our plans and budget for 2014/2015

a consultation paper

January 2014

our plans and budget for 2014/2015

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

This consultation document sets out what has happened during the first three quarters of the current financial year (2013/2014) and sets out our plans for 2014/2015 against that background. Our biggest challenge will continue to be dealing with the large number of payment protection insurance cases we have already received, as well as those new cases that are referred to us.

We have already discussed our plans for 2014/2015 with trade associations and financial services practitioners, and will be soon be discussing them with consumer groups.
We will continue to talk to all our stakeholders before we finalise and publish our budget in March 2014.

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

Tony Boorman
chief ombudsman and chief executive (interim)

January 2014

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responses

We welcome your feedback on our *plans and budget for 2014/2015*. Please send your views and comments – to reach us by Monday 17 February 2014 – to adrian.dally@financial-ombudsman.org.uk. Or write to:

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

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

“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. We look carefully at both sides of the story and we 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 important to learn lessons from things going wrong. So we share the insight that can be gained from the complaints we see. This can help give consumers greater confidence in financial services, and help businesses prevent future problems.

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 (2013/2014);
- our plans for the future as we look ahead to 2014/2015;
- the expected demands on our service in 2014/2015; *and*
- the operational and financial implications for 2014/2015.

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.

2013/2014 has proved to be a challenging year. We have been receiving cases almost at the record levels of last year, by the end of which we had an unprecedented volume of payment protection insurance (PPI) cases to deal with. Thanks to the extra capacity we have built as part of our plan to handle PPI, we expect to resolve more cases in 2013/2014 than in any preceding year. Nevertheless, we know that the volumes of PPI cases are so great that we will be handling the effects of the mis-selling for a number of years.

Inevitably, given the large volume of cases that have been referred to us over the past 18 months, we have large numbers of PPI cases that are waiting to be resolved. Although it appears that new case volumes are now starting to fall, there are significant uncertainties about the volume of PPI cases we are likely to receive in the future. However, having made significant changes to our internal processes and undertaken a great deal of recruitment, we believe we are in strong position to capitalise on what we have achieved so far to tackle the unprecedented challenge of PPI. That said, resolving the cases referred to us will inevitably take some time yet.

Chapter 2 of this paper gives an overview of the current financial year. Although the overall volume of cases we have received is not dramatically different from last year, the range and complexity of the cases has varied. This chapter also describes how PPI complaints continue to dominate our workload. Dealing with those gives us our biggest operational and financial challenge.

Chapter 3 discusses how we have been implementing our plans during 2013/2014. These plans have continued to focus on providing a trusted, fair and high-quality service, open to everyone and committed to the professional development of our staff.

This has involved developing our response to PPI; establishing a new model for our casework; attracting, retaining and developing the right staff; embedding professional leadership, knowledge and consistency; strengthening our governance, and sharing insight to help prevent future problems.

Chapter 4 explains the levels of demand we expect to deal with in the next financial year (2014/2015). This includes the numbers of enquiries and new cases we expect to receive, and the types of financial products that are likely to be involved. This chapter discusses in particular the continuing challenges of our PPI caseload, which now accounts for more than 80% of our work. Future PPI volumes are very hard to predict with certainty, as there are a number of regulatory and market factors that could affect these. So we are keen to ensure that we have a financial and operational model that is flexible enough to deal with the range of outcomes we might be faced with.

Chapter 5 gives more detail about our financial plans for 2014/2015. At this stage we believe that we can deal with the likely range of challenges ahead by freezing the amount of the general levy and the level of our standard case fee, while also reducing the PPI supplementary case fee to zero. We also propose to extend the new group-account case-fee arrangement to a further four financial business groups, following its introduction in 2013/2014 for the four largest bank-led groups. In this chapter we also explain our approach to managing our reserves.

Overall, this means that next year we will need to recover around 20% less from financial businesses in 2014/2015 to support our budget, compared with this year.

We would 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 freeze the levy and standard case fee; our plan to reduce the PPI supplementary case fee to zero; to maintain the number of free cases at 25; to extend the group-account fee; and our approach to managing our reserves over the coming period.

Your views, thoughts and comments on this paper will help us to finalise the budget we put to the Financial Conduct Authority (FCA) – for its approval in March 2014.

Please send responses to us by Monday 17 February 2014. Our contact details are on page 3.

chapter 2: overview of the current financial year so far (2013/2014)

In this chapter:

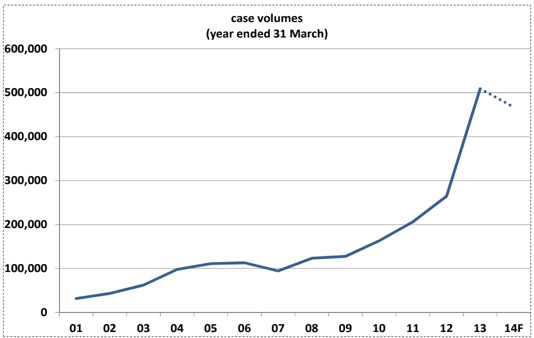
- we look at how we are dealing with the current demands on our service – and the operational and financial implications nine months into the current financial year (2013/2014); *and*
- we set out details of the trends we are seeing so far – and how we anticipate these trends developing into 2014/2015.

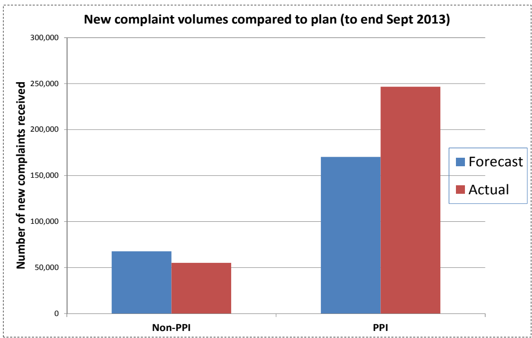
overall case volumes so far in 2013/2014

We are a demand-led organisation. This means that forecasting the volume of complaints we are likely to receive is a vital part of our planning. This is why we consult stakeholders each year on the number of new cases we expect to receive, and whether our assumptions are reasonable.

The ombudsman service's workload has grown significantly over the past decade, from 25,000 new cases in our first year to more than half a million new cases in 2012/2013 (as shown in *Annex A*). Following feedback from stakeholders, our 2013/2014 budget was based around a central assumption that we would receive 135,000 new cases *other than* PPI, and 250,000 new PPI cases.

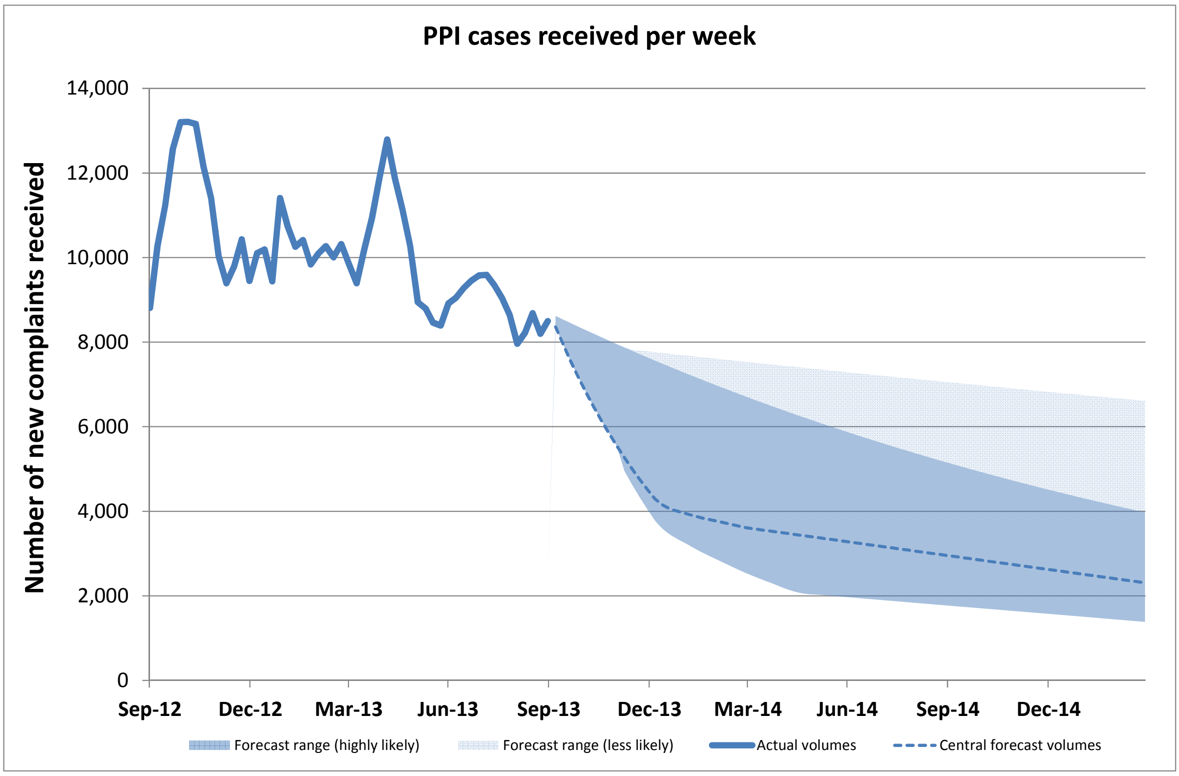
The tables below show what has actually happened so far in 2013/2014.





The tables show that, based on current trends, we expect our "general caseload" – that is, cases about things other than PPI – to stand at around 117,000 by the end of this financial year. That is about 10% lower than last year, and at the lower end of the *plus or minus* 15% planning tolerance we had assumed in our budget for 2013/2014. There has been a significant reduction in the number of banking-related cases we have received and a small reduction in the number of investment cases. However, there has also been a small increase in the number of general insurance cases (excluding PPI).

The situation with PPI is very different – and remains very challenging for us. The graph below shows the number of cases we have been receiving and expect to receive in the year ahead.



When we consulted in January 2013 on our plans for 2013/2014, we assumed that we would receive around 250,000 new PPI cases. It now seems likely that we will receive around 350,000. In total we have now received more than a million PPI cases, of which more than two thirds have been in the last 18 months. We have invested significantly in recruitment, process management, IT and the capability of our staff to prepare ourselves for this challenge. Nevertheless, despite record volumes of case resolutions we are likely to end the year with a "stock" of over 400,000 unresolved PPI cases.

However, those statistics disguise what may have been a turning point in our PPI work earlier in the year. As the graph shows, there have been times over the last two years when we received over 12,000 PPI cases per week. That is no longer the case. Numbers have now fallen to around 6,000 cases per week, and discussions with stakeholders suggest that this downward trend is likely to continue.

But we cannot be sure about this. Small changes in the environment in which businesses operate – for example, any new time limit on making complaints, changes in the major banks' approach to PPI cases, or a resurgence in activity by claims managers – could have a big impact on the number of PPI cases we receive.

We have to remind ourselves of the scale of the PPI challenge. We have always known that it will take us a number of years to meet it fully. We are pleased at the progress we have made – more than doubling our organisation's size in just 18 months. However, we know that many consumers and businesses have had to wait a long time before we can look into their case. The extra staff we have recruited since 2012/2013 have enabled us to make greater headway into the stock of cases we have received. These additional members of staff, combined with our investment in IT and process management, will have an even bigger impact on tackling our caseload over the coming year.

trends in product type

During the year the types of issues and financial products involved in the cases we see (the "case mix") has continued to evolve – and in some areas the cases have become more complex. 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 – although the number we have received so far this year is around a quarter lower than we had assumed in our budget for 2013/2014. On current trends, we expect to receive around 68,000 new cases relating to banking and credit in 2013/2014.

Many of these cases involve consumers who are experiencing financial pressure and have asked for extra help or flexibility from their lender – often in relation to their mortgage. With lenders facing cost pressures too, many of these cases are becoming increasingly difficult to resolve. For similar reasons, we have seen an increase in the number of cases about various types of short-term credit, including "payday loans".

We have seen a continued increase in the number of cases about "packaged" bank accounts. The complaints we are seeing have often been about the suitability of the insurance products that came as part of the package. We have also been seeing more cases involving changes to mortgage interest rates. Consumers often said they were not made aware of features of the product – which meant that rates could rise, even if bank base rates stayed the same.

complaints involving insurance

Based on current trends we expect to receive around 33,000 new insurance cases by the end of this year (other than complaints about PPI). This is around 6% more than we had assumed in our budget for 2013/2014. Although this continued increase is disappointing, the increase is smaller than we have seen in previous years – perhaps partly reflecting an improvement in complaints-handling by insurers.

The increase in insurance-related cases is partly to do with an increase in complaints about card protection insurance, as well as other insurance products that some customers might see as having some of the same problems as PPI. However, complaints about the way that major motor insurers handle claims still make up the largest part of our insurance caseload. We have also continued to see insurance claims being harder-fought both by consumers and insurers, which makes cases more challenging for us to resolve – with many disputes being escalated to an ombudsman for a final decision on the matter.

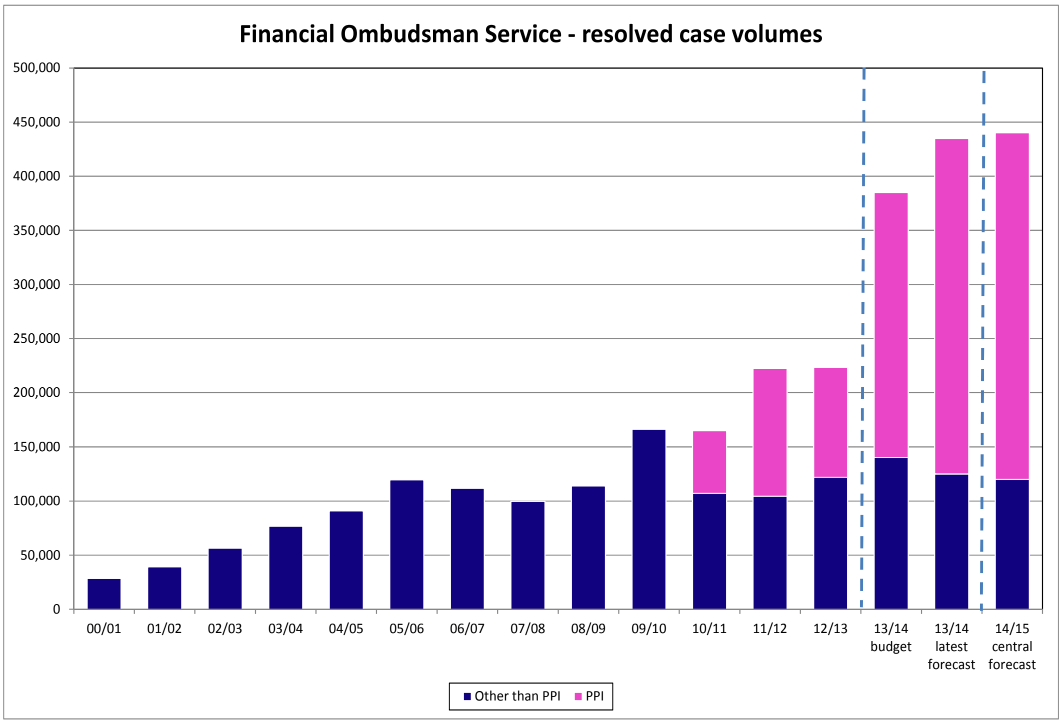
complaints involving investments

Based on current trends, we expect to receive around 16,000 new cases about investments and pensions, which is around 13% lower than we had assumed in our budget for 2013/2014. This is a welcome reduction, and may partly reflect wider improvements in the economy and therefore in the performance of many investment products.

In typical investment cases, consumers 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 other cases. The number of complaints about mortgage endowment policies has also remained stubbornly high, reflecting consumers' concerns about the shortfall that can happen when these policies mature.

resolving cases in 2013/2014

We are now resolving more cases than ever before. By the end of this year we expect to have resolved twice as many cases as we did last year. However, we know that meeting the PPI challenge is something that will take years, not weeks or months. We have a substantial stock of over 400,000 PPI cases, which will take some time to resolve.



As far as possible, we have protected our non-PPI "general casework" activity from the impact of the unprecedented volume of PPI cases. We want to reduce the length of time that consumers and businesses are waiting to have their cases resolved. The table below shows our "timeliness" this year, compared with last year.

our timeliness *(excluding PPI cases)*	resolved within 3 months	resolved within 6 months	resolved within 12 months
2012/2013	43%	73%	89%
so far in 2013/2014	40%	69%	91%

We are committed to reducing these waiting times and are exploring new ways to do so. Looking even further ahead, we are exploring new, streamlined ways of handling future cases that will meet the changing expectations of consumers and businesses.
We expect this work to make a significant difference to our timeliness and to the quality of our service.

However, we are still receiving so many PPI complaints that, realistically, PPI cases will continue to take significantly longer to settle than disputes about other things. We know, for example, that by the end of this year around 15% of our stock (about 60,000 cases) will be more than 18 months old. We have been very open about this with consumers and businesses – so that they have realistic expectations about how long it is likely to take to resolve their case.

our people

Our job is to resolve disputes. This involves bringing two sides together, listening, weighing up the evidence and making a decision. This means that our people are by far our most important resource. We rely on their skills, expertise, intellect and professionalism to resolve disputes in ways that are, and are seen to be, fair and reasonable in the unique circumstances of each case.

This year we have continued to recruit more ombudsmen, both from within the organisation and from outside. This has helped us resolve the rising number of disputes that are "appealed" to ombudsmen, and also strengthens the professional leadership role that the ombudsmen carry out.

Last year we also recruited significant numbers of new adjudicators to work on non-PPI cases. They have been through an extensive training programme and we are now benefiting from their contribution. We are confident that we now have enough skilled adjudicators to handle our non-PPI caseload in the future.

Last year (2012/2013) we recruited nearly 1,000 additional adjudicators to deal with PPI cases. This year we have recruited another 1,000 adjudicators to deal with the unprecedented volume of incoming cases. Our new adjudicators are now fully accredited and are making inroads into our caseload.

working with our stakeholders

We continue to work closely with our many stakeholders – including business representatives, consumer organisations and other public bodies. We have worked with HM Treasury, the FCA and the Office of Fair Trading (OFT) to implement the reforms to the system of financial regulation – which included an enhanced role for the Financial Ombudsman Service. And we have continued to liaise closely with the FCA and the OFT as new issues have emerged.

We have worked more closely with stakeholders in the European Union as well. This is particularly important while EU member states – including the UK – are considering their plans to implement EU legislation on "alternative" dispute resolution and online dispute resolution.

chapter 3: our plans for the next financial year (2014/2015)

In this chapter:

- we set out how our plans for developing our services are progressing; *and*
- we also set out the initiatives we are taking to develop the organisation further.

We outline below the progress we have made this year against each of our major priorities.

developing our response to PPI

We have made good progress in meeting our PPI challenge, which is one that will take years – not weeks or months – to solve. It is vital that we continue to manage the PPI challenge effectively. PPI cases vary significantly in their complexity. Many can be resolved easily and relatively quickly, but the more complex or harder-fought cases take a lot longer.

The key to dealing effectively with PPI is to build our case-handlers' capability, so that they can deal with a wide range of cases – from the most straightforward to the most complex. Our ombudsmen play an important part in this by providing professional leadership. As well as resolving cases, the ombudsmen share their knowledge and experience and help ensure we are taking a consistent approach to the cases we resolve.

establishing a new model for our casework

We are establishing a new model for our casework so that we can better meet the needs of our customers.

We think customers want us to change the way we deal with cases. While there will always be a need for a "traditional" ombudsman-style approach to some cases, we think many problems could be better dealt with if we focused on responding to different customers' needs – businesses and consumers alike.

To do this, we need to hear from our stakeholders. We need to understand what sort of changes we, and perhaps financial businesses too, might need to make. The latest of our three-yearly external reviews is looking into this – and we have asked the Future Foundation to work with our stakeholders to give us some of the insight we need to plan ahead.

As well as looking to the future, we have been taking steps to modernise our processes today. We have made progress in further "e-enabling" our service, and have recently moved our internal case-handling to an "e-file" (rather than just a paper file) operation. We have also worked with the major businesses – that provide us with the most cases – to speed up the flow of information between us, for example, by becoming less reliant on sending documents by post. But we need to do more to make the best use of new technology in our work.

As our services develop, we will always keep in mind our need to be as accessible as possible – to all types of business and all kinds of consumer, whatever their individual communication needs might be.

attracting, retaining and developing the right staff

Because we are here to help, listen, think and decide, our people are critical to the quality of our service.

We need our people to be knowledgeable and motivated. During the year we have recruited and trained a record number of staff. But getting people into the organisation is not enough. Our staff must have – and demonstrate – the right set of values to help us resolve disputes properly. We have therefore invested heavily in staff development for case-handlers to support ongoing learning and development.

We are also putting measures in place to identify and develop talent, so that we can bring on those people who have the potential to be managers and senior leaders.

embedding professional leadership, knowledge and consistency

Professionalism is at the heart of everything we do. Our people need to have the right knowledge and expertise to do their work to the highest standard.

Our ombudsmen are the role models for all our case-handling staff. They help us ensure that we keep our standards high and that we deal with cases consistently. This is particularly important as the issues involved in the cases we see continue to change. To help ombudsmen carry out their leadership role we have made sure that they work alongside case-handlers to help share knowledge and experience, and to ensure that we are consistent.

We have also introduced "knowledge communities", which are led by subject experts, and we are investing in software that will help case-handlers and ombudsmen share what they know more easily.

strengthening our governance

Our governance arrangements need to be proportionate to the scale and complexity of our organisation. However, we are determined to stay transparent and to avoid becoming overly bureaucratic. We need to be clearly accountable to our stakeholders and maintain our ability to respond to a fast-changing environment. To get the right governance arrangements in place we have:

- commissioned a review of our governance arrangements from board table to case-handler;
- agreed with the FCA a revised memorandum and articles of association.

Our board has:

- introduced an "assurance framework" that sets out how, when and on what it is assured; *and*
- approved a "scheme of delegation" that takes account of our legal and governance obligations.

to share insight to help avoid future problems

Our work has significantly more impact if the insight we gain from complaints is shared – to help prevent future problems. We see this as a major part of our role.

To achieve this, we work closely with the FCA, the new conduct regulator in financial services, to help businesses and consumers avoid problems and to handle it better when things do go wrong. We share knowledge and insight with the FCA, other regulators, government, industry and consumers – so that customer service and sales standards can be improved and to help rebuild consumer confidence in the industry. We have recruited more people to our policy team to carry out this work.

To make sure we are working transparently, this year we started to publish the decisions made by our ombudsmen. As well as improving our accountability as a public body, this helps all our users – both businesses and consumers – to see the decisions we are making and why we are making them. We hope this will encourage wider discussions about our approach, and share the lessons learnt from our work more widely.

chapter 4: forecast volumes and product mix for 2014/2015

In this chapter:

- we set out the levels of demand we expect in the next financial year (2014/2015) – including numbers of enquiries, numbers of new cases, and the mix of product types involved; *and*
- we set out separately the number of PPI cases we expect to receive – which remains by far the biggest challenge we currently face.

Forecasting our caseload is always difficult because so many factors can influence the number and mix of cases that consumers refer to us. Some of these are short-term – for example, complaints arising from a single incident. Others are longer term, and are connected with the way businesses and consumers respond to a changing economic environment. The impact of regulatory action can also play a part.

PPI case volumes in 2014/2015

Our biggest challenge is still PPI. As in previous years, we cannot be sure how many cases we are likely to receive in 2014/2015. However, two things are reasonably clear: we will have a large stock of *existing* cases to work through, and we need to plan for falling numbers of *new* cases. We also know that managing PPI from now on will present some very different challenges from the ones we faced at the start.

During 2013/2014 we received our millionth PPI case. Of these million cases, around two-thirds have been referred to us in the last 18 months. We are likely to end the year with a stock of over 400,000 unresolved cases. While it is good news that new PPI case numbers are now falling, we still have a long way to go before we – or our customers and stakeholders – can be satisfied that we have completed our work on PPI.

Although we are likely to receive fewer new PPI cases next year, a high proportion of existing cases are complex and are likely to be hard-fought. These cases will need more involvement from more experienced case-handlers and ombudsmen – and they take longer and are more expensive to resolve.

Of course, the volume of PPI cases referred to us in 2014/2015 will depend on the number of complaints that financial businesses themselves receive – and on how many of those complaints they reject. However, it seems that we might have reached a turning point in PPI. There have been times over the last two years when we received over 12,000 PPI cases per week. That is no longer happening. Numbers have now fallen to around 6,000 cases per week, and discussions with our stakeholders suggest that this downward trend is likely to continue.

For planning purposes, we are currently assuming that this trend will continue in 2014/2015 – and that we will receive on average around 3,000 cases per week, with more at the beginning of the year and fewer towards the end. If our assumptions are right, we will receive around 150,000 new cases to add to the 400,000 unresolved cases we will take forward into the new financial year.

But we cannot be sure about this. So far, only around 12% of the total complaints made to businesses about PPI have reached our service. So comparatively small changes in the environment in which businesses operate – for example, any new time limit on making complaints, changes in the major banks' approach to PPI cases, or a resurgence in activity by claims managers – could significantly increase the number of PPI cases we receive.

We would welcome your thoughts on whether our assumptions about PPI case volumes are reasonable.

non-PPI case volumes in 2014/2015

Outside PPI, we are currently assuming a stable position overall. However, there are likely to be some important shifts in the makeup of our work. These are likely to be caused by the changing economic environment. External factors can push different parts of our caseload either up or down.

Downward pressure is likely to come from an improving economic outlook – where, for example, higher investment returns may lead to fewer complaints about investment products. A downward trend can also be caused by financial businesses handling complaints better in the first place.

But upward pressure on case numbers is likely to come from continued financial difficulty for many consumers and businesses – leading to more complaints involving debt, and harder-fought cases that are more likely to be appealed to an ombudsman. A growing economy can also lead to *more* complaints in some areas – for example, complaints involving people buying and selling properties.

So although the total number of cases involving products *other than* PPI is likely to be broadly stable, the product mix of those cases is likely to change. We therefore need to make sure we continue to have the right mix of fully-trained case-handlers. At this stage we are assuming that there will be no new or emerging "mass detriment" issues in 2014/2015 – like mortgage endowments or PPI. However, there are some emerging issues that we will need to focus on – for example, mortgage interest rate changes, packaged and fee-paying current accounts, payday lending and interest rate "swaps".

Overall, therefore, we are currently assuming for planning purposes that in 2014/2015 we are likely to see a broadly stable number of *non*-PPI cases – around 120,000 in 2014/2015 *plus or minus* 15%. We would welcome your views on these figures – as well as on the likelihood of any new issues of "mass detriment" that may emerge in 2014/2015 that could have an impact on our work.

expected number of new cases in 2014/2015

The table below sets out the number of new cases that we are assuming will be referred to us in 2014/2015. A more detailed breakdown is at *Annex B*.

new cases	actual 2012/2013	forecast 2013/2014	budget 2014/15
banking	68,706	60,300	64,000
consumer credit	8,470	7,700	8,000
insurance (not including PPI)	33,172	33,000	32,000
Investments and pensions	19,834	16,000	16,000
PPI (payment protection insurance)	378,699	350,000	150,000
Total	**508,881**	**467,000**	**270,000**

We will keep these assumptions under close review.

expected enquiries in 2014/2015

Every case that is referred to us comes through our consumer helpline. This is the first point of contact for customers with problems and complaints. We are usually able to sort out around three quarters of these enquiries *without* the need to set up a formal case.

We do this by explaining the formal procedures that financial businesses have to follow. We also give consumers the information they need to be able to resolve problems themselves at the earliest stage possible – which we know is the best way to try to resolve a dispute. If a consumer has not yet complained to a business, we can explain how they can go about it.

Over the last two years we have seen a record number of phone calls and enquiries to our consumer helpline. Although the number of new PPI cases we are receiving is going down, our stock of PPI cases is high – which means staff on our helpline can spend time explaining how a case is likely to progress. We are assuming for planning purposes that the volume of consumer enquiries we receive in 2014/2015 will be similar to this year.

The volume of calls we receive is particularly sensitive to the impact of internet campaigns, media coverage and promotional activity by claims managers and others. In the past this has affected our PPI work in particular. So the estimates we give below for the number of enquiries we are likely to receive in 2014/2015 are tentative.

consumer enquiries to our helpline	actual 2012/2013	forecast 2013/2014	budget 2014/2015
phone calls	1,067,607	1,200,000	1,000,000
written enquiries	1,093,832	1,000,000	800,000
Total	**2,161,439**	**2,200,000**	**1,800,000**

expected number of resolved cases in 2014/2015

Over the last two years we have recruited around 2,000 case-handlers to deal with our PPI caseload. We now have enough full-trained staff in place and we are planning on the basis that we will not need to recruit any more case-handlers to work on PPI cases. That assumes that there are no "shocks" – for example, a new surge in PPI complaints, a legal challenge, or a significant change in complaint-handling practices by some businesses.

As we explained earlier in this chapter, the profile of the PPI cases we have to deal with is changing – with a shift to more complex and harder-fought cases. We have planned for this and adjusted our case-handling teams to reflect it, with more cases now going to more experienced case-handlers who are themselves supported by a bigger panel of ombudsmen.

Therefore, assuming that the number of new cases is within the ranges we have planned for, we believe we should be able to resolve around 320,000 PPI cases in 2014/2015. That would mean that during the year, we would reduce our stock of PPI cases from above 400,000 to around 250,000.

We also said earlier in the chapter that we are assuming the number of new *non*-PPI cases will be broadly stable. So we are not planning to recruit any new case handlers. However, we will need to make sure our staff are equipped to deal effectively with a changing product mix.

Taking everything into account, we believe we should be able to resolve around 120,000 *non*-PPI cases in 2014/2015.

The table below shows the *total* number of cases we expect to resolve in 2014/2015.

cases resolved	actual 2012/2013	forecast 2013/2014	budget 2014/2015
banking and credit	74,002	70,000	72,000
insurance (not including PPI)	30,353	36,000	32,000
investments and pensions	17,553	19,000	16,000
PPI (payment protection insurance)	101,321	310,000	320,000
Total	**223,229**	**435,000**	**440,000**

chapter 5: our proposed budget for 2014/2015

In this chapter:

- we set out our financial plans for 2014/2015; *and*
- we explain how these plans will help us to deal with our 2014/2015 caseload, and with PPI in particular.

Our financial plans for 2014/2015 are mainly concerned with reducing our stock of PPI cases. With this objective in mind, we believe we need to set an operating income budget of around £251.9m for 2014/2015. We expect to end this year with total operating income of around £313.7m, so this would mean we would need to recover around 20% less from financial businesses next year to support our budget.

We also need to consider how to obtain that income from the financial businesses we cover. We believe we should be able to freeze the standard case fee and levy (for the "compulsory jurisdiction"), while extending the new group-account fee to a further four financial business groups, and retaining the number of free cases at 25. We also believe we should be able to abolish the PPI supplementary case fee.

We believe that we can make these changes to income and still be in a position to make the necessary long-term investments for our organisation's future. As well as it being important to think about our staffing and premises in a sustainable way, we also have to bear in mind that the PPI challenge is one that it will take us years – not weeks and months – to resolve, with an overall cost running into hundreds of millions of pounds.

Nevertheless, we need to bear in mind the extreme uncertainty that surrounds any forecast of future PPI volumes. We know from the experience of recent years that the eventual numbers of cases coming to the ombudsman has been much higher than anyone forecasted at the time. Any number of events (a "time bar", for example) could lead to an upsurge in complaints.

PPI supplementary case fee, reserves, and meeting PPI related costs in future years

For the last two years we have charged a supplementary case fee of £350 for complaints about mis-sold PPI – payable when a case is referred to us. It has helped us manage the PPI caseload we are dealing with, and in particular the significant up-front costs of recruiting new case-handlers, acquiring premises and developing new operational processes.

When we introduced the fee, we said we would review the need for it when considering our funding needs in subsequent years. In contrast to the last two years, our financial position is currently relatively strong. We have now built up reserves to help us tackle the rest of the PPI challenge – including resolving the large number of existing PPI cases on our books and, in due course, the costs of winding down our PPI operations. We need to remember that PPI is a challenge that it will take us years – not weeks and months – to resolve fully. Although there remains the risk of a further surge in PPI cases, we currently believe we can safely stop collecting the PPI supplementary case fee from April 2014 – and that with present financial resources we should be able to achieve a broadly stable pattern of charges in future.

In reaching this conclusion we have also considered the possibility that, if incoming cases fall faster than we are forecasting, the supplementary fee could have generated *more* income than we might need to spend on our PPI infrastructure for the next few years: by the end of the year we will have about 11 months' worth of operating expenditure either in reserve or as deferred income (totalling around £219m). Although those funds only represent a tiny fraction of the overall cost of PPI to those involved in it, it is extremely important that they are managed correctly. Our plans for 2014/15 see those reserves reducing as a result of running a small operating loss. We expect our operating losses to widen in subsequent years as we handle more complex PPI cases and we start to incur costs associated with winding down our PPI operation.

Inevitably, it is difficult to forecast the future flow of cases and the pattern of costs we will incur several years ahead. But we believe that by the end of 2017/18, as a result of further operating losses, our reserves will have fallen significantly – probably to around four months' worth of operating expenditure. At the same time, our total costs to the industry are also likely to have fallen significantly as case volumes fall back once PPI cases are finally resolved.

Against this background we have given careful thought to whether in fact we could reduce our reserves even further now. That approach would help avoid a situation where the ombudsman would have a surplus at the end of PPI, which would need to be returned.

The income that has built up the present level of reserves has come primarily from the supplementary fee (and the equivalent element of the group-account fee this year). Over 70% of this income has come from the four major retail banking groups (Lloyds, Barclays, HSBC and RBS); over 90% of PPI cases have been generated within just ten businesses. Indeed two groups – Lloyds and Barclays – account for about a half of the PPI supplementary income we have received (unsurprisingly, as they have accounted for around half of all the cases referred to us). Any reduction in reserves now would need to be achieved by a rebate against supplementary case fees incurred over the past two years.

We have no wish to retain reserve levels at their present levels indefinitely. Our general approach is to keep reserves at a prudent level that is consistent with the economic and financially efficient operation of the organisation. The current position, however, is not straightforward. If we reduce the size of the reserves now by returning some money to supplementary case fee-payers – *before* we have more certainty about how PPI will shape up over the next year or so – then we create other risks. In particular, if case volumes are higher than we currently forecast, we could find ourselves having to increase charges in future years to tackle the costs of the PPI programme. Importantly though, the people who would pay those higher fees in future years would in all probability be rather different from those who have already paid the supplementary fee. That would not be a fair outcome, as businesses who generated the most PPI work would end up paying less and have the costs of the PPI work which they have generated paid for by other (smaller) businesses who were smaller contributors to the overall problem.

We also need to bear in mind that we may have a lower caseload in the future, and so the cost of closing any funding gap would be spread over fewer cases. That would mean fees per case rising much higher even than the current cost of a case with the supplementary fee. And depending on how many cases about PPI we then had, it might not be possible to raise fees in relation to PPI cases alone – but instead rely on levy or general case fees to secure sufficient income.

So, having taken everything into account, we propose not to return any of the reserves we have accumulated – at least not this year. However, we will keep an open mind on the issue and return any "excess" as soon as possible to fee payers. Certainly this is an issue that we will review again for the 2015/16 budget. In the meantime we will continue to press down on costs and secure the most efficient resolution to the remainder of our PPI casework as possible.

group-account fee

Last year we introduced a new group-account fee for our largest users to reflect their contribution to our overall costs. We also decided that it should, at least initially, be limited just to our very largest users. This meant that it applied to the four major banking groups that, at the time, accounted for around 60% of our caseload.

The group-account fee is calculated using the same general principles that apply to other case-fee payers. But rather than pay in relation to *individual* cases, group-account fees are determined in advance – and a quarterly fee is set based on the overall level of expected work from each group. There is some adjustment at the end of the year if out-turn figures are markedly different. This arrangement helps ensure that we receive our income in a timely and stable way – so that we can adjust our resources to respond to volatility in demand.

The first year of the group-account fee has been a success. The four major banking groups who have paid it have welcomed its transparency and predictability. And we have welcomed the lower administrative burden, increased efficiency and steadier cash flow it has provided. We always planned to extend the arrangement over time, and we believe the time is now right to extend the group-account fee to a further four financial business groups. The draft rules instrument at *Annex D* shows the groups and businesses we plan to include. Each of these groups has been involved in over 35,000 cases in the last 12 months.

consumer credit jurisdiction

Our consumer credit jurisdiction – which covers businesses licensed by the OFT, which are not regulated by the FCA – will be abolished from 1 April 2014 when consumer credit regulation passes from the OFT to the FCA. The businesses concerned will then be covered by our compulsory jurisdiction.

Income for each of our current three jurisdictions is ring-fenced by statute for each jurisdiction. Our consumer credit jurisdiction will close with a surplus held as deferred income of £1.7m and with an unused reserve of £0.75m (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).

Businesses transferring from the consumer credit to the compulsory jurisdiction will be subject to case fees in the usual way from the outset. But the FCA has indicated that it may not recover a levy from consumer credit businesses until 2016/2017, when its full regulatory regime for consumer credit takes effect. There is therefore a risk that we may have a shortfall in income for our consumer credit work during 2014/2015 and 2015/2016. We intend to use the surplus of £1.7m to offset this. But if some shortfall remains, we have indicated to FCA that we may need to see that shortfall recovered through future levies paid by consumer credit businesses in 2016/2017 and, if necessary, beyond.

funding our service in 2014/2015

Our detailed proposals for funding the service in 2014/2015 are described below.

case fees

For both of our jurisdictions (compulsory and voluntary), the amount of the case fee is set by us and approved by the FCA. Each business outside of the group fee arrangement has 25 free cases a year. For the 26th case, and any subsequent case, we charge a standard case fee – of £550 – once the case is resolved.

The free case allowance is intended to ensure that our funding requirements have a fair and proportionate impact of on every type of business. It reduces the number of businesses paying case fees, so that only around 1% of all of the businesses who come under the ombudsman pay our case fees.

We propose to freeze the standard case fee at £550 for 2014/2015, and to maintain the number of free cases at 25.

PPI supplementary case fee

As we explain above, we propose to set the supplementary case fee for PPI at £0 from April 2014. We will no longer collect this fee when a complaint about a PPI mis-sale is referred to us. However, we will make provision in the group-account fee for charges if volumes of PPI cases do not diminish as predicted.

group-account fee

We propose to retain the group-account fee arrangement we introduced last year for the four largest banking groups, and to extend it to a further four groups. We will set this sum for each group at the start of 2014/2015 – on the basis that the total amount each group pays will be the consistent with individual case fees (according to our forecast of the group's usage).

compulsory jurisdiction levy

The levy payable by FCA-authorised businesses is set and collected by the FCA.
The FCA 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 FCA levies, which is expected to be published in March 2014.

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; *and*
- 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.

We intend to ask the FCA to raise an overall levy for the compulsory jurisdiction of £23.3m in 2014/2015. This is the same as the amount of levy the FCA collected this year, and means that the overall amount of the levy would be frozen.

This means that most businesses are likely to pay a broadly similar levy in 2014/2015. However, the exact amount a business will pay will depend on the fee block they are in – because of the tariff rates the FCA sets for each fee block.

voluntary jurisdiction levy and case fees

The voluntary jurisdiction levy paid by participating businesses is set by the ombudsman service and approved by the FCA. It is collected by the ombudsman service. As with the compulsory jurisdiction, the income we receive for the voluntary jurisdiction is ring-fenced by statute for that jurisdiction. We also operate a reserve in line with our approach in the compulsory jurisdiction – covering three months' worth of expenditure.

The levy rates we propose for 2014/2015 are set out in *Annex C*. These are the same as in 2013/2014. Together with the income we receive from case fees, we believe these rates will be enough to fund our work under the voluntary jurisdiction in 2014/2015. Because there is no need to increase the voluntary jurisdiction reserve for 2014/2015, we will not be seeking any additional money to cover the reserve.

In line with the other compulsory jurisdiction, we propose to freeze the standard case fee in the voluntary jurisdiction at £550 and to maintain the number of free cases for each business at 25.

what this means for our overall income and expenditure plans – our proposed budget for 2014/2015

split between jurisdictions

With the levels of demand we have forecast for 2014/2015, we expect to be able to set an operating income budget of around £251.9m. To reflect the caseload we forecast under the compulsory and voluntary jurisdictions, we expect our total budget expenditure for 2014/2015 to be divided as follows:

- 99.5% would relate to our compulsory jurisdiction (which covers businesses regulated by the FCA), and includes 1.1% in relation to businesses formerly covered by our consumer credit jurisdiction (which will cease to exist in April 2014); *and*
- 0.5% 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 compulsory jurisdiction).

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 the year. Based on this measure, we expect our unit cost for this year (2013/2014) to be around £533 – and to rise in 2014/2015 to around £588.

These unit costs are significantly lower than in previous years. The unit cost in 2012/2013, for example, was £720. Our unit costs have fallen because of economies of scale in our PPI operation, our work with some of the major businesses to resolve large numbers of similar cases in one go, and our ongoing work to improve efficiency. However, over the long term, our unit costs will remain under sustained upward pressure because of general inflationary and cost pressures, the shift towards harder-fought disputes, and changes in the product mix of our caseload. We are beginning a programme of work designed to improve our underlying productivity as we emerge from the challenges of our PPI caseload.

overall picture

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

£m	13/14		14/15
	budget	forecast	budget
income			
compulsory jurisdiction levy	23.0	23.3	23.3
consumer credit jurisdiction and voluntary jurisdiction	1.8	2.0	1.2
group fees	177.1	191.5	164.5
case fees	62.8	68.1	62.4
supplementary case fees	21.1	28.2	0.0
other income	0.1	0.5	0.5
total operating income	**285.9**	**313.7**	**251.9**
expenditure			
staff and staff-related costs	200.5	184.7	191.4
professional fees	14.4	10.6	15.1
IT costs	12.8	8.9	11.6
premises and facilities	28.9	20.9	30.4
other costs	5.2	1.3	2.3
depreciation	4.0	5.4	8.0
bad-debt write-off	1.1	0.7	0.6
total operating costs	**266.9**	**232.5**	**259.5**
operating surplus/(deficit)	**19.0**	**81.2**	**(7.5)**
accounting adjustments			
deferred income [1]	(60.6)	(74.4)	0.0
deferred income release [1]	58.3	66.3	62.2
total accounting surplus/(deficit)	**16.7**	**73.1**	**54.7**
deferred income (at end of year) [1]	**89.7**	**96.3**	**33.2**
reserves (at end of year)	**66.4**	**122.8**	**177.5**
unit cost	**£690**	**£533**	**£588**

[1] Deferred income is subject to accounting policies (income should only be recognised as the work and costs relating to that income are incurred) and may be reduced.

Case fee	£550	£550	£550
free cases	25	25	25
Supplementary case fee	£350	£350	£0
free cases	25	25	-
Incoming cases			
other than PPI	135,000	117,000	120,000
PPI	250,000	350,000	150,000
Resolved cases			
other than PPI	140,000	125,000	120,000
PPI	245,000	310,000	320,000

your feedback

We would 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.

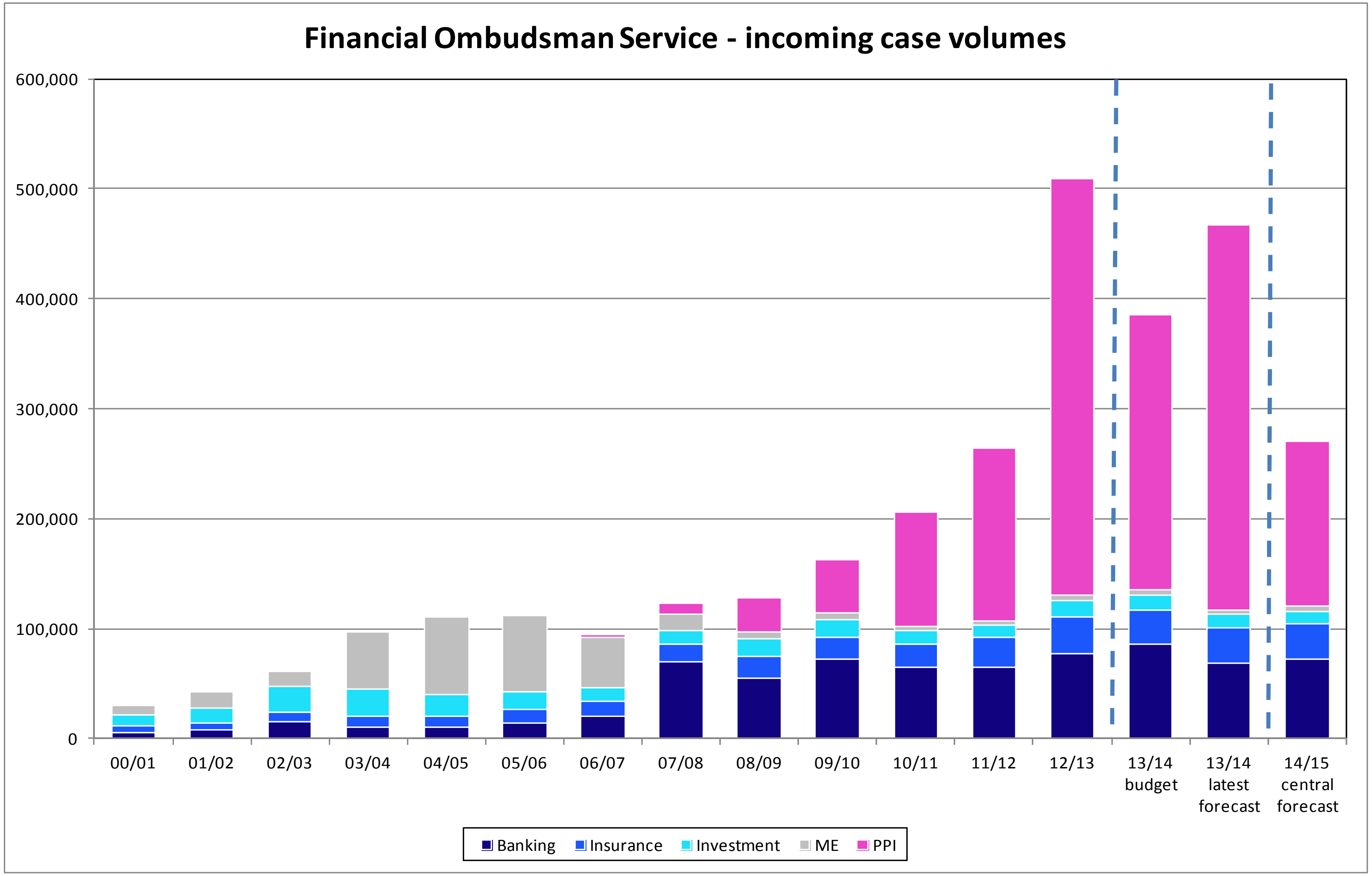
- the volume of new cases you expect us to receive – and whether the assumptions we have made for case volumes are reasonable.

- the volume of complaints about mis-sold PPI you expect we will receive, and whether our plans for dealing with these cases are realistic.

- our proposals to freeze the levy and standard case fee; our plan to reduce the PPI supplementary case fee to £0; to maintain the number of free cases at 25; to extend the group-account fee; and our approach to managing our reserves over the coming period.

Please send your views and comments – to reach us by Monday 17 February 2014 – to adrian.dally@financial-ombudsman.org.uk. Or write to:

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


Financial Ombudsman Service - incoming case volumes
600,000
500,000
400,000
300,000
200,000
100,000
0
00/01
01/02
02/03
03/04
04/05
05/06
06/07
07/08
08/09
09/10
10/11
11/12
12/13
13/14 budget
13/14 latest forecast
14/15 central forecast
Banking
Insurance
Investment
ME
PPI

our latest projections for volumes of new cases in 2013/2014 and 2014/2015

	2012/13	2013/14		2014/15
	Actual	Plan	Latest view	Central view
Current accounts	18868	22000	16400	18000
Credit cards	19634	20500	11000	9800
Mortgages	11938	15000	12800	14000
Other banking	18266	18500	20100	22200
Banking	**68706**	**76000**	**60300**	**64000**
Motor insurance	7785	8500	7500	7500
Other general insurance	25387	22500	25500	24500
Insurance (exc. PPI)	**33172**	**31000**	**33000**	**32000**
Mortgage endowments	4657	4900	4000	4000
Pension products	4401	4000	3800	3800
Other investment	10776	9600	8200	8200
Investment	**19834**	**18500**	**16000**	**16000**
Consumer credit	**8470**	**9500**	**7700**	**8000**
Total non-PPI	**130182**	**135000**	**117000**	**120000**
Payment protection insurance	**378699**	**250000**	**350000**	**150000**
Total	**508881**	**385000**	**467000**	**270000**

voluntary jurisdiction – proposed levies for 2014/15

FEES 5 Annex 2R
annual levy payable in relation to the voluntary jurisdiction for 2014/15

industry block and business activity		tariff basis	tariff rate	minimum levy
1V	deposit acceptors*, mortgage lenders* and *mortgage administrators* 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	*VJ participants* undertaking general insurance activities	per £1,000 of relevant annual gross premium income	0.103	£100
3V	*VJ participants* 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) *regulated activities* or (b) *payment services* or (c) *consumer credit activities*; or would be if they were carried on from an establishment in the *United Kingdom*	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 *United Kingdom*	Average outstanding electronic money as described in FEES 4 Annex 11R Part 3	£0.15 per £1000	£75

FEES MANUAL (FINANCIAL OMBUDSMAN SERVICE CASE FEES 2014/15) INSTRUMENT 2014

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; and
(2) the standard terms for Voluntary Jurisdiction 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 Conduct Authority.

C. The Financial Conduct Authority approves and consents to the making (and amendment) of the rules and standard terms that are made and amended by the Financial Ombudsman Service Limited under this instrument, pursuant to the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(a) section 226A (Consumer Credit jurisdiction);
(b) section 227 (Voluntary jurisdiction);
(c) paragraph 14 (The scheme operator's rules) of Schedule 17 to the Act; and
(d) paragraph 18 (Terms of reference to the scheme) of Schedule 17 to the Act.

The rule making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

D. This instrument comes into force on 1 April 2014 subject to the approval and consent of the Financial Conduct Authority having been received before that time.

Amendments to the Handbook

E. The Fees manual (FEES) is amended by the Board of the Financial Ombudsman Service in accordance with the Annex to this instrument.

Citation

F. This instrument may be cited as the Fees Manual (Financial Ombudsman Service Case Fees 2014/15) Instrument 2014.

By order of the Board of the Financial Ombudsman Service Limited
XX March 2014

Amendments to the Fees manual (FEES)

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

Amend the following as shown.

Supplementary Case fee

5.5B.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.16 R~~ 5.5B.17 R in any *financial year*.

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*.

5 Annex 2R Jurisdiction **Annual Levy Payable in Relation to the Voluntary**

2014/15

Industry block and business activity		**Tariff basis**	**Tariff rate**	**Minimum levy**
1V	Deposit acceptors, mortgage lenders and mortgage administrators 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	*VJ Participants* undertaking general insurance activities	Per £ 1,000 of relevant annual gross premium income	£0.103	£100
3V	VJ Participants undertaking life insurance activities	Per £ 1,000 of relevant adjusted annual gross premium income	£ 0.025	£ 100
6V	Intermediaries	n/a	n/a	£75
7V	Freight-forwarding companies	n/a	n/a	£75
8V	National Savings & Investment	n/a	n/a	£10,000
9V	Post Office Limited	n/a	n/a	£2,000
10V	Persons not covered by 1V to 9V undertaking activities which are: (a)*regulated activities* or (b)*payment services* or ~~(c)*consumer credit activities;* or~~ would be if they were carried on from an establishment in the *United Kingdom*	n/a	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 *United Kingdom*	Average outstanding electronic money as described in FEES 4 Annex 11R Part 3	£0.15 per £1000	£75

5 Annex 3R Case Fees Payable for 2014/15

Part 1 – Standard case fees		
	Standard case fee	
In the: Compulsory jurisdiction~~;~~ ~~Consumer credit jurisdiction;~~ and Voluntary jurisdiction	£550 unless it is a *not-for-profit debt advice body* with *limited permission* in which case the amount payable is £0	

Notes	
1	The definition of *standard case fee* is in *FEES* 5.5B (Case fees). The definition of *chargeable case* is in the Glossary to the *Handbook*.
2	The *standard case fee* will be invoiced by the *FOS Ltd* on or after the date the case is closed.
3	A *respondent* will only be invoiced a case fee for the 26th and subsequent *chargeable case* in each *financial year*.
4	The definition of *not-for-profit debt advice body* is in the Glossary to the *Handbook*.
5	The definition of *limited permission* is in the Glossary to the *Handbook.*

Part 2 – Supplementary case fees			
		Supplementary case fee	
In the: Compulsory jurisdiction~~;~~ ~~Consumer credit jurisdiction;~~ and Voluntary jurisdiction	For the 26th and subsequent *chargeable cases (PPI)*	~~£350~~ £0	

Notes	
1	The definition of *supplementary case fee* is in *FEES* 5.5B (Case fees). The definition of *chargeable case (PPI)* is in the Glossary to the *Handbook*.
2	The *supplementary case fee* when payable will be invoiced by the *FOS Ltd* on or after the date the case is referred to the *Financial Ombudsman Service*.
3	The *supplementary case fee* when payable will be invoiced for the 26th and subsequent *chargeable cases (PPI)* against any *respondent* referred to the *Financial Ombudsman Service* in each *financial year*.

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

Part 3 – Charging groups	
The ~~four~~ *charging groups*, and their constituent *group respondents*, are listed below. They are based on the position at 31 December immediately preceding the *financial year*. For the purposes of calculating, charging, paying and collecting the special case fee, they are not affected by any subsequent change of ownership.	
1	Barclays Group, comprising the following *firms*: ABSA Bank Limited Barclays Asset Management 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 Gerrard Financial Planning Ltd Gerrard Investment Management Limited

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

	~~HSBC Specialist Investment Funds Ltd~~ HSBC SPECIALIST INVESTMENT FUNDS HSBC Trinkaus & Burkhardt AG HSBC Trust Company (UK) Ltd HSBC UBP HSBC Van Meer James Capel NV InfraRed Capital Partners Limited InfraRed (Infrastructure) Capital Partners Limited Marks and Spencer Financial Services plc Marks & Spencer Life Assurance Limited Marks & Spencer Savings and Investments Ltd Marks & Spencer Unit Trust Management Limited Pantelakis Securities SA Sinopia Asset Management (UK) Limited The Hongkong and Shanghai Banking Corporation Limited
3	Lloyds Banking Group, comprising the following *firms*: AMC Bank Ltd Bank of Scotland (Ireland) Limited Bank of Scotland Plc Black Horse Limited Cheltenham & Gloucester plc Clerical Medical Financial Services Limited Clerical Medical Investment Fund Managers Ltd Clerical Medical Investment Group Limited Clerical Medical Managed Funds Limited CLERICAL MEDICAL OPEN ENDED INVESTMENT COMPANY Halifax Assurance (Ireland) Limited Halifax Financial Brokers Limited Halifax General Insurance Services Limited Halifax Insurance (Ireland) Limited ~~Halifax Insurance Ireland Ltd~~ Halifax Investment Services Ltd Halifax Life Limited Halifax Share Dealing Limited HBOS Investment Fund Managers Limited

	Insight Investment Global Investment Funds
	INSIGHT INVESTMENT PROFESSIONAL FUNDS ICVC
	Invista Real Estate Investment Management Ltd
	IWeb (UK) Limited
	LDC (Managers) Limited
	Legacy Renewal Company Limited
	Lex Autolease Ltd
	Lex Vehicle Leasing Ltd
	Lloyds Development Capital (Holdings) Limited
	~~Lloyds TSB Bank Plc~~
	Lloyds Bank Plc
	Lloyds TSB Financial Advisers Limited
	~~Lloyds TSB General Insurance Limited~~
	Lloyds Bank General Insurance Limited
	~~Lloyds TSB Insurance Services Limited~~
	Lloyds Bank Insurance Services Limited
	Lloyds TSB Investments Limited
	~~Lloyds TSB Private Banking Ltd~~
	Lloyds Bank Private Banking Limited
	~~Lloyds TSB Scotland Plc~~
	Pensions Management (SWF) Limited
	Scottish Widows Administration Services Limited
	Scottish Widows Annuities Limited
	Scottish Widows Bank Plc
	Scottish Widows Fund Management Limited
	Scottish Widows Investment Partnership Investment
	Scottish Widows Investment Partnership Limited
	Scottish Widows plc
	Scottish Widows Tracker and Specialist Investment Funds ICVC
	Scottish Widows Unit Funds Limited
	Scottish Widows Unit Trust Managers Limited
	St Andrew's Insurance plc
	St Andrew's Life Assurance Plc
	SWIP Fund Management Limited
	SWIP Multi-Manager Funds Limited

	The Mortgage Business Plc TSB Bank plc Uberior Fund Manager Ltd
4	RBS/NatWest Group, comprising the following *firms*: Adam & Company Investment Management Ltd Adam & Company Plc Coutts & Company Coutts Finance Company 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 Ulster Bank Ireland Limited Ulster Bank Ltd RBOS (UK) Limited

5	Aviva Group, comprising the following firms:
	Aviva (Peak No. 1) UK Limited Aviva Annuity UK Limited Aviva Equity Release UK Limited Aviva Health UK Limited Aviva Insurance Limited Aviva Insurance Services UK Limited Aviva Insurance UK Limited Aviva International Insurance Limited Aviva Investors Global Services Limited Aviva Investors London Limited Aviva Investors Pensions Limited Aviva Investors UK Fund Services Limited Aviva Investors UK Funds Limited Aviva Life & Pensions UK Limited Aviva Life Services UK Limited Aviva Pension Trustees UK Limited Aviva Wrap UK Limited CGU Bonus Limited CGU Underwriting Limited Commercial Union Life Assurance Company Limited Gresham Insurance Company Limited Hamilton Life Assurance Company Limited Hamilton Insurance Company Limited Norwich Union Life (RBS) Limited Orn Capital LLP Scottish Boiler and General Insurance Company Ltd The Ocean Marine Insurance Company Limited World Auxiliary Insurance Corporation Limited
6	Direct Line Group, comprising the following firms:
	Churchill Insurance Company Limited

	UK Insurance Limited UK Insurance Business Solutions Limited
7	Nationwide Building Society Group comprising the following firms:
	Derbyshire Home Loans Ltd Dunfermline Building Society (in building society special administration) E-Mex Home Funding Limited Nationwide Building Society Nationwide Independent Financial Services Limited The Mortgage Works (UK) Plc UCB Home Loans Corporation Ltd
8	Santander Group, comprising the following firms:
	Abbey National Treasury Services Plc Abbey Stockbrokers Limited Cater Allen Limited Santander Cards UK Limited Santander Consumer (UK) Plc Santander UK Plc

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 closed before 1 January in the immediately preceding *financial year*.

open *chargeable cases (general)* for all *firms* –

H = 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*) before 1 January in the immediately preceding *financial year* which had not been closed before 1 January in the immediately preceding *financial year*.

(2) ‘Proportion X’ for each *charging group* is a percentage calculated as follows –

A / B x 100

(3) ‘Proportion Y’ for each *charging group* is a percentage calculated as follows –

{A + C} / {B + D} x 100

(4) ‘Proportion Z’ for each *charging group* is a percentage calculated as follows –

{E + G} / {F + H} x 100

2	The special case fee is intended to broadly reflect the budgeted workload capacity of the *Financial Ombudsman Service* and comprises elements in respect of:
	(1) new *chargeable cases (PPI)*;
	(2) closed *chargeable cases (PPI)*; and
	(3) closed *chargeable cases (general)*;
	with a free-case allowance of:
	(4) 125 new *chargeable cases (PPI)*; and
	(5) 125 closed *chargeable cases (general)*.
3	The special case fee for each *charging group* is a total amount calculated as follows:
	(1) in respect of new *chargeable cases (PPI) –* {~~£350~~ <u>£0</u> x [~~250,000~~ <u>150,000</u>] x the 'proportion X'} – {~~£350~~ <u>£0</u> x 125}
	(2) in respect of closed *chargeable cases (PPI) –* £550 x [~~245,000~~ <u>320,000</u>] x the 'proportion Y'
	(3) In respect of closed *chargeable cases (general)–* {£550 x [~~140,000~~ <u>120,000</u>] x the 'proportion Z'} – {£550 x 125}
4	The *FOS Ltd* will invoice each *charging group* for the special case fee (calculated as above) in four equal instalments, payable in advance on the following dates during the *financial year*: (1) 1 April (or, if later, when *FOS Ltd* has sent the invoice); (2) 1 July; (3) 1 October; and (2) 1 January.
5	Year-end adjustment:
	(1) If the actual number of new *chargeable cases (PPI)* referred to the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is more than 115% of {[~~250,000~~ <u>150,000</u>] x the 'proportion X'}: (a) the *FOS Ltd* will invoice the *relevant charging group*; and (b) the relevant *charging group* will pay to *FOS Ltd*; an additional £35,000 for each block of 100 (or part thereof) new *chargeable cases (PPI)* in excess of the 115%.
	(2) If the actual number of *chargeable cases (general)* closed by the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is more than 115% of {[~~140,000~~ <u>120,000</u>] x the 'proportion Z'}: (a) the *FOS Ltd* will invoice the *relevant charging group*; and (b) the relevant *charging group* will pay to *FOS Ltd*; an additional £55,000 for each block of 100 (or part thereof) new *chargeable cases (PPI)* over the 115%.

	(3)	If the actual number of *chargeable cases (general)* closed by the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is less than 85% of {[~~140,000~~ 120,000] x the ‘proportion Z’}, the *FOS Ltd* will promptly repay to the relevant *charging group* £55,000 for each block of 100 (or part thereof) closed *chargeable cases (general)* under the 85%.