

our plans and budget for 2013/2014

a consultation paper

January 2013



ombudsman



our plans and budget for 2013/2014

Each year we consult our stakeholders on our plans and budget for the coming year. This consultation is important to us. As a demand-led service, funded by the financial services industry, we need to use the insight of our stakeholders to help us plan for the challenges ahead.

We have already discussed our plans for 2013/2014 with trade associations and financial services practitioners, and we will be discussing them with consumer groups too. We will continue to talk to all our stakeholders before we finalise our budget for 2013/2014 in March 2013.

This consultation paper explains what has happened so far in the current financial year (2012/2013) and sets out our plans for 2013/2014 against that background. The biggest challenge we face will continue to be the unprecedented numbers of payment protection insurance (PPI) cases we are receiving.

We look forward to hearing your views on our progress so far and how we are planning to meet the significant challenges that lie ahead.



Natalie Ceeney CBE
chief ombudsman and chief executive

January 2013

index

1. executive summary
2. overview of the current financial year so far (2012/2013)
3. our plans for the next financial year (2013/2014)
4. forecast volumes and case types for 2013/2014
5. our proposed budget for 2013/2014

annexes

- A. historic case volumes
- B. our latest projections for volumes of new cases in 2012/2013 and 2013/2014
- C. voluntary jurisdiction – proposed levies for 2013/2014
- D. draft rules instrument – case fees for 2013/14 and proposed changes to FEES 5

responses

We welcome your feedback on our *plans and budget for 2013/2014*. Please send your views and comments – to reach us by Monday 18 February 2013 – to adrian.dally@financial-ombudsman.org.uk. Or write to:

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London E14 9SR

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

We will not regard an automatic confidentiality disclaimer – generated by your IT system – alone as binding on us.

“settling disputes, without taking sides ... ”

“... using our insight to help prevent future problems”

The Financial Ombudsman Service was set up by law to resolve individual disputes between consumers and financial businesses – fairly, reasonably, quickly and informally.

We can look at complaints about a wide range of financial and money matters – from insurance and mortgages to investments and credit.

If a business cannot resolve a consumer’s complaint, we can step in to settle the dispute. We are independent and impartial. When we decide a complaint we look carefully at both sides of the story and weigh up all the facts.

If we decide a business has treated a consumer fairly, we will explain why. But if we decide the business has acted wrongly – and the consumer has lost out – we can order matters to be put right.

We are constantly looking for ways to improve the way we resolve cases, and we aim for the highest professional standards.

We believe it is essential to learn lessons from dissatisfaction and disputes. So we have an important role in sharing the insights that can be gained from the complaints we see. This gives consumers greater confidence in financial services and helps businesses prevent future problems by learning from situations where things have gone wrong.

The chapters that follow set out:

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

chapter 1: executive summary

In this consultation paper we set out:

- how we are dealing with the current demand on our service – and the operational and financial implications for the current year (2012/2013);
- our plans for the future as we look ahead to 2013/2014;
- the expected demands on our service in 2013/2014; *and*
- the operational and financial implications for 2013/2014.

The Financial Ombudsman Service carries out a statutory role and provides a public service. But it is a private company limited by guarantee – and funded by the financial services industry. This means we have a range of different stakeholders who all have a valid interest in how we carry out our work. We are committed to running our organisation efficiently to provide value for money – and to offer value more generally by helping underpin confidence in financial services.

We are a demand-led service, and we are required to deal with all of the cases that are referred to us. So our financial plans involve managing uncertainty about the numbers and types of cases we will receive – and the extent to which the parties will cooperate with us in resolving them.

2012/2013 has proved to be a challenging year. Demand for our services has been very different from the level we (and industry stakeholders) had forecast for the year. We have had to build our capacity to deal with the increasing volumes of complaints about mis-sold payment protection insurance (PPI), and this has led to substantial additional costs. This means that we expect to end the year with a financial deficit.

Chapter 2 of this paper gives an overview of the current financial year. The range and complexity of the products involved in the complaints we have seen has continued to broaden. And the relevant proportions of complaints about those products are increasingly volatile. Chapter 2 also describes how PPI complaints continue to dominate our workload, and describes the operational and financial impact of what has been happening.

Chapter 3 explains how we have been implementing our plans during 2012/2013. These plans focus on helping us provide a trusted, fair and high-quality service, open to everyone and committed to the professional development of our staff. This has involved enhancing our knowledge management systems and building our capability to share our insight and information with our stakeholders.

Chapter 4 sets out the levels of demand we expect to be dealing with in the next financial year (2013/2014). It includes the numbers of enquiries and new cases that we expect to receive, and the types of financial products that are likely to be involved.

Chapter 4 also explains the challenges of our PPI caseload, which now accounts for almost two thirds of our total workload. Future PPI case volumes – and the responses of financial businesses and consumers to these disputes – are very difficult to predict. What is clear, however, is that we will need to increase our PPI case-handling capacity

further so that we can deal effectively with the unprecedented volumes of cases that continue to be referred to us.

Chapter 5 gives more detail about our financial plans for 2013/2014. We said last year that because of inflationary and other pressures, we would not be able to keep the standard case fee – and the total underlying levy – at the same level for a fifth consecutive year. Chapter 5 explains why we now need to increase the standard case fee and the amount of the levy.

In chapter 5 we also set out our thinking behind the new “group-account” arrangement for the four largest banking groups. The new arrangement would mean that we could avoid any increase in our reserves. We propose to introduce the group-account fee at the same time as we introduce our proposed increase in the number of “free” cases for each business from 3 to 25.

We would like to hear your views on:

- our plans for developing our service (as set out in chapter 3) – and what you think our priorities should be in the year ahead.
- the volumes of new cases you expect to be referred to us – and whether the assumptions we have made for volumes of new cases are reasonable.
- the volumes of complaints about PPI sales that you believe we will receive, and whether our plans for dealing with these cases seem realistic.
- our plans to increase the levy and the standard case fee; to retain the supplementary PPI case fee; to increase the number of “free” cases to 25; and to introduce a group-account fee.

Your views, thoughts and comments on this paper will help us to finalise the budget we put to the Financial Services Authority (FSA) for its approval in March 2013.

Please send responses to us by Monday 18 February 2013. Our contact details are on page 3.

chapter 2: overview of 2012/2013 so far

In this chapter:

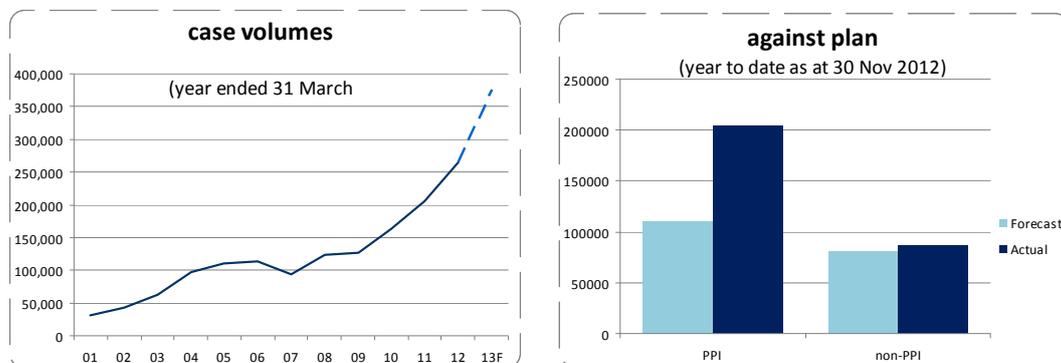
- we look at how we are dealing with the current demands on our service – and the operational and financial implications nine months into the current financial year (2012/2013); *and*
- we outline the trends we have seen so far this year – and how we expect those trends to develop in 2013/2014.

overall case volumes so far in 2012/2013

We are a demand-led service. So we have to base our plans on a forecast of the volumes of complaints we are likely to receive. We consult our stakeholders each year on whether our assumptions seem reasonable.

Our workload has grown significantly over the past decade, from 25,000 new cases in our first year to more than 260,000 new cases in 2011/2012 (shown in *Annex A*).

Our 2012/2013 budget was based on a central assumption that we would receive 120,000 new cases *other than* PPI, and 165,000 new PPI cases. However, by the end of November 2012 we had received 54% more cases than we had forecast for the financial year. Most, but not all, of this increase was in PPI.



non-PPI cases

When we consulted on our plans for 2012/2013, we proposed working on the assumption that the number of new *non*-PPI cases we would receive in the year was likely to rise by about 5% compared with the previous year – to around 120,000 cases *plus or minus* 15%.

Most people who responded to our consultation thought that these were reasonable assumptions. Based on current trends, we expect to receive around 125,000 new *non*-PPI cases by the end of the year – 4% more than our central assumption, but within our *plus or minus* planning tolerance.

This increase has been spread across most, but not all, product areas. As we expected, we have seen a significant increase in banking and credit complaints compared with 2011/2012. But we have also seen a higher number of cases involving insurance and investment than we had forecast.

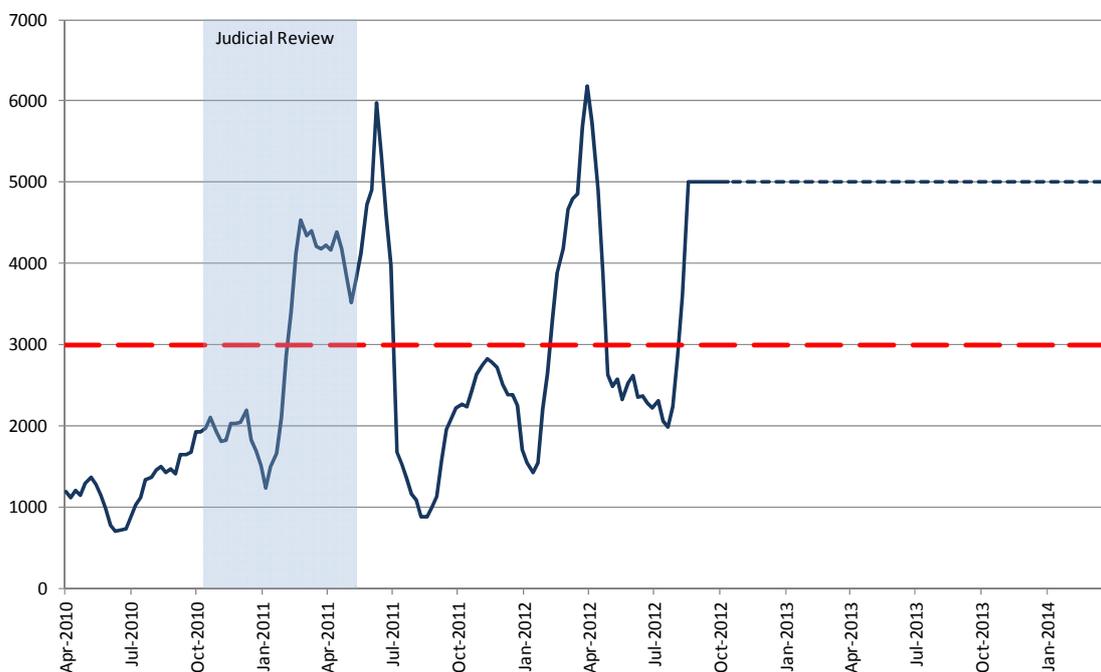
No significant new trends have emerged during the year. However, we have seen a number of cases associated with areas of large-scale consumer and/or regulatory concern – for example, mobile phone insurance, card protection insurance, interest-only mortgages and packaged bank accounts. Nor does the abolition of the so-called “two-stage process” under the FSA’s complaints-handling rules appear to have had an adverse impact on volumes, as some industry bodies had feared. In fact, several businesses have reported an improvement in the way consumers respond under the new “single-stage process”.

Instead, much of the increase in complaint volumes appears to be caused by continued challenging economic conditions – meaning that cases are being harder-fought both by consumers and businesses. We believe this explains the sustained but gradual long-term increase in our *non*-PPI caseload.

PPI cases

The situation in relation to PPI is different – and very challenging.

PPI cases received per week



When we consulted in January 2012 on our plans for 2012/2013, we assumed that we would receive around 165,000 new PPI cases. The majority of those who responded to our consultation thought that our assumptions were reasonable. Many people highlighted the role of claims-management companies in the increasing volumes. A few financial businesses, however, thought that at least *some* of the increase might be offset by better complaints-handling by businesses.

In the event, the number of PPI cases we have received has dramatically exceeded our assumptions. Consumers are currently referring more than 5,000 new PPI cases to us each week, and we expect to have received around 250,000 new cases by the end of the current financial year (2012/2013) – against a planning assumption of 165,000 cases.

Although we recognised that PP volumes would be unpredictable, on the basis of those assumptions we set out to substantially increase our capacity to handle PPI cases. We have added around 1,000 staff during the year to help deal with increased volumes.

But even though we have increased our capacity, the dramatic increase in PPI cases has had a significant impact on our ability to maintain the level of service we want to offer. Many of the additional staff we have recruited to settle PPI cases have had to focus initially on processing the higher volumes of new cases coming in – rather than on assessing the merits of existing cases. This means that many consumers and businesses are having to wait much longer before we can assess their case. And given the continued high volume of cases being referred to us, this challenge seems likely to remain with us for some time – indeed, probably for several years.

trends in product type

During the year, the types of issues and financial products involved in the cases we have seen (which we call the “case mix”) have continued to change – and in many cases have become more complex. So while the overall case volumes are within the “*plus or minus 15%*” budget assumptions that we set, there have been significant movements *within* the different categories of complaint. This has added to our operational challenge.

complaints involving banking and credit

Apart from PPI, complaints involving banking and credit (including mortgages) continue to make up our largest area of work. We have seen a 15% increase in the number of these cases compared with 2011/2012. And based on current trends, we expect to receive around 77,100 new cases relating to banking and credit by the end of 2012/2013.

We have seen a significant increase in the number of cases where consumers have been experiencing financial pressure – and have sought additional help and flexibility from their lender, particularly in relation to mortgages. But with lenders focused on reducing their overall costs, we have found it increasingly difficult to find common ground to settle these cases informally. If this situation continues, we are likely to find these types of cases increasingly complex and time consuming to resolve.

We are also seeing more cases about various types of short-term credit – and particularly about “payday loans”. In these cases the consumer often complains that their loan was unaffordable and that the lender should never have given it to them in the first place – or that the lender has acted unfairly in the way it has tried to recover the money. We have also seen more cases involving “packaged” current accounts, where the complaint is often about the suitability of the insurance products offered within the package.

complaints involving insurance

After a significant increase last year in our insurance caseload, we had hoped to see fewer complaints this year. Disappointingly, the number of complaints has increased again – so far by around 12%.

Based on current trends, this means we expect to receive around 29,500 new insurance cases by the end of the year (other than complaints about PPI).

Complaints about the way that major motor-insurers handle claims still make up the largest part of our insurance caseload. We have continued to see tension between consumers' expectations and insurers' attempts to minimise their costs – with an increasing proportion of cases being harder fought by both sides. This has made cases harder to resolve, with many disputes being escalated to the final stage of our complaints process – a final decision by an ombudsman.

We have also seen an increase in the number of complaints about card protection insurance.

complaints involving investments

The number of cases relating to investments – including pensions and mortgage endowments – has increased by 31% compared with 2011/2012. By the end of the year we expect we will have received around 18,400 new cases, against a planning assumption of 14,100.

Continued market volatility has contributed to this increase. Falls in the value of some investments has prompting some consumers to complain that what they bought did not match the description they were given. These cases tend to be complex – and can take more time to assess and resolve than more straightforward cases.

We have also seen an increase of more than a third in the number of complaints about mortgage endowment policies – after numbers had been falling for several years. These cases largely involved consumers concerned about the shortfall that is typically seen in these policies when they mature.

resolving cases in 2012/2013

One of our priorities is to reduce the length of time it takes to resolve cases for consumers and businesses. In our *corporate plan and budget* for 2012/2013 we explained the challenges that we were facing in resolving cases as quickly as we would want. These challenges included:

- changes in the types of cases referred to us
- a decline in straightforward cases that we can resolve promptly (for example, cases involving credit card charges)
- a corresponding rise in the number of more complex cases *and*
- more cases being harder fought by hard-pressed consumers and businesses.

During the year we have recruited a significant number of case-handling staff in response to the rising volume of new cases – in line with our agreed plan and budget. However, the employment market for complaints specialists has become very active over the last year – with financial institutions themselves recruiting significant numbers to deal with their complaints they have received. Because of that, we have seen higher than average levels of staff turnover. This has meant that many of our most experienced people have spent more of their time training and mentoring new staff than actually resolving cases themselves.

In the face of these challenges we have not seen the significant improvement in timeliness that we had wanted. But we are still determined to reduce waiting times wherever we can – and this commitment still forms a major part of our operational focus.

| our timeliness <i>(excluding PPI cases)</i> | resolved within 3 months | resolved within 6 months | resolved within 12 months |
|---|-----------------------------|-----------------------------|------------------------------|
| 2011/2012 | 38% | 72% | 86% |
| so far in 2012/2013 | 38% | 71% | 88% |

However, the unprecedented volumes of PPI complaints mean that, realistically, PPI cases will take significantly longer to settle than disputes in other areas. We have been very open about this with consumers and businesses – to explain the scale of the challenge and to help manage expectations.

our financial performance in 2012/2013

The costs of rapidly expanding our operation to deal with the rising volumes of PPI cases mean that we are likely to end the financial year with a deficit. However, we have mitigated some of the financial uncertainty caused by PPI volatility by introducing a supplementary case fee for new PPI cases.

The supplementary case fee for PPI disputes has ensured a more efficient cash-flow – and has made it easier for us to finance the large-scale recruitment of the additional case handlers we need to deal with the influx of PPI cases. However, because businesses pay the supplementary case fee when a case is *first* referred to us – rather than when we *resolve* a case – the supplementary case fee has technical implications for the way our income is accounted for. Accounting standards require that £38.7 million is now classed as “deferred income” for the following financial year – when many of those new PPI complaints will be resolved. This has contributed to the level of the deficit.

As part of our commitment to cutting cost wherever possible, we have continued to scrutinise our day-to-day running costs. This year, we secured favourable terms for the additional office space we needed to accommodate our new case handlers. And we were pleased with the outcome of the efficiency review that the National Audit Office (NAO) carried out for us. The review noted that since the ombudsman service was set up, our costs have grown more slowly than our caseload. We are taking forward various recommendations suggested by the NAO as part of its review (which we published in full on our website).

our people

Our main job – making decisions on individual disputes – is an “intellectual” one. This means that our people are by far our most important resource. We rely on their skills, expertise, intellect and professionalism to determine the outcome of cases in ways that are, and are seen to be, fair and reasonable in the unique circumstances of each case.

Our ombudsmen are our professional leaders. They set the tone for the work we do and they determine our approach to the different types of disputes we see.

This year, we have invested heavily in the development of our ombudsmen to enhance their role as the professional leaders of our organisation.

We have recruited more ombudsmen both from within the organisation and from outside it. This has helped us resolve more quickly than otherwise the increasing number of disputes that are escalated to the final stage in our process, as well as enhancing the ombudsmen's professional leadership role.

At the beginning of the year we faced the challenge of recruiting and retaining the significant numbers of case handlers we needed to help deal with rapidly rising number of complaints. At the same time, some of the larger financial institutions were themselves recruiting heavily to deal with their own PPI complaints – and we found it hard to compete with the remuneration packages they were offering. This had a knock-on effect on our productivity and costs. However, now that we have been able to recruit and train 1000 people, we will be able to make significant progress dealing with the PPI challenge.

other work we have done in 2012/2013

We have five priorities for developing our service. These are described in detail in the next chapter. We are implementing a programme of improvement activities to meet these priorities.

This includes:

- stronger professional leadership
- further “e-enablement” of our work
- “lean” process improvements to our case-handling systems
- better procurement processes
- stronger professional development of our people *and*
- more extensive feedback to stakeholders on the lessons learned from our work.

We have worked hard to engage with all our stakeholders. We have continued to work with the government and with Parliament on proposals to reform the system of financial regulation – which include an enhanced role for the ombudsman service. As new issues have emerged, we have liaised closely with the regulators – in particular the FSA and the Office of Fair Trading (OFT) – as well as with industry and consumer bodies.

We continue to engage at an international level too – particularly with the institutions of the European Union. This is particularly important given the plans currently being developed in Europe for comprehensive “alternative” dispute-resolution arrangements across the single market.

chapter 3: our plans for the next financial year (2013/2014)

In this chapter:

- we set out how our plans for developing our service are progressing; *and*
- we set out the initiatives we will be taking forward in 2013/2014 to develop the service further.

We have five main priorities for developing our service. We outline below the progress we have made over the past year against each of these priorities. We will continue to focus on these five priorities in 2013/2014. We believe that the programmes in place to do this are already making a positive difference – and that continued focus on the delivery of this work is the right approach.

Our main challenge in 2013/2014 will be to deal with the issues arising from our unprecedented PPI caseload – at the same time as continuing to improve our service in all other areas. We outline these challenges in more detail in chapters 4 and 5

to deliver a trusted, fair and easy to use service – for everyone

We want to make ourselves as accessible as possible – to all types of business and to every consumer. To help achieve this, we are working on closer technical integration both with businesses and consumer organisations. This includes helping businesses to share case information with us more quickly. We are also enabling front-line consumer agencies to have three-way phone-ins involving their consumer advisers, the consumer and our own case handlers.

We are working on a major “e-enablement” programme – creating or enhancing online and electronic channels for communicating with our users. Our priority is to reduce our reliance on paper files – particularly in areas like PPI, where our new “end-to-end” process is largely paper-free. The successful implementation of this work is vital to developing the efficiency and quality of our service – and to meeting the challenges of PPI complaints.

We are committed to achieving high standards in everything we do. We measure quality standards across all aspects of our work. This involves systematic checking of cases by our quality team and by our expert ombudsmen – as well as audits of randomly selected cases carried out by our senior management team. It also includes ensuring that feedback from consumers and businesses is passed directly to the individual case handler involved.

to share our experience and insight – helping to prevent future problems

Our work in resolving disputes has significantly more impact if the lessons learned are fed back to the financial services industry to help prevent future problems. We will continue to publish information about our approach to settling disputes in our regular newsletter, *ombudsman news*, and in the technical resource on our website. We have been covered by the Freedom of Information Act since November 2011. We have found that most of the information we have been asked for formally under the Act is already

available to the public on our website. However, if we are asked for information that is *not* in the public domain, we consider whether we can publish that information proactively.

In addition, following public consultation in the autumn of 2011, we are now finalising plans to publish the decisions made by our ombudsmen. This will happen once the relevant sections of the Financial Services Act 2012 come into force.

We have worked with financial businesses to help direct feedback to where it will have the most impact. This involves working with front line complaints-handling teams in financial businesses, or engaging strategically with their senior management. We have also continued to develop our partnerships with front line consumer advice agencies to build effective relationships with a wider and deeper range of community organisations.

We work closely with other statutory bodies where our work overlaps. We work closely with the FSA and the OFT through the FSA's formal Co-ordination Committee – which helps all three bodies to identify emerging conduct risk issues and work together to resolve them quickly. We are also working with the FSA to establish a similarly effective working relationship with the Financial Conduct Authority (FCA) when it starts work in 2013.

to put knowledge and expertise at the heart of everything we do

Because our main job is an “intellectual” one – making decisions on disputes – professionalism has to be at the heart of everything we do. This means that our people need to have the right knowledge and expertise to do their work to the highest standards. And they need to do this while “living” the values that are core to the ombudsman service.

We have therefore put our values at the heart of our new professional career-structure – strengthening our arrangements for “continuous professional development” and launching our training programme, accredited by Queen Margaret University, to support the professional skills of our people.

During the year we have developed our ombudsman resource significantly. Our ombudsmen are the positive role models for all our case-handling staff. They help us ensure quality and consistency as we face the challenges of a workload that continues to grow and change significantly.

We have continued to develop our “knowledge infrastructure” – with new tools for ensuring that our people have the knowledge and information they need, when they need it.

to be flexible, reliable and effective

The volatility of our caseload – and the increasing complexity and mix of the cases referred to us – has made it increasingly challenging to deliver the standards we would want to.

We are committed to reducing the time it takes to resolve cases. This has included running a successful project with two financial businesses to test out new ways of resolving lower value disputes. We described this casework experiment in more detail in issue 104 of our newsletter, *ombudsman news*.

Our recruitment of additional ombudsmen is also helping us to reduce waiting times at the final decision stage of our process. We will be recruiting more ombudsmen throughout 2013/2014. The details of all our ombudsmen – and the date of their appointment – is on our website.

To help us to manage the volatilities in our caseload, we will continue to keep under review the balance between our permanent adjudicators and those we recruit on a contractor basis. We have also reviewed and changed the way we recruit contractors, to reduce costs and to maintain quality.

We continue to strengthen our operational planning capabilities – and have taken into account several technical recommendations suggested in the efficiency review we commissioned from the National Audit Office. The review is available in full on our website. In response to the report's recommendations we are looking closely at the underlying costs of handling different types of cases in varying circumstances, to better understand the costs and efficiencies involved. The drivers of those costs are complex and varied – and include, in particular, the conduct of the two sides in each dispute.

to operate a “lean” and efficient infrastructure

We are committed to providing an excellent service and delivering value for money – in terms of both reducing our own costs and those faced by customers when they deal with us. This was why we asked the National Audit Office to carry out an efficiency review for us. The outcome of the review was positive – and we are acting on all the improvements the report suggested.

We have continued to scrutinise our day-to-day running costs as part of our cost-cutting programme. In addition to the savings we have made during the year in our use of office space, we have made good progress on a number of programmes to improve our operational effectiveness.

In particular, improving our IT infrastructure will deliver significant unit-cost benefits as well as helping to improve customer service levels. We also recognise the potential of technology to help reduce the administrative costs incurred by businesses in handling complaints. We are working with the largest businesses on exchanging data online so that we can significantly reduce paper volumes and improve speed and efficiency.

chapter 4: forecast volumes and product mix for 2013/2014

In this chapter:

- we set out the levels of demand we expect to deal with in the next financial year (2013/2014) – in terms of the numbers of enquiries and new cases, and the mix of product types involved; *and*
- we set out separately the number of PPI cases we expect to deal with – by far the biggest challenge currently facing us.

Forecasting our caseload is always difficult. Many factors can influence the number and mix of cases that consumers refer to us. Some factors are short term. Others involve slower, gradual changes to the way businesses and consumers respond to an increasingly uncertain economic environment. The impact of regulatory action can also play a part.

PPI case volumes in 2013/2014

The volume of PPI cases referred to us will depend on the number of complaints that financial businesses themselves receive – and on how many of those complaints the businesses reject. The number of disputes referred to us has increased substantially during 2012/2013, and we are now receiving more than 5,000 cases a week.

The potential scale of PPI complaints is unprecedented. According to FSA data, more than 3 million consumers have complained to financial businesses this year about PPI mis-selling. But these complaints are likely to account for only one in ten of the PPI sales that took place. Larger businesses are currently reporting sustained high volumes of complaints. Our initial discussions with businesses suggest that it would be unwise to plan for any reduction in the volume of PPI cases over the next year or so.

However, the way businesses – and claims-management companies – handle complaints will continue to have a significant impact on how many disputes are subsequently referred to us. It is disappointing that we are still seeing large numbers of cases that should have been resolved by businesses at earlier stages. We are working with businesses – and consumer groups – to solve various common issues, such as disputed redress calculations, delayed redress payments and disputes over whether a consumer ever had a PPI policy.

In some cases, the poor complaints handling we see indicates more systemic problems within a business. Where financial businesses are failing to take account of FSA guidance (and of our general approach to cases), we report this to the FSA. Similarly, where we see behaviour by claims-management companies that does not seem to be in line with the conduct rules for that sector, we report the matter to the Ministry of Justice's claims management regulator.

Taking all these factors into account, we propose to assume for planning purposes that we will continue to receive around 5,000 new PPI cases each week for the rest of this year and throughout 2013/2014 – and that we should scale-up our resources to ensure we can handle this volume of cases.

This suggests that we would receive around 250,000 PPI cases in total in 2013/2014. However, what we actually receive will clearly depend on the actions of financial businesses – so we particularly welcome the views of those with front-line complaints experience across the financial services sector.

non-PPI case volumes in 2013/14

Across all *other* areas of casework we are assuming a broadly stable position. However, there is likely to be a small increase in the total number of *non-PPI* cases – and some important shifts in the make-up of our work.

Some businesses have told us that our *non-PPI* caseload might be reduced because of their focus on improved complaints handling. We hope this will also lead to fewer cases referred to us where the business has not issued its final decision to the consumer within the eight weeks allowed under FSA’s complaints-handling rules.

On the other hand, the continuing economic uncertainty could lead to more complaints. When finances are tight, businesses and consumers alike come under more pressure – and disputes tend to become more entrenched and harder fought. It is also likely to lead to more debt-related cases, involving sensitive situations and people experiencing financial hardship.

So we will assume that in 2013/2014 we are likely to see a small increase in *non-PPI* cases – from our forecast of 125,000 for the current year to 135,000 in 2013/2014 *plus or minus* 15%. We welcome your views on these figures – as well as on the likelihood of any new issues of “mass detriment” that may emerge in 2013/2014 that could have an impact on our work.

expected number of new cases in 2013/2014

The table below summarises the number of new cases that we are assuming will be referred to us in 2013/2014. A more detailed breakdown is at *Annex B*.

| new cases | 2011/12 <i>actual</i> | 2012/13 <i>forecast</i> | 2013/14 <i>budget</i> |
|------------------------------------|--------------------------|----------------------------|--------------------------|
| banking | 56,803 | 68,400 | 76,000 |
| consumer credit | 7,416 | 8,700 | 9,500 |
| insurance (not including PPI) | 27,554 | 29,500 | 31,000 |
| investments and pensions | 14,886 | 18,400 | 18,500 |
| PPI (payment protection insurance) | 157,716 | 250,000 | 250,000 |
| total | 264,375 | 375,000 | 385,000 |

We will keep these assumptions under close review. If numbers turn out to be significantly higher than these assumptions, our operational response would be likely to lead to substantially higher costs in 2013/2014 and beyond.

expected volume of enquiries in 2013/2014

Every case we investigate comes through our front line consumer helpline. This is the first point of contact for customers with problems and complaints. We usually sort out around 80% of these enquiries *without* needing to take on the matter as a formal case.

We do this by explaining to consumers the formal procedures that financial businesses have to follow. We give consumers the information they need to resolve matters themselves at the earliest stage possible. And if a consumer has not already complained to a business, we can explain how they can go about it.

We have received unprecedented surges of phone calls and enquiries in recent months. Our consumer helpline will have handled a record number of calls this year – a four-fold increase on the number we received just five years ago. Because of this upward trend, we expect the volume of front-line enquiries we will receive next year to continue to rise.

The volume of calls we receive at the front-line is particularly sensitive to the impact of internet campaigns, media coverage and promotional activity by claims-management companies. In PPI this has often led to our case-handling staff having to be diverted from settling cases to work on the front-line, dealing with sudden influxes of calls from consumers.

| front-line consumer enquiries | 2011/2012 <i>actual</i> | 2012/2013 <i>forecast</i> | 2013/2014 <i>budget</i> |
|--------------------------------------|----------------------------|------------------------------|----------------------------|
| phone calls | 673,999 | 1,000,000 | 1,100,000 |
| written enquiries | 594,799 | 1,000,000 | 1,100,000 |
| total | 1,268,798 | 2,000,000 | 2,200,000 |

expected number of resolved cases in 2013/2014

The outlook for resolving PPI cases in 2013/2014 is very different from that for all other cases.

Even after recruiting substantial numbers of PPI case handlers, the volume of new PPI cases referred to us so far this year has already exceeded the additional capacity we agreed following last year's consultation with industry stakeholders. This new, higher, capacity – built up in accordance with the plan and budget agreed last year – was based on resolving around 3,500 PPI cases a week. However, we are now receiving more than 5,000 cases each week.

This means we will have to carry a significant stock of unresolved cases into 2013/2014 – probably more than 250,000. That is why we believe we have to significantly expand our PPI capacity again – with the aim of doubling it by the end of the 2013/14 financial year. We believe this will be necessary both to deal with the continuing higher volumes of new PPI cases and to make good progress in working through our stock of existing cases.

This would involve recruiting around 1,000 additional people to help handle the continuing influx of PPI cases. Businesses we have spoken to have suggested that consumers will continue to bring large numbers of PPI complaints for the next few years – which would mean that PPI is also likely to remain a significant part of our caseload for the immediately foreseeable future.

That is why we propose to recruit new staff predominantly on three-year fixed-term contracts. We believe this arrangement would be sufficiently attractive to recruit the people we need in a competitive job market – while flexible enough to allow us to scale down as efficiently and cost-effectively as possible when the PPI workload declines.

Given the volume of complaints that we are expecting consumers to refer to us, we have considered whether it would be prudent to recruit *more* than 1,000 people. But in view of the additional costs and the many challenges involved in building capacity quickly, we have decided that the thousand or so new staff we are proposing to recruit strikes the right balance.

In areas of casework where complaints have *not* risen significantly, we have been able to resolve cases more quickly – with over 70% of cases settled within six months. Our experimental casework projects have also helped us to identify new ways of working that could further reduce the time it takes to resolve many cases.

| cases resolved | 2011/2012 <i>actual</i> | f2012/2013 <i>forecast</i> | 2013/2014 <i>budget</i> |
|------------------------------------|----------------------------|-------------------------------|----------------------------|
| banking and credit | 63,459 | 73,000 | 85,000 |
| insurance (not including PPI) | 26,132 | 30,200 | 34,200 |
| investments and pensions | 14,936 | 17,800 | 20,800 |
| PPI (payment protection insurance) | 117,806 | 90,000 | 245,000 |
| total | 222,333 | 211,000 | 385,000 |

chapter 5: our proposed budget for 2013/2014

In this chapter:

- we set out our financial plans for 2013/2014; *and*
- we explain how these plans will help us to deal with the challenge of our 2013/2014 caseload, especially PPI.

As the previous chapters have explained, our financial plans for 2013/2014 focus primarily on dealing with the exceptional – and unprecedented – workload of PPI cases. With this in mind, we believe we need to set an income budget of around £280.1m for 2013/2014.

As well as proposing an income budget, we also need to consider how we obtain that income from the financial businesses we cover. In our *plan and budget* for last year, we said that we would be unlikely to be able to freeze – for the fifth consecutive year – the standard case fee and levy (for the “compulsory jurisdiction”). At the same time we consulted on changes to our case fee arrangements.

Having taken into account the comments and feedback on those proposals, this chapter sets out how we now propose to structure the new case fee arrangements to come into effect from April 2013. This chapter also sets out how we propose to fund our plan and budget under these new arrangements.

review of the case fee arrangements

We consulted last year on proposals for new case fee arrangements – to ensure that they continued to work well both for our service and for the diversity of businesses that fund our work. We proposed new case fee arrangements that would result in:

- most smaller businesses no longer paying any case fees at all – by raising the number of free cases for each business from 3 to 25 (in line with the PPI supplementary case fee) *and*
- a new group-account fee for our largest users to reflect their contribution to our overall costs.

In July 2012 we published a feedback statement that took into account the responses we had received to our consultation on these proposals. Since then we have been in discussion with those businesses that would be affected the most on how these new fee arrangements might work.

We have always favoured a funding structure that avoids the administration costs – paid for ultimately by businesses – that would arise if we had to charge *different* fees for *different* cases. And we do not believe it would be tenable to charge consumer representatives fees or “deposits” when they refer complaints to us on behalf of consumers.

Taking into account the feedback we received on our proposals, we have concluded that we should proceed with a group-account fee – but that it should, at least initially,

be limited to our very largest users. This means that it would apply to the four major banking groups that together account for around 60% of our caseload.

The group-account fee would be calculated using the same principles that apply to other case fee payers. But rather than pay in relation to *individual* cases, group-account fees would be determined in advance – and a quarterly fee set on the basis of an overall proportion of expected work from each group. There would be some adjustment at the end of the year if out-turn figures were markedly different. Annex D shows a draft rules instrument that would amend the case fee rules in the *FEES 5* chapter of the FSA Handbook to introduce the group-account fee.

In future years the group-account fee could be developed to take account of a wider variety of factors that may drive significant costs across our service – for example, cases where the business has not issued a final response letter, or where a referral to an ombudsman for a final decision is required. But, initially at least, we think it makes sense to start with a relatively simple model that can be shown to allocate charges fairly across all users.

This new arrangement would ensure that the banking groups that account for around 60% of our costs contribute a similar proportion of our income. The arrangement would also help ensure that we received our income in a more timely and stable way – so that we could adjust our resources to respond to volatility in demand.

PPI challenge – and dealing with financial uncertainty

As we explained in chapter 4, to make real headway in tackling the unprecedented PPI challenge we believe we need to double our PPI case-handling capacity in 2013/2014. This would involve recruiting around 1,000 additional PPI case handlers. How we should fund this increase presents us with some difficult decisions.

We expect to end the current financial year with a significant deficit, reflecting both the costs we have incurred in building up our current PPI capacity and the mounting cost pressures in other areas of casework. This will leave us with reserves of around £25m. But with the increases we are proposing in the case fee and the “compulsory jurisdiction levy” (see below), we believe we should be able to break even financially in 2013/2014.

There are, however, significant financial risks attached to our PPI work. We have no choice about *when* we need the funding for our PPI work. We need the money in 2013/2014 to be able to recruit additional case handlers, as well as to meet the PPI-related costs we already incur. However, under our existing funding arrangements, there is no certainty over when we will actually receive the bulk of our income. This is because most of our income comes from standard case fees, which are paid only once a case is finally settled.

Under our reserves policy, we need to maintain financial reserves equivalent to three months’ operating costs. This ensures that the service can remain a going concern. As our proposed budget assumes monthly operating costs of around £25m by the end of 2013/2014, this means that we would need to increase our reserves to £75m. In turn, this would mean having to acquire an additional £50m through the “compulsory jurisdiction” levy to fund that increased level of reserves.

This levy is paid by *all* businesses regulated by the FSA – and so the burden of increasing our reserves through the levy would potentially fall on many businesses that have not contributed to the PPI challenge.

However, we believe that the introduction of the group-account fee would allow us to limit our reserves because of the more stable income it would provide. The group-account fee would introduce smoother income flows throughout the year, in line with our expected costs. And the arrangements would be focused on those businesses whose cases contribute most to our financial risks.

We therefore propose to introduce the group-account fee arrangements from April 2013. By doing this, we would avoid a significant addition to the levy – which would otherwise be needed to fund the necessary increase in our reserves.

funding our service in 2013/2014

Our detailed proposals for funding the service in 2013/2014 are described below.

case fees

For all three of our jurisdictions (compulsory, consumer credit and voluntary), the amount of the case fee is set by us, and approved by the FSA. Currently each business has three free cases a year (although the PPI supplementary case fee – see below – applies only after the 25th case each year). For the fourth case, and any subsequent case, we charge a standard case fee – currently £500 – once the case is resolved.

In last year's *corporate plan and budget*, we said that – after freezing the standard case fee at £500 for four years – we would be unlikely to be able to keep it at that level indefinitely. This was because of general inflationary pressures and a rising cost base – as well as significant changes to the product mix of our caseload and the increasing complexity of the cases we receive.

We propose to increase the standard case fee from £500 to £550 from April 2013.

Last year we also consulted on a proposal to increase the number of free cases for each business from 3 to 25 – for *all* cases, not just complaints relating to mis-sold PPI. This was intended to ensure that our funding requirements had a fair and proportionate impact of on all types of business. This would reduce the number of businesses paying case fees, so that only around 1% of all of the businesses who come under the ombudsman would pay. A large majority of stakeholders supported this proposal.

In light of the responses to our recent consultation, we will increase the number of free cases from 3 to 25 from April 2013 – for PPI complaints and all other cases.

PPI supplementary case fee

Last year we introduced a supplementary case fee of £350 for complaints about mis-sold PPI. The fee is payable when a case is referred to us. We acknowledged that the fee was unwelcome to those businesses who would need to pay it. But it was needed to help us manage the PPI caseload we were dealing with, and in particular the significant up-front costs of recruiting new case handlers, securing office space and developing new operational processes.

When we introduced the fee, we said that we would consider it again when we were considering our funding needs for 2013/2014. It is now clear that our PPI challenge for 2013/2014 is going to be at least as significant as it has been in 2012/2013.

And we will continue to face similar up-front PPI costs as in the previous year, as we set out yet again to double the number of case handlers working on PPI complaints.

On that basis, we propose to retain the PPI supplementary case fee at £350 for at least a further year. We will, however, continue to keep the fee under review .

group-account fee

As we explain above, we propose to introduce a group-account fee arrangement from April 2013 for the four largest banking groups that together account for 60% of our costs. We will set this sum for each group at the start of the year – on the basis that the overall amount that each group pays would be the same as if they paid individual case fees (according to our forecasts).

compulsory jurisdiction levy

The levy payable by FSA-authorized businesses is set and collected by the FSA. The FSA will consult on the total amount of the levy – and on how it should be allocated among industry blocks – as part of its wider consultation on the Financial Services Compensation Scheme, Money Advice Service and FSA levies, which is expected to be published in March 2013.

Broadly speaking, allocating the total levy among regulated businesses involves two stages:

- The total levy is divided among industry blocks (based on activities) according to the number of case-handling staff we expect to need for cases arising from that sector.
- The levy for each industry block is divided among the businesses in that block according to a tariff rate (relevant to that sector) which is intended to reflect the scale of the business's activities.

Like the standard case fee, the overall amount of the compulsory jurisdiction levy has been set at the same level for four years at £17.7m. However, to maintain the balance between the case fee and the levy – and to take account of inflationary and cost pressures – we intend to ask the FSA to raise an overall levy for the compulsory jurisdiction of £23.0m in 2013/2014.

This means that most businesses may pay a slightly higher levy in 2013/2014. However, the amount of any increase will vary for individual businesses – depending on which fee block they are in and the tariff rates the FSA sets for each fee block.

consumer credit jurisdiction levy and case fees

The *total* amount of the levy for the “consumer credit jurisdiction” is set by us and approved by the FSA. The amount paid by *individual* businesses with a consumer credit licence is then set by the OFT – and collected with the licence fee from businesses that take out or renew a standard consumer credit licence during the year. Because those levies are currently collected every five years from licensees – rather than annually – this involves taking a five-year view of the budget for the consumer credit jurisdiction. This means it is likely that licensees paying in different years pay a broadly similar amount.

The initial five-year period finished at the end of the 2011/2012 financial year. Because the number of cases relating to our consumer credit jurisdiction during that period was lower than we had budgeted for, we finished the period with a surplus of £2.5m. And because income in each of our three jurisdictions is ring-fenced for each jurisdiction, we rolled forward that amount into the next five-year period which began in 2012/2013. We also used £0.1m of the surplus in that year to smooth the amount of the levy payments made by licensees.

Of the £2.4m remaining from the surplus, we put £0.75m into a new reserve for the consumer credit jurisdiction – in line with our reserves policy in the compulsory and voluntary jurisdictions, where we aim to maintain reserves equivalent to three months' worth of expenditure.

Following the government's proposals to transfer consumer credit regulation from the OFT to the FCA during the current five-year period, we have held the remaining £1.65m in a special reserve – to cover the temporary uncertainty around the future funding arrangements. We intend this special reserve to be available to reduce the possible impact of any significant changes to the consumer credit jurisdiction levy that the transfer to the FCA might bring – for example, if the levy were to be collected annually instead of every five years.

Consistent with the five-year view we have taken on our funding needs for the consumer credit jurisdiction – and taking into account the steady long term rise in the number of consumer credit cases referred to us – we estimate that we will need around £2.3m to operate the jurisdiction in 2013/2014.

To cover that expenditure of £2.3m, we have, with the approval of the FSA, determined an amount of £1.5m to be recovered by the OFT from licensees through the consumer credit jurisdiction levy in 2013/2014. That is the same amount as in 2012/2013.

The OFT will set the amount of the levy in due course, although it cannot be guaranteed that the amount levied to individual licensees will be the same as in 2012/2013 – which was £140. This is because the amount of the individual levy depends on the expected number of “licensing events”, which can change significantly from one year to another.

We anticipate that the remainder of the £2.3m will be recovered through case fee receipts of £0.4m and from a further £0.4m to be drawn from the surplus from the previous five-year period. This will leave an ongoing surplus of £1.25m available to be used in subsequent years to offset any uncertainties from the transfer of consumer credit regulation from the OFT to the FCA.

We expect these uncertainties to be particularly acute from April 2014, while the proposed transfer takes place. As a result, there is no guarantee that levies paid then, and subsequently, will be comparable to those paid previously – even if the surplus of £1.25m is used.

In line with the other jurisdictions, we also propose to increase the standard case fee in the consumer credit jurisdiction from £500 to £550, and to raise the number of free cases for each business from 3 to 25 from April 2013.

voluntary jurisdiction levy and case fees

The voluntary jurisdiction levy paid by participating businesses is set by us and approved by the FSA. We collect the levy ourselves. As with the compulsory and

consumer credit jurisdictions, the income we receive for the voluntary jurisdiction is statutorily ring-fenced for that jurisdiction. We therefore try to ensure that the voluntary jurisdiction is self-financing each year. We also operate a reserve in line with our approach in the other jurisdictions – covering three months' worth of expenditure.

The levy rates we propose for 2013/2014 are set out in *Annex C*. These are the same as in 2012/2013. Together with the income we receive from case fees, we believe these rates will be sufficient to fund our work under the voluntary jurisdiction in 2013/2014. As there is no need to boost the voluntary jurisdiction reserve for 2013/2014, we are not seeking to recover any additional amounts to cover this.

In line with the other jurisdictions, we propose to increase the standard case fee in the voluntary jurisdiction from £500 to £550 and to raise the number of free cases for each business from 3 to 25 from April 2013.

what this means for our overall income and expenditure plans – our proposed budget for 2013/2014

With the levels of demand we have forecast for 2013/2014, we expect to be able to set an income budget of around £280.1m. To reflect the caseload we forecast under our three jurisdictions, we expect our total budget expenditure for 2013/2014 to be divided as follows:

- 97.8% would relate to our compulsory jurisdiction (which covers businesses regulated by the FSA);
- 1.5% would relate to our consumer credit jurisdiction (which covers businesses with a standard consumer credit licence issued by the OFT – other than FSA-regulated businesses); *and*
- 0.7% would relate to our voluntary jurisdiction (which covers a small number of financial businesses that have chosen to be covered by the ombudsman service – but would not otherwise come under our other jurisdictions).

unit cost

We calculate the “unit cost” of resolving a complaint by dividing our total running costs (less financing costs and bad debts) by the total number of cases we resolve in a year. Based on this measure, we expect our unit cost to be around £792 for 2012/2013 – but to fall significantly in 2013/2014 to around £690.

These unit costs are higher than in previous years. The higher cost reflects the significant up-front costs of building our capacity to handle the influx of PPI cases in 2012/2013 – and the continued high volume of cases we expect to receive in 2013/2014. It also reflects a number of other factors, including general inflationary and cost pressures, the shift towards harder-fought disputes, and changes in the “product mix” of our caseload.

We expect to see our unit cost fall in 2013/2014 because of economies of scale from our scaled-up PPI operation, as well the long term benefits of our cost reduction and “e-enablement” programmes.

The table below has more detail about our overall income and expenditure plans.

| | 2011/2012 actual | 2012/2013 budget | 2012/2013 forecast | 2013/2014 budget |
|--|---------------------|---------------------|-----------------------|---------------------|
| income (£m) | | | | |
| compulsory jurisdiction levy | 45.2* | 17.7 | 18.4 | 23.0 |
| consumer credit jurisdiction and voluntary jurisdiction | 3.4 | 2.0 | 1.7 | 1.8 |
| group fees | - | - | - | 161.5 |
| case fees | 102.8 | 119.6 | 95.2 | 72.5 |
| supplementary case fees | - | 52.4 | 70.3 | 22.2 |
| other income | 0.5 | 0.2 | 0.3 | 0.1 |
| total operating income | 151.9 | 191.9 | 185.9 | 281.1 |
| deferred income | | | (38.7) | (39.7) |
| deferred income release | | | | 38.7 |
| total | 151.9 | 191.9 | 147.2 | 280.1 |
| expenditure (£m) | | | | |
| staff and staff-related costs | 83.1 | 153.9 | 127.7 | 198.4 |
| professional fees | 3.3 | 6.8 | 8.2 | 14.4 |
| IT costs | 3.7 | 8.4 | 9.1 | 12.8 |
| premises and facilities | 12.9 | 17.4 | 15.7 | 28.4 |
| other costs | 1.1 | 5.6 | 2.5 | 3.9 |
| depreciation | 2.2 | 5.4 | 3.9 | 7.7 |
| bad debt write-off | 0.8 | 0.8 | 1.1 | 1.3 |
| total operating costs | 107.1 | 198.3 | 168.2 | 266.9 |
| surplus/deficit (£m) | 44.8 | (6.4) | (21.0) | 13.2 |
| estimated number of new cases | 264,375 | 285,000 | 375,000 | 385,000 |
| estimated number of resolved cases | 222,333 | 260,000 | 211,000 | 385,000 |
| unit cost (£) | 478 | 760 | 792 | 690 |
| case fee (£) | 500 | 500 | 500 | 550 |
| number of free cases | 3 | 3** | 3** | 25 |
| PPI supplementary case fee (£) | - | 350 | 350 | 350 |

* including £25m in relation to the “reserve levy”

** except for PPI supplementary case fee, where 25 free cases applied

your views

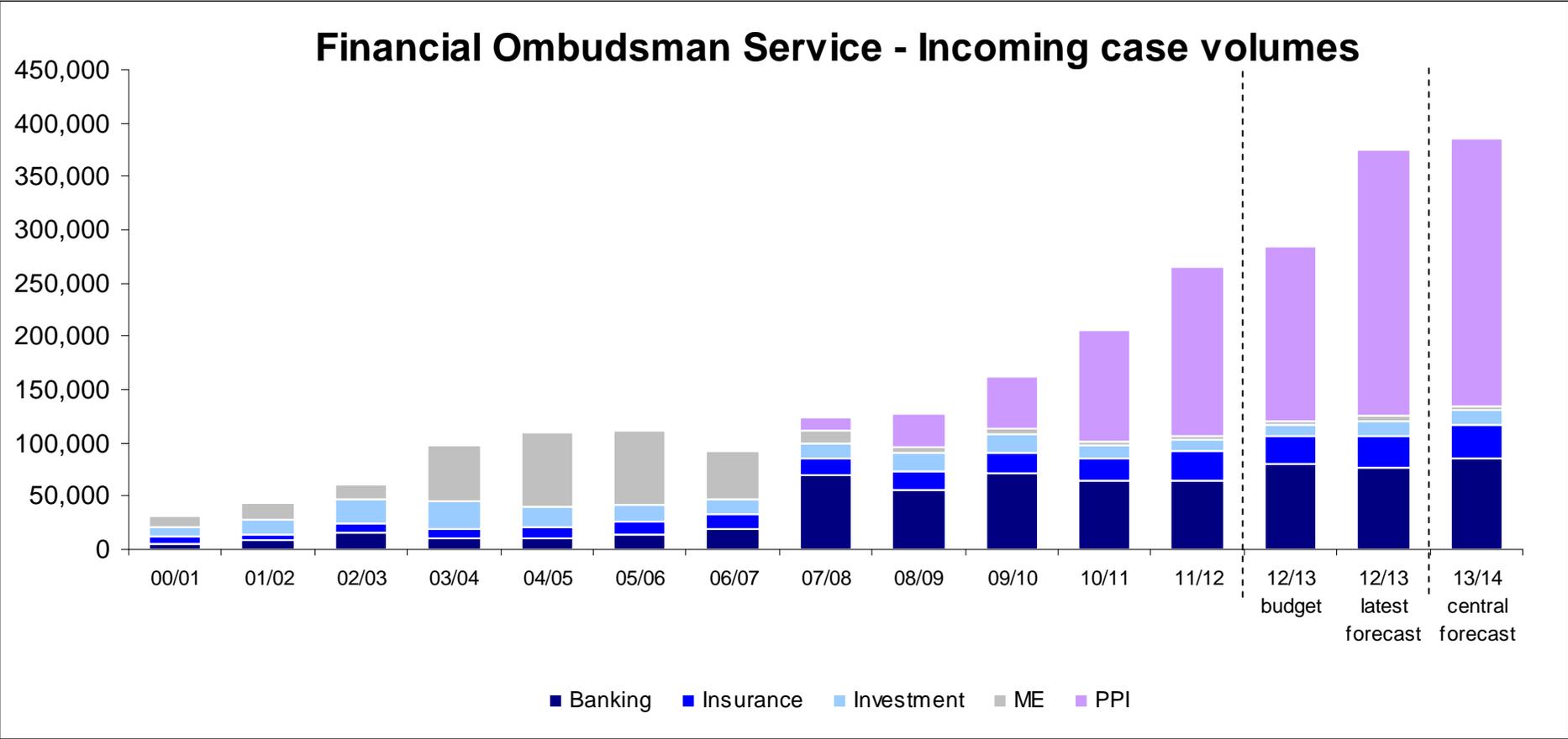
We welcome your views on:

- our overall aims – how we are implementing our plans for developing our service, and where you believe our priorities should be.
- what volumes of new cases you expect us to receive – and whether the assumptions we have made for case volumes seem reasonable.
- what volumes of complaints about mis-sold PPI you believe we will receive, and whether our plans for dealing with these cases are realistic.
- our proposals to increase the levy and standard case fee; to retain the PPI supplementary case fee; to increase the number of “free” cases to 25 for each business; and to introduce a group-account fee.

Please send your views and comments – to reach us by Monday 18 February 2013
– to adrian.dally@financial-ombudsman.org.uk. Or write to:

Adrian Dally
Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR

historic case volumes



our latest projections for volumes of new cases in 2012/2013 and 2013/2014

| | 2011/12 | 2012/13 | | 2013/14 | |
|-------------------------------------|---------------|---------------|---------------|---------------|--|
| | Actual | Plan | Latest view | Central view | |
| Current accounts | 14057 | 22000 | 19400 | 22000 | } Central forecast subject to +/- 15% margin |
| Credit cards | 19183 | 20000 | 19200 | 20500 | |
| Mortgages | 9560 | 13000 | 12500 | 15000 | |
| Other banking | 14003 | 16000 | 17300 | 18500 | |
| Banking | 56803 | 71000 | 68400 | 76000 | |
| Motor insurance | 7264 | 8000 | 7900 | 8500 | |
| Other general insurance | 20290 | 18000 | 21600 | 22500 | |
| Insurance (exc. PPI) | 27554 | 26000 | 29500 | 31000 | |
| Mortgage endowments | 3267 | 2800 | 4500 | 4900 | |
| Pension products | 3447 | 2900 | 4100 | 4000 | |
| Other investment | 8172 | 8400 | 9800 | 9600 | |
| Investment | 14886 | 14100 | 18400 | 18500 | } Central forecast subject to considerable uncertainty |
| Consumer credit | 7416 | 8900 | 8700 | 9500 | |
| Total non-PPI | 106659 | 120000 | 125000 | 135000 | |
| Payment protection insurance | 157716 | 165000 | 250000 | 250000 | |
| Total | 264375 | 285000 | 375000 | 385000 | |

voluntary jurisdiction – proposed levies for 2013/2014

FEES 5 Annex 2R

annual levy payable in relation to the voluntary jurisdiction for 2013/14

| industry block and business activity | | tariff basis | tariff rate | minimum levy |
|--------------------------------------|--|--|-----------------|--------------|
| 1V | deposit acceptors, <i>mortgage lenders</i> and <i>mortgage administrators</i> and debit/credit/charge card issuers and merchant acquirers | number of accounts relevant to the activities in DISP 2.5.1R | 0.0278 | £100 |
| 2V | <i>VJ participants</i> undertaking general insurance activities | per £1,000 of relevant annual gross premium income | 0.103 | £100 |
| 3V | <i>VJ participants</i> undertaking life insurance activities | per £1,000 of relevant adjusted annual gross premium income | 0.025 | £100 |
| 6V | intermediaries | not applicable | n/a | £75 |
| 7V | freight-forwarding companies | not applicable | n/a | £75 |
| 8V | National Savings & Investments | not applicable | n/a | £10,000 |
| 9V | Post Office Limited | not applicable | n/a | £2,000 |
| 10V | persons not covered by 1V to 9V undertaking activities which are: (a) <i>regulated activities</i> or (b) <i>payment services</i> or (c) <i>consumer credit activities</i> ; or would be if they were carried on from an establishment in the <i>United Kingdom</i> | not applicable | n/a | £75 |
| 12V | persons undertaking the activity which is the issuance of electronic money or would be if carried on from an establishment in the <i>United Kingdom</i> | Average outstanding electronic money as described in FEES 4 Annex 11R Part 3 | £0.15 per £1000 | £75 |

draft rules instrument – case fees for 2013/2014 and proposed changes to FEES 5

FEES MANUAL (FINANCIAL OMBUDSMAN SERVICE CASE FEES 2013/14) INSTRUMENT 2013

Powers exercised by the Financial Ombudsman Service

- A. The Financial Ombudsman Service Limited makes this instrument amending:
- (1) the rules and guidance relating to the payment of fees under the Compulsory Jurisdiction;
 - (2) the rules and guidance for licensees relating to the payment of fees under the Consumer Credit Jurisdiction; and
 - (3) the standard terms for VJ participants relating to the payment of fees under the Voluntary Jurisdiction;

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

- (a) paragraph 15 (Fees) of Schedule 17;
 - (b) paragraph 16C (Fees) of Schedule 17; and
 - (c) paragraph 18 (Terms of reference to the scheme) of Schedule 17.
- B. The making of these rules, guidance and standard terms by the Financial Ombudsman Service Limited is subject to the consent and approval of the Financial Services Authority,

Powers exercised by the Financial Conduct Authority

- C. The Financial Services Authority makes this instrument in the exercise of the powers in section 138 (General rule-making power) of the Act.
- D. The rule-making power listed in paragraph C above is specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- F. This instrument comes into force on 1 April 2013.

Amendments to the Handbook

- G. The Glossary of definitions is amended by the Board of the Financial Services Authority in accordance with Annex A to this instrument.
- H. The Fees manual (FEES) is amended by the Board of the Financial Ombudsman Service in accordance with Annex B to this instrument.
- I. The Dispute Resolution: Complaints sourcebook (DISP) is amended by the Board of the Financial Ombudsman Service in accordance with Annex C to this instrument.

Citation

- J. This instrument may be cited as the Fees Manual (Financial Ombudsman Service Case Fees 2013/14) Instrument 2013.

By order of the Board of the Financial Ombudsman Service Limited
March 2013

By order of the Board of the Financial Services Authority
March 2013

Annex A

Amendments to the Glossary of definitions

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

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

| | |
|----------------------------------|--|
| <i>chargeable case (general)</i> | a <i>chargeable case</i> that is not a <i>chargeable case (PPI)</i> . |
| <i>chargeable case (PPI)</i> | a <i>chargeable case</i> that, in the <i>Ombudsman's</i> opinion, falls wholly or partly within the scope of <i>DISP</i> App 3 (Handling Payment Protection Insurance Complaints). |
| <i>charging group</i> | as defined in <i>FEES 5</i> Annex 3R Part 3. |
| <i>group respondents</i> | all <i>respondents</i> identified as part of the relevant <i>charging group</i> as defined in <i>FEES 5</i> Annex 3R Part 3. |

Amend the following as shown.

| | | |
|-----------------------|-----|---|
| <i>financial year</i> | (1) | (in <i>DISP</i> and <i>FEES 5</i>) the 12 months ending with 31 March. |
| <i>respondent</i> | (1) | (in <i>DISP</i> , <i>FEES 5</i> and <i>CREDS 9</i>) a <i>firm</i> (except a <i>UCITS qualifier</i>), <i>payment service provider</i> , <i>electronic money issuer</i> , <i>licensee</i> or <i>VJ participant</i> covered by the <i>Compulsory Jurisdiction</i> , <i>Consumer Credit Jurisdiction</i> or <i>Voluntary Jurisdiction</i> of the <i>Financial Ombudsman Service</i> . |
| | (2) | (in <i>DISP 2</i> and <i>3</i> and <i>FEES 5</i>) includes, as a result of sections 226 and 226A of the <i>Act</i> : |
| | (a) | an <i>unauthorised person</i> who was formerly a <i>firm</i> in respect of a <i>complaint</i> about an act or omission which occurred at the time when the <i>firm</i> was <i>authorised</i> , provided that the compulsory jurisdiction rules were in force in relation to the activity in question; |
| | (b) | a <i>person</i> who was formerly a <i>licensee</i> in respect of a <i>complaint</i> about an act or omission which occurred at the time when it was a <i>licensee</i> , provided the <i>complaint</i> |

falls within a description specified in the consumer credit rules in force at the time of the act or omission;

- (c) a *person* who was formerly a *payment service provider* in respect of a *complaint* about an act or omission which occurred at the time when it was a *payment service provider*, provided that the compulsory jurisdiction rules were in force in relation to the activity in question; and
 - (d) a *person* who was formerly an *electronic money issuer* in respect of a *complaint* about an act or omission which occurred at the time when it was an *electronic money issuer*, provided that the compulsory jurisdiction rules were in force in relation to the activity in question.
- (3) (in *DISP 2 and 3* and *FEES 5*) includes, in accordance with the *Ombudsman Transitional Order*, an *unauthorised person* subject to the *Compulsory Jurisdiction* in relation to *relevant existing complaints* and *relevant new complaints*.
- (4) (in *DISP 2 and 3* and *FEES 5*) includes, in accordance with the *Mortgage and General Insurance Complaints Transitional Order*, a former *firm* subject to the *Compulsory Jurisdiction* in relation to *relevant transitional complaints*.

Annex B
Amendments to the Fees manual (FEES)

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

FEES 5.5A (Case fees) is deleted and replaced by the following new section. The deleted text is not shown, and the new section is not underlined.

5.5B Case fees

Application

5.5B.1 R *FEES 5.5B applies to respondents.*

[Editor's Note: This provision replaces FEES 5.5A.1R and (by use of 'respondent') FEES 5.5A.3R and 5.5A.4G.]

5.5B.2 G *VJ participants are included as a result of DISP 4.2.6R.*

[Editor's Note: This provision replaces FEES 5.5A.2G.]

5.5B.3 R *Any firm falling into either industry block 13 or industry block 15 in FEES 5 Annex 1 R is not required to pay any case fee in respect of chargeable cases relating to those industry blocks.*

[Editor's Note: This provision replaces FEES 5.5A.11R.]

5.5B.4 G *The firms in industry blocks 13 and 15 are cash plan health providers and small friendly societies. The case fee exemption takes into account that the amount in issue is likely to be small relative to the case fee. Instead, the full unit cost of handling complaints against these firms will be recovered through the setting of the relevant general levy.*

[Editor's Note: This provision replaces FEES 5.5A.12G (part).]

5.5B.5 R *A credit union which is subject to the minimum levy in an industry block is not required to pay any case fee in respect of chargeable cases relating to that industry block.*

[Editor's Note: This provision replaces FEES 5.5A.10R.]

5.5B.6 G *Arrangements similar to those for firms in industry blocks 13 and 15 have been made for small credit unions under FEES 5.5B.5R*

[Editor's Note: This provision replaces FEES 5.5A.12G (part).]

5.5B.7 R *A firm, payment service provider or electronic money issuer which is exempt under DISP 1.1.12R is also exempt from FEES 5.5B, save that it will only be exempt from FEES 5.5B in any financial year if it met the*

conditions in *DISP* 1.1.12R on 31 March of the immediately preceding *financial year*.

[Editor's Note: This provision replaces FEES 5.5A.26R and 5.5A.27R.]

Purpose

- 5.5B.8 R The purpose of *FEES* 5.5B is to set out the requirements on *respondents* to pay fees in relation to cases referred to the *Financial Ombudsman Service*.

[Editor's Note: This provision replaces FEES 5.5A.5R (part).]

- 5.5B.9 R These fees are towards funding the *Financial Ombudsman Service*, and are invoiced and collected directly by the *FOS Ltd*.

[Editor's Note: This provision replaces FEES 5.5A.5R (part).]

- 5.5B.10 G In each of the *Financial Ombudsman Service's* jurisdictions, the *annual budget* reflects the total expected to be raised by levies plus the total expected to be raised by case fees for the relevant *financial year*.

[Editor's Note: This provision replaces FEES 5.5A.8G (part) and 5.5A.9G (part).]

- 5.5B.11 G The amount of the case fees will be subject to consultation each year.

[Editor's Note: This provision replaces FEES 5.5A.8G (part) and 5.5A.9G (part).]

Standard case fee

- 5.5B.12 R A *respondent* must pay to the *FOS Ltd* the standard case fee specified in *FEES* 5 Annex 3R Part 1 in respect of each *chargeable case* relating to that *respondent* which is closed by the *Financial Ombudsman Service*, unless the *respondent* is identified as part of a *charging group* as defined in *FEES* 5 Annex 3R Part 3.

[Editor's Note: This provision replaces FEES 5.5A.6R, 5.5A.7R and (by use of 'respondent') 5.5A.15R to 5.5A.19G.]

- 5.5B.13 G The exclusion of *respondents* that are identified as part of a *charging group* as defined in *FEES* 5 Annex 3R Part 3 applies only from 1 April 2013. Those *respondents* continue to be liable for the standard case fee under *DISP* 5.5B.12R in respect of *chargeable cases* closed by the *Financial Ombudsman Service* before 1 April 2013.

- 5.5B.14 R But a *respondent* will only be liable for, and the *FOS Ltd* will only invoice for, the standard case fee in respect of the 26th and subsequent *chargeable cases* in any *financial year*.

[Editor's Note: This provision replaces FEES 5.5A.24R.]

5.5B.15 G Until 31 March 2004 a standard case fee was payable for every *chargeable case*. From 1 April 2004 to 31 March 2005 the standard case was payable for the third and subsequent *chargeable cases*. From 1 April 2005 to 31 March 2013 the standard case fee was payable for the fourth and subsequent *chargeable cases*. *FEES 5.5B.13R* does not apply retrospectively to *financial years* before 1 April 2013.

5.5B.16 R A *respondent* must pay to the *FOS Ltd* any standard case fee which it is liable to pay under *FEES 5.5B* and which is invoiced by the *FOS Ltd* within 30 calendar *days* of the date when the invoice is issued by the *FOS Ltd*.

[Editor's Note: This provision replaces FEES 5.5A.28R to 5.5A.30R in respect of the standard case fee.]

Supplementary Case fee

5.5B.17 R A *respondent* must pay to the *FOS Ltd* the supplementary case fee specified in *FEES 5 Annex 3R part 2* in respect of each *chargeable case (PPI)* relating to that *respondent* which is referred to the Financial Ombudsman Service, as well as any standard case fee under *FEES 5.5B.12R*, unless the *respondent* is identified as part of a *charging group* as defined in *FEES 5 Annex 3R Part 3*.

[Editor's Note: This provision replaces FEES 5.5A.23AR and (by use of 'respondent') 5.5A.23BR.]

5.5B.18 G The exclusion of *respondents* that are identified as part of a *charging group* as defined in *FEES 5 Annex 3R Part 3* applies only from 1 April 2013. Those *respondents* continue to be liable for the supplementary case fee under *DISP 5.5B.17R* in respect of *chargeable cases (PPI)* referred to the *Financial Ombudsman Service* before 1 April 2013.

5.5A.19 R Notwithstanding the above, a *respondent* will only be liable for, and the *FOS Ltd* will only invoice for the supplementary case fee in respect of the 26th and subsequent cases relating to that *respondent* that fall within *FEES 5.5B.16R* in any *financial year*.

[Editor's Note: This provision replaces FEES 5.5A.25AR.]

Special case fee

[Editor's Note: The following provisions replace FEES 5.5A.13R to 5.5A.23G, which prescribed special case fees for circumstances that are no longer relevant.]

5.5B.20 R If the *respondent* is identified as part of a *charging group* as defined in *FEES 5 Annex 3R Part 3*, the *charging group* must pay the special case fee calculated under *FEES 5 Annex 3R Part 4* (from 1 April 2013) instead of the *respondent* paying the standard case fee or the supplementary case fee.

- 5.5B.21 R The *FOS Ltd*:
- (1) will invoice the special case fee as described in *FEES 5 Annex 3R Part 4*; and
 - (2) may invoice the relevant *charging group* through any of the individual *respondents* in the relevant *charging group*.
- 5.5B.22 R A *charging group* must pay to the *FOS Ltd* any special case fee (including any year-end adjustment) as described in *FEES 5 Annex 3R Part 4* within 30 calendar *days* of the date when the invoice is issued by the *FOS Ltd*.
- 5.5B.23 R In respect of the special case fee, individual *respondents* are jointly and individually liable for the obligations of the *charging group* of which they are identified as forming part in *FEES 5 Annex 3R Part 3*.

Leaving the Financial Ombudsman Service

- 5.5B.24 R Where a *respondent* ceases to be a *firm*, *payment service provider*, *electronic money issuer*, *licensee* or *VJ participant* (as the case may be) part way through a *financial year* it will remain liable to pay case fees under *FEES 5.5B* in respect of cases within the jurisdiction of the *Financial Ombudsman Service*.

Late payment and remission of case fees

- 5.5B.25 R If a *respondent* does not pay a case fee payable under *FEES 5.5B* in full to the *FOS Ltd* before the end of the date on which it is due, that *respondent* must pay to the *FOS Ltd* in addition:
- (1) an administrative fee of £250; plus
 - (2) interest on any unpaid amount at the rate of 5% per annum above the *Official Bank Rate* from time to time, accruing on a daily basis from the date on which the amount concerned became due.

[Editor's Note: This provision replaces FEES 5.5A.35R.]

- 5.5B.26 G The *FOS Ltd* may take steps to recover any money owed to it (including interest).

[Editor's Note: This provision replaces FEES 5.5A.36G.]

- 5.5B.27 R If it appears to the *FOS Ltd* that in the exceptional circumstances of a particular case the payment of any case fee under *FEES 5.5B* would be inequitable, the *FOS Ltd* may (unless *FEES 5.5B.29R* applies) reduce or remit all or part of the case fee in question which would otherwise be payable.

[Editor's Note: This provision replaces FEES 5.5A.37R (part) incorporating FEES 2.3.1R.]

- 5.5B.28 R If it appears to the *FOS Ltd* that in the exceptional circumstances of a particular case to which *FEES 5.5B.27R* does not apply the retention by the *FOS Ltd* of any case fee which has been paid would be inequitable, the *FOS Ltd* may (unless *FEES 5.5B.29R* applies) refund all or part of that case fee.

[Editor's Note: This provision replaces FEES 5.5A.37R (part) incorporating FEES 2.3.2R.]

- 5.5B.29 R The *FOS Ltd* may not consider a claim under *FEES 5.5B.27R* and/or *FEES 5.5B.28R* in respect of any amount overpaid due to a mistake of fact or law by the payer, if the claim is made by the payer more than 2 years after the beginning of the *financial year* to which the payment relates.

[Editor's Note: This provision replaces (in respect of case fees) FEES 2.3.2BR.]

Amend the following as shown.

**5 Annex 2R Annual Levy Payable in Relation to the Voluntary
Jurisdiction for ~~2012/13~~ 2013/14**

| Voluntary jurisdiction – annual levy for VJ participants | | | | |
|--|--|---|-------------|--------------|
| Industry block And business activity | | Tariff basis | Tariff rate | Minimum levy |
| 1V | Deposit acceptors, <u>mortgage lenders</u> mortgage lenders and <u>mortgage administrators</u> mortgage administrators and debit/credit/charge card issuers and merchant acquirers | number of accounts relevant to the activities in <i>DISP 2.5.1R</i> | £0.0278 | £100 |
| 2V | <i>VJ participants</i> undertaking general insurance activities | per £1,000 of relevant annual gross premium income | £0.103 | £100 |
| 3V | <i>VJ participants</i> undertaking life insurance activities | Per £1,000 of relevant adjusted annual gross premium income | £0.025 | £100 |

| | | | | |
|-----|---|---|-------------------------|----------------|
| 6V | Intermediaries | n/a | n/a | <u>£75</u> |
| 7V | Freight-forwarding companies | n/a | n/a | <u>£75</u> |
| 8V | National Savings & Investments | n/a | n/a | <u>£10,000</u> |
| 9V | Post Office Limited | n/a | n/a | <u>£2,000</u> |
| 10V | Persons not covered by 1V to 9V undertaking activities which are (a) <i>regulated activities</i> or (b) <i>payment services</i> or (c) <i>consumer credit activities</i> ; or would be if they were carried on from an establishment in the <i>United Kingdom</i> | n/a | n/a | <u>£75</u> |
| 12V | Persons undertaking the activity which is the issuance of electronic money or would be if carried on from an establishment in the <i>United Kingdom</i> | Average outstanding electronic money as described in <i>FEES 4 Annex 11R Part 3</i> | <u>£0.15 per £1,000</u> | <u>£75</u> |

| Part 1 – Standard case fees | | |
|--|--------------------------|------------------|
| | Standard case fee | Special case fee |
| In the: Compulsory jurisdiction; Consumer credit jurisdiction; and Voluntary jurisdiction | £500 [£550] | 500 |

| Notes | |
|-------|--|
| 1 | The definitions of standard case fee and special case fee are in FEES 5.5A 5.5B (Case fees). The definition of <i>chargeable case</i> is in the Glossary to the <i>Handbook</i> . |
| 2 | The standard case fee or special case fee will be invoiced by the <i>FOS Ltd</i> on or after the date the case is closed. |
| 3 | A firm, licensee or VJ participant <i>respondent</i> will only be invoiced a case fee for the fourth <u>26th</u> and subsequent <i>chargeable case</i> in each <i>financial year</i> . |

| Part 2 – Supplementary case fees | | | |
|--|---|---------------------------------|------------------|
| | | Standard Supplementary case fee | Special case fee |
| In the: Compulsory jurisdiction; Consumer credit jurisdiction; and Voluntary jurisdiction | For the 26th and subsequent PPI mis-sale cases <i>chargeable cases (PPI)</i> | £350 | 350 |

| Notes | |
|---------------|---|
| 1 | The definition of supplementary case fee is in FEES 5.5A 5.5B (Case fees). The definition of chargeable case <i>chargeable case (PPI)</i> is in the Glossary to the <i>Handbook</i> . |
| 2 | ‘PPI mis-sale cases’ means any case where, in the Ombudsman’s opinion, the complaint fell wholly or partly within the scope of DISP App 3 (Handling Payment Protection Insurance Complaints). |
| 23 | The supplementary case fee will be invoiced by the <i>FOS Ltd</i> on or after the date the case is referred to the <i>Financial Ombudsman Service</i> . |

| | |
|----|---|
| 34 | The supplementary case fee will be invoiced for the 26th and subsequent PPI mis sale chargeable cases <u>chargeable cases (PPI)</u> against any firm, licensee or VJ participant <u>respondent</u> referred to the <i>Financial Ombudsman Service</i> in each <i>financial year</i> . |
|----|---|

In FEES 5 Annex 3R insert the following new Parts after Part 2. The text is not underlined.

| | |
|--|---|
| Part 3 – Charging groups | |
| The four <i>charging groups</i> , and their constituent <i>group respondents</i> , are listed below. They are based on the position at 31 December immediately preceding the <i>financial year</i> . For the purposes of calculating, charging, paying and collecting the special case fee, they are not affected by any subsequent change of ownership. | |
| 1 | <p>Barclays Group, comprising the following <i>firms</i>:</p> <ul style="list-style-type: none"> ABSA Bank Limited Barclays Assurance (Dublin) Limited Barclays Bank Ireland Plc Barclays Bank Plc Barclays Bank S.A. Barclays Bank Trust Company Limited Barclays Capital Securities Limited Barclays Capital Strategic Advisers Limited Barclays Courtage Barclays Infrastructure Funds Management Limited Barclays Insurance (Dublin) Limited Barclays Insurance Services Company Limited Barclays Mediador Operador de Banca Seguros Vinculado, S.A. Barclays Mercantile Business Finance Limited Barclays Patrimoine Barclays Private Clients International Limited Barclays Sharedealing Barclays Stockbrokers Limited Barclays Wealth Funds Ltd Clydesdale Financial Services Limited CNP Barclays Vida y Pensiones Compania de Seguros S.A. Firstplus Financial Group Plc |

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| | <p>Gerrard Financial Planning Ltd</p> <p>Gerrard Investment Management Limited</p> <p>Home Retail Group Personal Finance Ltd</p> <p>Intelenet Global Services Private Limited</p> <p>Solution Personal Finance Limited</p> <p>Standard Life Bank Plc</p> <p>Thomas Cook Personal Finance Ltd</p> <p>Woolwich Plan Managers Limited</p> |
| 2 | <p>HSBC Group, comprising the following <i>firms</i>:</p> <p>Catalina Insurance Ireland Limited</p> <p>CL Residential Limited</p> <p>Halbis Capital Management (UK) Limited</p> <p>HFC Bank Limited</p> <p>HSBC Alternative Investments Limited</p> <p>HSBC Bank Malta plc</p> <p>HSBC Bank plc</p> <p>HSBC Bank USA NA, London Branch</p> <p>HSBC de Baecque Beau</p> <p>HSBC Financial Products (France)</p> <p>HSBC France</p> <p>HSBC General Insurance Services (UK) Limited</p> <p>HSBC Global Asset Management FCP (France)</p> <p>HSBC Global Asset Management (UK) Limited</p> <p>HSBC Herve</p> <p>HSBC Index Tracker Investment Funds</p> <p>HSBC International Financial Advisers (UK) Limited</p> <p>HSBC Investment Funds</p> <p>HSBC Life (Europe) Limited</p> <p>HSBC Life (UK) Limited</p> <p>HSBC Picardie</p> <p>HSBC Private Bank (Luxembourg) S.A.</p> <p>HSBC Private Bank (UK) Limited</p> <p>HSBC Securities (France)</p> <p>HSBC Securities SA</p> <p>HSBC Securities (USA) Inc</p> |

| | |
|---|---|
| | <p>HSBC Specialist Investment Funds Ltd</p> <p>HSBC Trinkaus & Burkhardt AG</p> <p>HSBC Trust Company (UK) Ltd</p> <p>HSBC UBP</p> <p>HSBC Van Meer James Capel NV</p> <p>InfraRed Capital Partners Limited</p> <p>InfraRed (Infrastructure) Capital Partners Limited</p> <p>Marks and Spencer Life Assurance Limited</p> <p>Marks & Spencer Financial Services plc</p> <p>Marks & Spencer Savings and Investments Ltd</p> <p>Marks & Spencer Unit Trust Management Limited</p> <p>Sinopia Asset Management (UK) Limited</p> <p>The Hongkong and Shanghai Banking Corporation Limited</p> |
| 3 | <p>Lloyds Banking Group, comprising the following <i>firms</i>:</p> <p>AMC Bank Ltd</p> <p>Bank of Scotland (Ireland) Limited</p> <p>Bank of Scotland Plc</p> <p>Black Horse Limited</p> <p>Cheltenham & Gloucester plc</p> <p>Clerical Medical Financial Services Limited</p> <p>Clerical Medical Investment Fund Managers Ltd</p> <p>Clerical Medical Investment Group Limited</p> <p>Clerical Medical Managed Funds Limited</p> <p>Clerical Medical Open Ended Investment Company</p> <p>Halifax Assurance (Ireland) Limited</p> <p>Halifax Financial Brokers Limited</p> <p>Halifax General Insurance Services Limited</p> <p>Halifax Insurance (Ireland) Limited</p> <p>Halifax Insurance Ireland Ltd</p> <p>Halifax Investment Services Ltd</p> <p>Halifax Life Limited</p> <p>Halifax Share Dealing Limited</p> <p>HBOS Investment Fund Managers Limited</p> <p>Insight Investment Global Investment Funds</p> <p>Insight Investment Professional Funds ICVC</p> |

| | |
|---|--|
| | <p>Invista Real Estate Investment Management Ltd</p> <p>IWeb (UK) Limited</p> <p>LDC (Managers) Limited</p> <p>Legacy Renewal Company Limited</p> <p>Lex Vehicle Leasing Ltd</p> <p>Lloyds Development Capital (Holdings) Limited</p> <p>Lloyds TSB Bank Plc</p> <p>Lloyds TSB Financial Advisers Limited</p> <p>Lloyds TSB General Insurance Limited</p> <p>Lloyds TSB Insurance Services Limited</p> <p>Lloyds TSB Investments Limited</p> <p>Lloyds TSB Private Banking Ltd</p> <p>Lloyds TSB Scotland Plc</p> <p>Pensions Management (SWF) Limited</p> <p>Scottish Widows Administration Services Limited</p> <p>Scottish Widows Annuities Limited</p> <p>Scottish Widows Bank Plc</p> <p>Scottish Widows Fund Management Limited</p> <p>Scottish Widows Investment Partnership Investment</p> <p>Scottish Widows Investment Partnership Limited</p> <p>Scottish Widows plc</p> <p>Scottish Widows Tracker and Specialist Investment Funds ICVC</p> <p>Scottish Widows Unit Funds Limited</p> <p>Scottish Widows Unit Trust Managers Limited</p> <p>St Andrew's Insurance plc</p> <p>St Andrew's Life Assurance Plc</p> <p>SWIP Fund Management Limited</p> <p>SWIP Multi-Manager Funds Limited</p> <p>The Mortgage Business Plc</p> <p>Uberior Fund Manager Ltd</p> |
| 4 | <p>RBS/NatWest Group, comprising the following <i>firms</i>:</p> <p>Adam & Company Investment Management Ltd</p> <p>Adam & Company Plc</p> <p>Churchill Insurance Company Limited</p> <p>Coutts & Company</p> |

Coutts Finance Company
Direct Line Insurance Plc
Direct Line Life Insurance Company Limited
First Active plc
Indemnity Insurance Limited
Inter Group Insurance Services Ltd
Inter Group Intermediary Services Ltd.
National Westminster Bank Plc
National Westminster Home Loans Limited
NatWest Stockbrokers Ltd
RBEF Limited
RBS Asset Management (ACD) Ltd
RBS Asset Management Ltd
RBS Collective Investment Funds Limited
RBS Corporate Finance Limited
RBS Equities (UK) Limited
RBS Index Tracker Funds ICVC
RBS Investment Executive Limited
Star Capital Partners Limited
The National Insurance & Guarantee Corporation Ltd
The Royal Bank of Scotland (Gibraltar) Ltd
The Royal Bank of Scotland Group Independent Financial Services Limited
The Royal Bank of Scotland N.V.
The Royal Bank of Scotland Plc
Topaz Finance PLC
U K Insurance Business Solutions Limited
UK Insurance Limited
Ulster Bank Ireland Limited
Ulster Bank Ltd

Part 4 – Special case fees

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

1

Proportions:

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

new chargeable cases (PPI) for group respondents –

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

new chargeable cases (PPI) for all firms –

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

open chargeable cases (PPI) for group respondents –

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

open chargeable cases (PPI) for all firms –

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

new chargeable cases (general) for group respondents –

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

new chargeable cases (general) for all firms –

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

open chargeable cases (general) for group respondents –

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

| | |
|---|---|
| | <p>closed before 1 January in the immediately preceding <i>financial year</i>.</p> <p>open <i>chargeable cases (general)</i> for all <i>firms</i> –</p> <p>H = the number of <i>chargeable cases (general)</i> referred to the <i>Financial Ombudsman Service</i> in respect of all <i>firms</i> (whether or not they are part of a <i>charging group</i>) before 1 January in the immediately preceding <i>financial year</i> which had not been closed before 1 January in the immediately preceding <i>financial year</i>.</p> |
| | (2) ‘Proportion X’ for each <i>charging group</i> is a percentage calculated as follows – $A / B \times 100$ |
| | (3) ‘Proportion Y’ for each <i>charging group</i> is a percentage calculated as follows – $\{A + C\} / \{B + D\} \times 100$ |
| | (4) ‘Proportion Z’ for each <i>charging group</i> is a percentage calculated as follows – $\{E + G\} / \{F + H\} \times 100$ |
| 2 | The special case fee is intended to broadly reflect the budgeted workload capacity of the <i>Financial Ombudsman Service</i> and comprises elements in respect of: |
| | (1) new <i>chargeable cases (PPI)</i> ; |
| | (2) closed <i>chargeable cases (PPI)</i> ; and |
| | (3) closed <i>chargeable cases (general)</i> ; |
| | with a free-case allowance of: |
| | (4) 125 new <i>chargeable cases (PPI)</i> ; and |
| | (5) 125 closed <i>chargeable cases (general)</i> . |
| 3 | The special case fee for each <i>charging group</i> is a total amount calculated as follows: |
| | (1) in respect of new <i>chargeable cases (PPI)</i> – $\{£350 \times [250,000] \times \text{the ‘proportion X’}\} - \{£350 \times 125\}$ |
| | (2) in respect of closed <i>chargeable cases (PPI)</i> – $£550 \times [245,000] \times \text{the ‘proportion Y’}$ |
| | (3) In respect of closed <i>chargeable cases (general)</i> – $\{£550 \times [140,000] \times \text{the ‘proportion Z’}\} - \{£550 \times 125\}$ |
| 4 | The <i>FOS Ltd</i> will invoice each <i>charging group</i> for the special case fee (calculated as above) in four equal instalments, payable in advance on the following dates during the <i>financial year</i> : |
| | (1) 1 April (or, if later, when <i>FOS Ltd</i> has sent the invoice); |
| | (2) 1 July; |
| | (3) 1 October; and |
| | (2) 1 January. |

| | |
|---|---|
| 5 | <p>Year-end adjustment:</p> <p>(1) If the actual number of new <i>chargeable cases (PPI)</i> referred to the <i>Financial Ombudsman Service</i> in respect of <i>group respondents</i> during the <i>financial year</i> is more than 115% of {[250,000] x the ‘proportion X’ }:</p> <p>(a) the <i>FOS Ltd</i> will invoice the <i>relevant charging group</i>; and</p> <p>(b) the <i>relevant charging group</i> will pay to <i>FOS Ltd</i>;</p> <p>an additional £35,000 for each block of 100 (or part thereof) new <i>chargeable cases (PPI)</i> in excess of the 115%.</p> <p>(2) If the actual number of <i>chargeable cases (general)</i> closed by the <i>Financial Ombudsman Service</i> in respect of <i>group respondents</i> during the <i>financial year</i> is more than 115% of {[140,000] x the ‘proportion Z’ }:</p> <p>(a) the <i>FOS Ltd</i> will invoice the <i>relevant charging group</i>; and</p> <p>(b) the <i>relevant charging group</i> will pay to <i>FOS Ltd</i>;</p> <p>an additional £55,000 for each block of 100 (or part thereof) new <i>chargeable cases (PPI)</i> over the 115%.</p> <p>(3) If the actual number of <i>chargeable cases (general)</i> closed by the <i>Financial Ombudsman Service</i> in respect of <i>group respondents</i> during the <i>financial year</i> is less than 85% of {[140,000] x the ‘proportion Z’ }, the <i>FOS Ltd</i> will promptly repay to the <i>relevant charging group</i> £55,000 for each block of 100 (or part thereof) closed <i>chargeable cases (general)</i> under the 85%.</p> |
|---|---|

Annex C

Amendments to the Dispute Resolution: Complaints sourcebook (DISP)

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

- 4.2.6 R The following *rules* in *FEES* apply to *VJ participants* as part of the *standard terms*, but substituting '*VJ participant*' for '*firm*':
- (1) *FEES* 2.2.1R (late payment) but substituting '*FOS Ltd*' for 'the *FSA*';
 - (2) *FEES* 2.3.1R and 2.3.2R (remission of fees);
 - (3) *FEES* 4.2.6R(1)(b) (periodic fees);
 - (4) *FEES* 5.3.6R (general levy) but substituting:
 - (a) '*Voluntary Jurisdiction*' for '*Compulsory Jurisdiction*'; and
 - (b) '*FOS Ltd*' for 'the *FSA*';
 - (5) *FEES* 5.3.8R (calculation of general levy) but substituting '*FEES* 5 Annex 2R' for '*FEES* 5 Annex 1R';
 - (6) *FEES* 5.4.1R (information) but substituting:
 - (a) '*FOS Ltd*' for 'the *FSA*'; and
 - (b) '*FEES* 5 Annex 2R' for '*FEES* 5 Annex 1R';
 - (7) ~~*FEES* 5.5A.6R (standard case fee)~~ *FEES* 5.5B (case fees);
 - (8) ~~*FEES* 5.5A.13R (special case fee)~~; [deleted]
 - (9) ~~*FEES* 5.5A.24 R (case fee exemption)~~; [deleted]
 - (10) ~~*FEES* 5.7.1R and 5.7.4R, *FEES* 5.5A.28R and *FEES* 5.5A.30R (payment)~~ but substituting, in *FEES* 5.7.1R, 'the *FOS Ltd*' for 'the *FSA*' and 'annual levy specified in *FEES* 5 Annex 2R' for '*general levy*';
 - (11) *FEES* 5.8.1R (joining the Financial Ombudsman Service); and
 - (12) *FEES* 5 Annex 2R and *FEES* 5 Annex 3R.

Schedule 4 Powers Exercised

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| Sch 4.5G | The powers to make rules relating to the Ombudsman Scheme are shared between the <i>FSA</i> and the <i>FOS Ltd</i> . The <i>FOS Ltd</i> 's rules are subject to <i>FSA</i> consent or approval. The rules made exclusively by the <i>FOS Ltd</i> are: |
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| | <i>FEES 5</i> | <i>FEES 5.5A</i> <u><i>5.5B</i></u> (all rules) <i>FEES 5 Annex 2R</i> <i>FEES 5 Annex 3R</i> |
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