombudsman service, are more likely to say we are inconsistent than larger businesses, who see a much wider range of our decisions.

During the year we therefore carried out a range of focused research, aimed at getting a better understanding of the views of smaller businesses, many of which have little or no direct contact with us. The way in which smaller businesses view – and are affected by – our decision-making process has been a key issue for consideration by our smaller firms’ taskforce this year. There is more information about this initiative on page 72.
other work we have done

As well as settling individual disputes between businesses providing financial services and their customers, 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.

In this chapter we highlight some of the projects and activities we have been involved in over the year. Our corporate plan, which we publish in January of each year (and which is available in the “publications” section of our website), also gives details about this work.

We carried out a substantial amount of work during the year in preparation for the new consumer-credit complaints-handling arrangements, which came into force in April 2007 under the Consumer Credit Act 2006.

This involved both policy-related and operational planning to be able to extend our remit to cover some 80,000 businesses with a standard consumer-credit licence, who came under the ombudsman service for the first time from April 2007.

Work on this significant project included:

- Drafting, consulting on and finalising the complaints-handling rules and funding arrangements for consumer-credit businesses in liaison with the FSA, the OFT and the Department of Trade and Industry (DTI) – as well as all other relevant stakeholders.

- Implementing the necessary computer updates and system changes to ensure our casework processes are appropriate for a wider range of consumer-credit complaints – including training front-line staff and adjudicators, and adjusting operational procedures where relevant.

- Running an extensive external-liaison programme to communicate and consult with consumer-credit stakeholders – including roadshows and events round the UK, interviews and articles in the trade press, special information-packs sent out to all businesses, and awareness-work and training in partnership with consumer-credit trade bodies and consumer groups.

We recognised the breadth and diversity of the consumer-credit sector as a particular challenge in carrying out this work. The sector includes banks and building societies who provide the loans and mortgages that make up 70% of consumer credit by value – and who have long been covered by the ombudsman.
On the other hand, we also need to be responsive to the needs of the tens of thousands of consumer-credit licensees – from furniture stores and karate clubs to piano-hire firms and jewellers – whose main business is not the provision of financial services. Their consumer credit activities – now covered by the ombudsman – are merely an add-on to their mainstream line-of-business.

We are, of course, already well used to dealing with businesses in this position. Since January 2005, we have handled insurance disputes relating to a wide range of smaller businesses whose primary commercial focus lies outside financial services – in areas as diverse as veterinary services (involving pet cover) and marquee-hire (involving wedding insurance).

Preparing for other extensions to our jurisdiction

We also prepared for the extension of our remit to cover additional activities which became regulated by the Financial Services Authority (FSA) from April 2007:

- advice on self-invested personal pensions (SIPPs);
- the sale and administration of home-reversion plans; and
- the sale and administration of *ijara* Islamic home-purchase products.

**working with the Financial Services Authority (FSA)**

We have continued to work closely with the FSA on topics which affect both our dispute-resolution role and the FSA’s regulatory role. During the year this included operating and raising the profile of the widely-welcomed “wider implications” process and updating the memorandum of understanding between the two organisations.

We assisted the FSA in exploring the implications of its move towards more principles-based and outcome-focused regulation. This is a development of its risk-based approach to regulation. The availability of the ombudsman service to resolve individual cases is one of the key elements that enable the FSA to focus on the broader picture.

More principles-based and outcome-focused regulation will not change the criteria on which the ombudsman service decides complaints. Our decisions generally turn on disputes of fact (where the customer and the business cannot agree what happened) or on legal principles (as elaborated by courts) that apply to all businesses – rather than on the detail of FSA rules.

However, in the process of simplifying its rulebook, the FSA is taking into account lessons learned from the ombudsman’s experience. Allied with this, the FSA and the ombudsman service have been
working on simplifying the rules which set out the scope of the ombudsman service and the procedures which it follows. The aim is to explain these more clearly and succinctly. A consultation paper will follow later in 2007.

In May 2006, we published a discussion paper jointly with the FSA on how the cost of funding our jurisdiction over FSA-regulated financial firms should be shared amongst those firms in future. The paper raised a range of possible options for the future balance between annual levies and case fees.

The responses indicated broad support for increasing the importance of the case fee – as opposed to the levy – in financing the ombudsman service. At the same time, there was support for increasing the number of cases per year (currently two) which can be considered by the ombudsman service before a firm starts paying case fees.

In April 2007 the FSA and the ombudsman announced that they would see what scope exists for moving incrementally in this direction – when agreeing, towards the end of 2007, our budget for the financial year 2008/09. Immediate changes were not proposed, because uncertainties about the number of future cases made it difficult to model the effect on either the financial stability of the ombudsman service or the size of the levy and case fees.

**other ombudsman schemes**

During the year there has been an increasing focus on the role that ombudsman schemes can play in providing accessible redress to consumers. This ranges from the establishment of new arrangements for disputes about legal services – to enhanced arrangements for complaints about estate agencies and utility companies. The government departments and others involved in developing these schemes have spent considerable time with us, seeking to learn from our processes and experience.

One issue is where to strike the balance between separate schemes – that can focus on the special circumstances of particular sectors – and broader schemes that might be more accessible for consumers and provide economies of scale. These are public policy issues which government is considering. In that context, the Department of Work and Pensions launched a review of pensions institutions, which is considering whether there should be closer links between the Financial Ombudsman Service and the Pensions Ombudsman.

We have continued to cooperate with our public-sector and private-sector colleagues in the British and Irish Ombudsman Association (BIOA). And through our membership of the steering committee of FIN-NET, the European network of financial dispute-resolution bodies, we have continued to encourage
the development elsewhere in Europe of comprehensive financial ombudsman arrangements such as exist in the United Kingdom – so that consumers have ready access to redress when they buy financial services cross-border.

82% of businesses covered by the ombudsman had no complaints referred to us during the year – and 11.5% had fewer than three complaints. These are mostly smaller businesses – whose direct contact with us is therefore very limited.

To help us focus on – and accommodate – the different needs and concerns of smaller firms, we set up a high-level internal taskforce last year. This taskforce has executive responsibility for prioritising and co-ordinating policies and activities relating to these businesses. Work taken forward by the taskforce over the year has included the following projects and initiatives:

- Creating a special section of our website for the answers to the hundred questions most frequently asked by smaller firms.
- Launching a series of “quick guides” for businesses, giving a quick and informal overview of a range of technical issues – from case fees to calculating redress.
- Carrying out a phone-based research programme, involving in-depth discussions with a range of different types of smaller businesses, to hear their views and comments.
- Providing specialised training to our adjudicators on how to communicate more effectively with smaller businesses that can find it more difficult to present their arguments with the necessary degree of professional detachment.
- Reviewing processes and procedures that have a particular impact on smaller businesses – for example, in relation to firms that are no longer involved in financial services but are still covered by the ombudsman.
- Offering businesses who have several complaints with us at the same time the opportunity of having their cases co-ordinated by a single adjudicator.

Our work gives us a unique insight into how and why disputes arise – and how they might be avoided in the first place. There are valuable lessons from this for business 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:
Dealing with 18,213 enquiries to our technical advice desk – our dedicated service for people handling complaints in the financial services sector and the consumer advice world.

Taking part in industry conferences and events – including roadshows and regional conferences run by a wide range of trade bodies, professional networks and the trade press; and national trade-fairs such as Mortgage Business Expo, the Credit Management Convention and the Financial Services Scotland show.

Organising visits, meetings and training for businesses and trade bodies – including a relationship-management programme focused specifically on improving communication and operational effectiveness between the ombudsman service and the 35 financial services businesses that account for 80% of our complaints workload.

Meeting and training regional consumer-advisers – from Inverness to Truro, Belfast to Medway – to share our complaints-handling skills with frontline problem-solvers in the community.

Taking our exhibition stand to high-profile consumer events, including the National Mela, the BBC Good Homes show and the ZEE carnival.

Speaking at seminars and conferences hosted by organisations ranging from the Consumer Action Network to the PEP & ISA Managers’ Association.

Adding over 300 new web-pages and 172 frequently-asked-questions (FAQs) to our website – which has seen the number of visitors increase by 28% over the year.

Running a nationwide series of roadshows for consumer-credit businesses and over 20 training events for consumer-advice agencies, as part of an integrated communications programme in preparation for our extended consumer-credit remit (see page 69 for more details).

Publishing our regular newsletter, ombudsman news, and distributing over a million copies of our consumer leaflet and other publications (including versions in over 20 other languages and formats).

Answering media questions and providing information for publications ranging from Motorcycle News to the Aberdeen Press & Journal, Good Housekeeping to the Daily Star – and taking part in programmes from BBC Watchdog to MoneyMarketing TV, Radio 4’s You and Yours to the Pete Price show on Liverpool Radio City.
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 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 2007, a total of 326 cases were referred to me – a figure broadly similar to previous years (322 cases in 2005/06 and 319 the year before that). I received fewer referrals and enquiries than in previous years in relation to matters that had not yet been raised with the service review team at the Financial Ombudsman Service – something that is required before I can become formally involved in a case. The reduction in cases referred to me too early in the process probably reflects growing familiarity with the role of the independent assessor.

Of the 120 cases referred to me that did not require investigation, 57 were referred to me too early in the process; 38 were only general enquiries; 24 were outside my jurisdiction because they were “out of time” or unrelated to the ombudsman service; and one case was not pursued further by the complainant.
The number of cases referred to me that required a full investigation and review of the file increased to 206 – from 186 in 2005/06 and 164 in 2004/05. I upheld the complaint (either wholly or in part) in 88 of these 206 cases – compared with 76 cases in the previous year. This involved my making recommendations for financial compensation in 82 cases.

The amounts of compensation that I recommended ranged from £30 to £1,400 – with roughly half falling between £250 and £500, and most of the remainder being for £200 or less. In about a quarter of the complaints that I upheld, the service review team at the ombudsman service had already offered apologies and/or some compensation – but not enough, in my view, to provide sufficient redress.

In my annual report last year, I drew attention to the problems that can arise for consumers, when ombudsmen make “formulaic” awards which require firms themselves to calculate the actual amount of compensation due to the consumer. I very much welcome the board’s response to my concerns. I understand that steps are being taken in this area. In particular, the ombudsmen are now making greater effort to specify the exact amount of compensation awarded – wherever they have the specific detailed information needed for this calculation.

However, I am still receiving a number of complaints about redress calculations carried out following final decisions by ombudsmen. One pension case graphically illustrated the wide variations that can exist between the level of compensation that the parties understand the ombudsman to have awarded – and the actual amount payable when the final calculations have been made. In the case in question, the consumer’s financial advisers considered that the redress due was in the region of £130,000. The firm must have taken the same view, because shortly after the ombudsman issued the final decision, it offered the consumer £100,000 (the maximum amount binding on the firm). The consumer did not accept the firm’s offer and instead held out for the higher amount estimated by her advisers. When the final (admittedly complicated) calculations were complete, the actual amount of compensation due was found to be only £25,700.
Another area that can be confusing for consumers, when they refer a complaint to the ombudsman service, is the position in relation to any previous offer that the firm may have made earlier. In one particular case, I did not find the ombudsman’s final decision satisfactory, from the consumer’s point of view, when the ombudsman stated: “I do not uphold the complaint. Should the firm be prepared to stand by its original offer, Mr M should contact the firm if he wishes to accept it.”

If consumers are to make properly informed decisions as to whether to accept or reject an ombudsman’s decision, it seems to me to be desirable that they should be informed of the current status of any offer made by the firm – and what the implications are for that offer, if the ombudsman does not uphold the complaint. Possibly this is something that adjudicators should clarify at the assessment stage – particularly when they are dealing with mortgage endowment cases, where re-calculating the compensation at a later date can make a big difference if the surrender value of the endowment policy has changed.

As in previous years, I received a small number of complaints from firms – mainly from independent financial advisers (IFAs). I upheld the complaint in six cases. In four of these, errors in administration within the ombudsman service resulted in undue delay – leading to the firm having to pay the consumer additional interest on the amount of compensation awarded by the ombudsman. In such cases I have taken the view that it is not practicable to estimate how long any particular investigation should have taken, with a view to calculating the extra interest due to delay. Instead, I prefer to recommend that the ombudsman service should pay compensation for the inconvenience caused, taking into account the fact that the firm has had to pay interest as a result.

Delay continues to be the prime source of complaint about the way the ombudsman service has dealt with cases – followed by other instances of poor service, such as failure to acknowledge correspondence, to respond to phone calls, or to keep consumers updated on progress. Unfair treatment is also frequently complained about – but this often turns out to be dissatisfaction with a specific ombudsman’s decision, which my terms of reference exclude me from questioning, unless there appears to be some procedural irregularity in the way the decision has been arrived at.
Often consumers will mention delay, poor service and unfair treatment as the reasons for their dissatisfaction with the way their complaint has been dealt with. Changes of adjudicator – as a result of staff leaving or going on maternity leave, or the case being transferred to another team – can be a contributory factor in causing delay. I have seen several extreme examples of three, four, and in one case five, adjudicators having a hand in cases where the investigations have taken three years or more to bring to a final conclusion.

Although half of all disputes referred to the ombudsman service during the year involved mortgage endowments, the product areas represented in the cases that I see are fairly evenly spread – with investments, pensions and insurances of one kind or another topping the list, followed by mortgage endowments and banking matters.

However, it is important to note that the cases referred to me are only a tiny fraction – approximately 0.2% – of the overall caseload of the ombudsman service. The examples that I have quoted in this report should therefore be regarded as being in the nature of anecdotal evidence, rather than having any wider validity. I have no reason to doubt that the vast majority of people with disputes handled by the ombudsman service receive a satisfactory level of service.

Michael Barnes
CBE
April 2007
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
Simon Leach
Steve Lilley
Doug Mansell
David Millington
Roy Milne
Clare Mortimer
Clare O’Connor
Richard Prior
Philip Roberts
Mark Screny
Robert Short
Richard Thompson
Chris Tilson
Richard West
Sue Wrigley
Roger Yeomans

ombudsmen with lead responsibility for:
mortgage endowments  
Heather Clayton

general insurance  
Peter Hinchliffe

banking & credit  
Jane Hinston

pensions & securities  
Tony King

general investment  
Caroline Mitchell

senior operational staff

Roy Hewlett  
operations director

Paul Bentall  
general counsel

service managers:

Simon Coe
Julia Hawkins
Caroline Wayman
Ken Webb

(facilitating our teams of adjudicators)

communications and policy:

Fiona Boyle
Adrian Dally
Alison Hoyland
Brigitte Philbey
Caroline Wells

(Handling complaints about our service)

Nick Clansey
Sharon Jones

heads of IT and IT development

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 2007

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

Caroline Banks
- a member of the Civil Service Appeal Board
- a member of the Association of Energy Suppliers’ Code Panel
(formerly)
- 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 Crowther
- a member of the Professional Oversight Board for Accountancy
- a non-executive director of TT Electronics plc
(formerly)
- head of global risk management & partner at PricewaterhouseCoopers LLP

Richard Hampton
- a consultant with Beachcroft Regulatory Consulting
(formerly)
- 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
(formerly)
- 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
(formerly)
- Independent Housing Ombudsman
- chief executive of Hounsdown and Croydon London Boroughs
- a director of the National Clinical Assessment Authority
- chairman of an NHS disciplinary tribunal

Kate Lampard
- associate of Verita Limited, consultants in incident investigations and inquiries
- a trustee of Esmée Fairbairn Foundation
(formerly)
- 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
- chairman of Brighton & Hove City Teaching PCT
- crisis & change management consultant
- non-executive director of the Maritime and Coastguard Agency
- Justice of the Peace to the North Sussex Bench
(formerly)
- non-executive director of the South East Coast Ambulance Trust
- chairman, then chief executive, of the Allied Carpets Group
- chief executive of the Bricom Group
The Financial Ombudsman Service was set up by law as an independent public body. Our job is to help settle individual disputes between businesses providing financial services and their customers – fairly, reasonably, quickly and informally.

**fairly**
Established by Parliament, 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 businesses 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 hidebound by rigid procedures and we aim to be as flexible as possible in our approach.

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**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.
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 1400

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.