Financial Ombudsman Service

strategic plans and budget for 2019/2020

about us

We were set up by Parliament under the *Financial Services and Markets Act 2000* to resolve individual complaints between financial businesses and their customers – fairly, reasonably and as informally as possible. From April 2019, our remit will be extended to more complaints made by small and medium-sized enterprises about financial businesses, and to complaints made by customers of claims management companies.

If a business and their customer can't resolve a problem themselves, we can step in to sort things out. Independent and unbiased, we'll get to the heart of what's happened and reach an answer that helps both sides move on. And if someone's been treated unfairly, we'll use our powers to make sure things are put right. This could mean telling the business to apologise, to take action or to pay compensation – in a way that reflects the particular circumstances.

In resolving hundreds of thousands of complaints every year, we see the impact on people from all sorts of backgrounds and livelihoods. We're committed to sharing our insight and experience to encourage fairness and confidence in the different sectors we cover.

about this consultation

questions and how to respond

horizon one

1	What's your perspective on the trends we've highlighted?
2	Are there other trends you're seeing, or any insights you have, that you think we should take into account in our plans?
3	What do you think about our projections for the volumes of complaints we'll see up to 31 March 2019?

horizon two

4	What do you think about our projections for the volumes of complaints we'll receive and resolve in 2019/2020?
5	What are your views on the uncertainties we're facing in PPI and short-term lending?
6	What are your views on our plans for our new small and medium-sized enterprise (SME) jurisdiction?
7	What are your views on our plans for our new claims management company (CMC) jurisdiction?
8	What are your views on our plans to develop our service in 2019/2020?
9	What are your views on our proposed funding arrangements for 2019/2020, including increasing our levy?

horizon three

10	How far do you think our guiding principles remain relevant as we look ahead?
11	What are your views on the questions we've set out?
12	Are there any other questions you think we need to ask, or any other developments you think we should take into account?
13	What do you think about the next steps we've identified in developing our strategy?
14	Do you have any other feedback about our strategic approach?

our future funding

15	What are your views on the principles that underpin our funding?
16	What do you think about the funding options we've presented?
17	When do you think we should change our funding model?
18	Do you have any other views about our future funding?

Please respond by **31 January 2019** to:

stakeholder team – consultation responses
PO Box 69989
Financial Ombudsman Service
London
E14 1PR

You can also email **consultations@financial-ombudsman.org.uk**
or respond online at **ombudsman1920.questionpro.eu**

We may want to publish the responses we receive – and in the interests of transparency, we encourage non-confidential responses. If you do send us a confidential response, please tell us why you consider the information confidential. We can't guarantee that confidentiality can always be maintained, and we won't view an automatic email confidentiality disclaimer as binding.

the next steps

17 December 2018	our consultation opens
31 January 2019	deadline for responses
6 March 2019	ombudsman service's board considers final budget
22 March 2019	FCA board considers ombudsman service's final budget
by 31 March 2019	ombudsman service adopts final budget and publishes *our plans for the year ahead 2019/2020*

chief ombudsman & chief executive's introduction

Today, around eight months from the FCA's PPI complaints deadline, that episode of mass mis-selling accounts for more than four in ten complaints we receive. It's still necessarily a significant focus for us, the FCA and financial businesses, as well as for customers and those representing them.

But if PPI was once the main story, that isn't the case any longer. Continuing recent trends, in 2018/2019 we've seen a further steep rise in complaints involving short-term lending such as payday and instalment loans. This has happened against a background of a general rise in complaints, including those arising from borrowing and debt generally, as well as from trouble with bank IT systems.

At this point – as we look ahead to 2019/2020 – we're experiencing the highest demand for five years, despite receiving fewer PPI complaints than anticipated. In the near future, however, the approaching PPI deadline is likely to result in a surge in complaints – at a time and scale that aren't yet clear.

This public consultation is a chance for us to set out our plans for the coming financial year – highlighting the demand we expect, and how we'll respond to it. Faced with this level of volatility and uncertainty, we're especially grateful for the perspectives that our stakeholders – whether they represent large financial groups, small specialist businesses, or the interests of financial services customers – continue to share with us.

As we prepare to take on new and significant responsibilities, our stakeholders' insight is more important than ever. From 1 April 2019, around 210,000 more small and medium-sized enterprises will have access to our service, and our remit will also be extended to complaints about claims management companies. This consultation also details our plans for managing these areas of work. The FCA and Parliament have trusted us to provide the quality of service required by the parties involved – and that's what we'll be focused on in the months ahead.

In view of these significant developments, and with the end of PPI in sight, we're also asking for feedback on our longer-term strategy. The time horizons this consultation follows, spanning the current financial year through to 2025 and beyond, provide a framework for thinking about our immediate priorities – but also about the principles of an effective future ombudsman service, in a landscape that's very different to the one in which we were established nearly 20 years ago.

This thinking includes considering all options in respect of our funding – which, in line with the commitment we made last year, we've already begun to discuss with our stakeholders. We'd welcome further views on how – in light of how financial services, and complaints, continue to evolve – our service can be paid for in a fair and stable way.

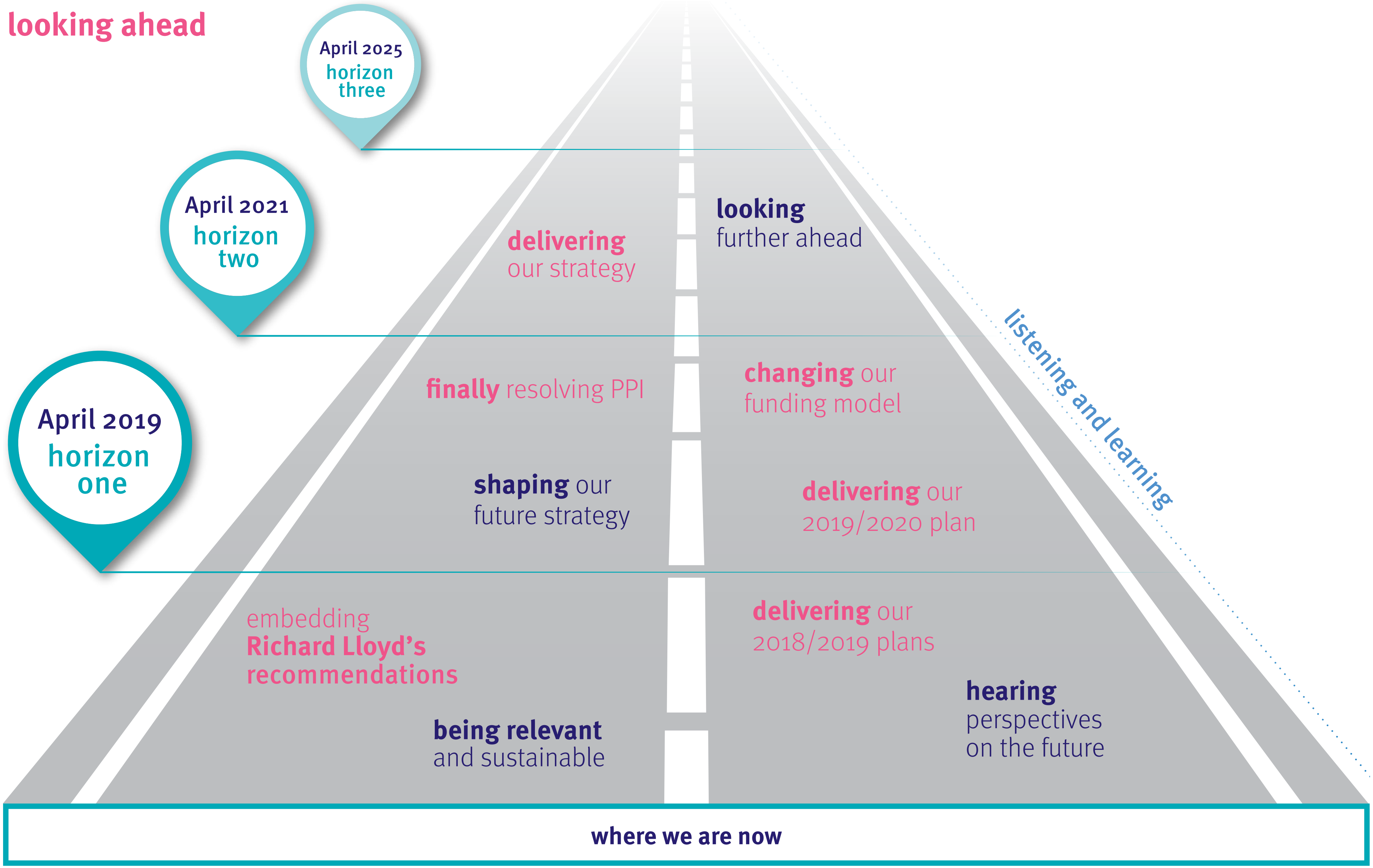
As we look ahead, we're making sure we reflect on our own recent experience of change, and getting to the heart of what we can do better.

In July 2018 we accepted all the recommendations made by Richard Lloyd, following his independent review of our service. These recommendations form a key part of our plans, and in the final chapter of this consultation we provide a separate update on the action we've taken in response to them.

It's essential we keep listening and learning – both to our own people, who care so much about the work we do, and to the widest possible range of stakeholders – so we continue to provide the forward-looking and effective service people rely on and expect. I look forward to hearing your views about what's next.

Caroline Wayman
chief ombudsman &
chief executive
17 December 2018

looking ahead



1 horizon one

current outlook for 2018/2019

In this chapter we review the current financial year, 2018/2019, explaining how far the work we've needed to do aligns with the plans and budget we set in March 2018. We outline notable trends we've seen in complaints, and the ways we've continued to develop our service – which will inform the plans and budget we'll need to set for 2019/2020.

2018/2019 has been a very challenging year – both in terms of the continued high volumes of complaints we've received, and the volatility in demand that we've needed to manage. In response, we've been investing in our case-handling capacity in our general casework, and anticipate an upward trend in demand to continue into next year. However, we've received fewer PPI complaints than we thought we might have at this stage before the complaints deadline.

new complaints

financial product or service	2017/2018 actual	2018/2019 budget	2018/2019 latest forecast	forecast comparison with 2017/2018 actual
PPI	186,417	220,000	200,000	▲ 7%
general casework *including*	123,498	130,000	145,000	▲ 17%
banking and credit (except packaged bank accounts and short-term lending)	74,162	74,900	90,500	▲ 22%
insurance (except PPI)	36,704	40,000	40,000	▲ 9%
investments and pensions	12,632	15,100	14,500	▲ 15%
packaged bank accounts	11,674	10,000	12,000	▲ 3%
short-term lending (payday and instalment loans)	18,378	20,000	50,000	▲ 172%
total	**339,967**	**380,000**	**407,000**	▲ 20%

resolved complaints

financial product or service	2017/2018 actual	2018/2019 budget	2018/2019 latest forecast	forecast comparison with 2017/2018 actual
PPI	258,331	250,000	230,000	▼ 11%
general casework *including*	118,874	130,000	120,000	▲ 1%
banking and credit (except packaged bank accounts and short-term lending)	69,571	74,900	76,200	▲ 10%
insurance (except PPI)	36,626	40,000	33,500	▼ 9%
investments and pensions	12,677	15,100	10,300	▼ 19%
packaged bank accounts	11,719	10,000	12,000	▲ 2%
short-term lending (payday and instalment loans)	11,734	20,000	20,000	▲ 70%
total	**400,658**	**410,000**	**382,000**	▼ 5%

complaint trends and issues we've seen

PPI

For the first time in eight years, less than half the new complaints we're receiving are about PPI. In 2018/2019 we planned to resolve 30,000 more complaints than we received. We're on course to do so – but having received around 20,000 fewer complaints than we'd budgeted for, we now expect to resolve 230,000 cases, rather than 250,000. A claims management company continues to tell us it plans to judicially review our well-established approach to resolving PPI complaints, which is affecting our ability to move forward a significant number of cases.

Of the complaints we resolve, we expect around 33,000 will centre on undisclosed high commission, following the case of *Plevin v Paragon Personal Finance Limited*. In our previous plans and budget consultations, we've explained the delays we were experiencing at that time in resolving complaints affected by *Plevin* – as the FCA consulted extensively on proposed rules and guidance relating to the issues involved. It's now been clarified that, in some circumstances, more people – those affected by the *recurring* non-disclosure of commission – may now be due compensation.

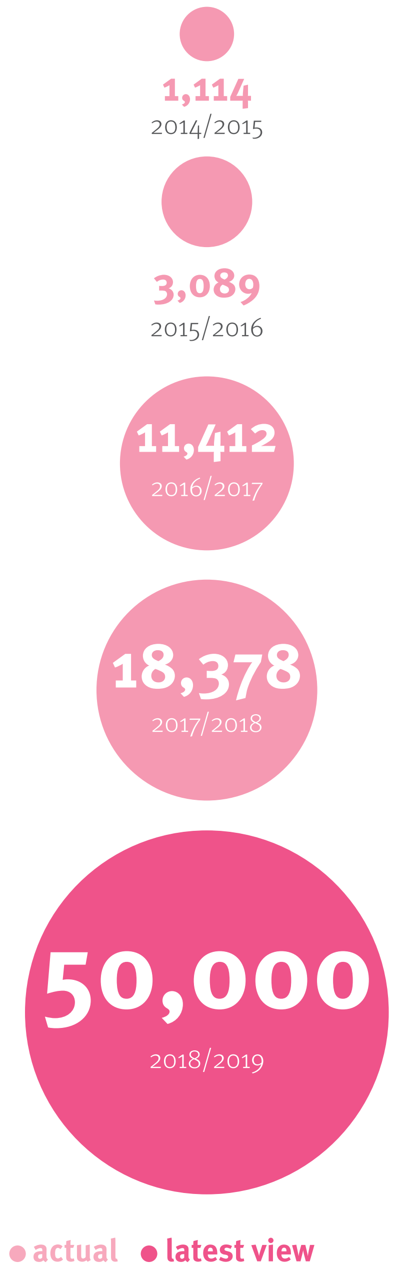
Eight months before the FCA's PPI complaints deadline of 29 August 2019, we haven't yet seen a significant spike in volumes of complaints to our service. There remains uncertainty about whether or when this spike will happen, as well as how many complaints it might involve. There's more in the next chapter about what might happen before this episode of mass mis-selling is finally resolved, and how we plan to manage our PPI workload to its conclusion.

borrowing and debt

We explained in our 2017/2018 *annual review* that we'd continued to see a significant increase in complaints from people who had concerns after borrowing money. This trend cut across different areas of consumer credit – which includes financial services that are the subject of ongoing regulatory focus, such as hire purchase, rent-to-own and doorstep lending. We've publicly shared our concerns that, in a significant number of complaints, lenders aren't doing enough to ensure their customers' borrowing is sustainable, which can leave those customers in very vulnerable circumstances. The FCA has recently announced that a price cap will apply to the rent-to-own sector from April 2019.

Within the context of this overall increase, the rate of the rise in complaints about payday and instalment loans is particularly pronounced. By the end of 2018/2019, we expect to receive more than 200% of the volumes of these complaints than we did in the whole of the previous year – 50,000 cases, compared with the 20,000 we'd planned for.

rise in complaints about short-term lending



So far this year we've upheld around five in ten of the complaints we've received. Typically, we're hearing from people who've been given many loans. And in many cases, we're deciding that lenders have failed both to ask sufficient questions upfront, and ask sufficient questions as the relationship continues – to ensure it's responsible to continue to lend and sustainable for their customer.

Given the likelihood of compensation being paid, it's unsurprising that claims management companies are particularly active in this area. Over the last two years, the proportion of complaints we've received via these companies has risen from one in ten to eight in ten – similar levels to PPI. Businesses in this sector have shared concerns with us about some CMCs' behaviour. To ensure payday borrowers are treated fairly – and as we've done previously with PPI and packaged bank accounts – we've continued to remind CMCs about what's expected of them and to share what we're seeing with the Claims Management Regulator.

On the basis of current trends, we'll need to be prepared to receive significant volumes of complaints about short-term lending in the next financial year. However, in October 2018, the FCA wrote to lenders in this sector telling them to review their current practices, consider whether any proactive redress is required, and to take our decisions into account. The FCA also told lenders to inform them if they were unable to meet their financial commitments. And as more people raise concerns about lending that's happened previously, concerns have been raised about the long-term sustainability of some businesses.

In August 2018, Wonga, one of the best-known payday lenders, went into administration. At that point, complaints about Wonga accounted for 22% of the complaints we'd received about short-term lending as a whole. Following discussion with the FCA and the appointed insolvency practitioners, we've been directing Wonga customers to the administrators – who will be deciding whether people are creditors and, if so, how much money they are due to receive. The Financial Services Compensation Scheme (FSCS) – the "final safety net" for customers of financial businesses that stop trading – doesn't cover consumer credit lending activities.

As we set our plans, we're very mindful that we could need to scale up in response to an anticipated rise in demand for our help. However, we're mindful too of the potentially heightened risk around the ongoing sustainability of some lenders, which could leave us unable to take forward their customers' complaints. To help prevent problems arising in the first place, we've continued to engage with credit providers – sharing examples of the issues we're seeing in their complaints handling. There's more detail in the next chapter about our projections around short-term lending next year.

banking and other types of credit

Together, PPI and short-term lending account for around 60% of our caseload. However, we've seen growing demand for our help in other areas – including banking, where we've received around 20% more complaints than we projected at the beginning of the year.

During the summer of 2018, IT trouble at the bank TSB accounted for a significant rise in people contacting us about banking. Over recent years we've handled a number of instances of online banking outages – and have worked with banks to understand the steps they need to take to ensure they address the practical impact of the problems, which often goes well beyond the inconvenience of being unable to log in. With online banking increasingly the norm, we, like banks themselves, need to be ready to respond to these types of problems with the urgency required.

We've also continued to see steady numbers of complaints involving banking fraud and scams. We've explained to businesses that – in view of the growing sophistication of criminals' methods – it isn't fair to automatically assume customers who've lost money to fraudsters have acted with "gross negligence". Under the rules that currently apply in this area, there are limited circumstances in which we can help people who've been victims of "authorised push payment" (APP) scams, where they've unwittingly transferred money to fraudsters. The FCA has proposed to extend our remit from January 2019, so we can look into complaints from people who are unhappy with the actions of the bank that *received* the funds following a scam.

Consistent with the rise we've seen in complaints about debt, we've received nearly 20% more complaints involving credit cards. We're also working with the Department for Business, Energy and Industrial Strategy to help resolve remaining complaints arising from the liquidation of Green Deal providers. Outside these issues, we haven't seen significant new trends in complaints about banking and more traditional forms of lending such as mortgages.

insurance

In 2018/2019 complaints about insurance have been at the level we expected. Within this caseload, we've seen a rise in people contacting us about buildings insurance, as well as about home emergency cover.

Some of these complaints can be attributed to weather extremes the UK has experienced over recent months – which have resulted in damage to property, including greater incidence of subsidence. Compared with other areas, such as banking, there can a be more of a delay between a problem arising and a complaint reaching us – because, if the claim hasn't been rejected outright, people typically complain only after the insurer has tried to carry out repairs.

During the year, the perceived unfairness of year-on-year insurance premium increases has received sustained media attention – and in particular, examples where the people involved are vulnerable in some way. In April we shared our insight into complaints we were receiving from people in this position – to help insurers understand how we make a call about the fairness of an increase, and to help insurance customers understand the situations where premium increases may be justified.

In September 2018 Citizens Advice announced it was making a super-complaint to the Competition and Markets Authority (CMA) about this “loyalty penalty” – and the FCA will now carry out a market study to look into the issues in more detail.

investments and pensions

Our current forecasts show complaints relating to investments and pensions being broadly in line with our expectations. Although these complaints represent a small proportion of our overall casework, they account for a significant proportion of the complaints we receive about financial advisers. The issues involved can be particularly complex and entrenched – with a customer on one hand telling us they're potentially facing significant losses, and on the other hand, a financial adviser who will need to bear the costs of putting things right if we decide in their customer's favour.

Advisers have told us they're particularly concerned about potential complaints involving transfers out of defined benefit pension schemes. This includes complaints from people who feel they shouldn't have been advised to transfer out, think they've lost out due to delays, or are unhappy with advisers who've refused to help them access their pension pot.

This year we've continued to invest in our case handlers' training to ensure the ongoing consistency and fairness of our answers to these complaints. In September 2018 we invited a panel of pensions experts – including the Pensions Advisory Service's chief executive Michelle Cracknell, former pensions minister Sir Steve Webb and consultants from Aon Hewitt – to share their experience and insight with our people and discuss the issues involved in complaints. And to give advisers greater clarity about our approach to resolving individual complaints, we've published detailed case studies illustrating the types of problems we see, alongside commentary from the FCA and The Pensions Regulator. In October 2018, the FCA published its final rules and guidance relating to pension transfer advice – confirming its stance that advisers should start from the position that people will be better off not transferring their pension.

our performance and finances

Currently, our measures of customer satisfaction – which cover both people who've complained to us and the businesses involved – are broadly in line with the aims we set out in our commitments.

However, we're mindful that the general increase in demand for our service will continue to put upward pressure on the time people need to wait for our answer, and our ability to reach the standards set out by the *Directive on Alternative Dispute Resolution* (ADR).

To ensure we're prepared to handle an ongoing increase in demand, we've needed to change our plans – and build up our case handling capacity in 2018/2019 in a way we hadn't initially planned for, diverting resources into recruitment and training.

At the same time, because we've received fewer PPI complaints, we'll resolve fewer complaints than we set out in our plans. Reflecting revised PPI complaints volumes, we'll receive less income – and the costs of resolving PPI complaints will also be lower.

As we explained in *our plans for the year ahead*, we've continued to draw on our reserves. Our current level of reserves is partly a result of previously charging a supplementary case fee for PPI complaints – with the aim of using these funds to help us scale up our PPI operations, to help wind it down, and to get our service ready for a future when PPI doesn't dominate our casework.

front line complaints to firms up **10%**

complaints to us up

22%

all complaints, Jan to Jun 2018 compared with Jul to Dec 2017

financial summary	2018/2019 budget	2018/2019 latest forecast	comparison with 2018/2019 budget
£m	£m	£m	
operating income	230.4	227.1	-1%
operating expenditure	289.8	285.2	-2%
operating deficit	59.3	58.1	-2%

developing our service

preparing for new jurisdictions

The model of alternative dispute resolution we've used for nearly 20 years – free and informal, but with legally-enforceable decisions – is seen as good practice both in the UK and internationally. Recognising the benefits of this approach, Parliament and the FCA have this year finalised proposals to extend our jurisdiction. From 1 April 2019, more small and medium-sized enterprises will be able to complain to us about financial providers. The FCA will also be regulating claims management companies from this date, taking over from the Ministry of Justice – and we'll be able to look into complaints made by their customers, which was previously the responsibility of the Legal Ombudsman.

210,000

more SMEs will have access to the ombudsman service from April 2019

Read more about our SME plans on page 25 and 26

In the next chapter, we've explained in more detail how we plan to manage these two new jurisdictions. For the remainder of 2018/2019, we'll continue our preparations to ensure we have appropriate people, infrastructure and governance arrangements in place to fulfil our responsibilities effectively. Our work to date has included:

- engaging with relevant stakeholders to discuss the regulatory rules for the two jurisdictions, and transferring and building case handling knowledge and experience.
- considering options relating to the practical delivery of these new parts of our service – including their resourcing, location and technology requirements.
- planning for the internal and external recruitment of suitably experienced people to lead our new areas of work, as well as for skilled case handlers.

digital and IT

In line with the plans we set out at the beginning of 2018/2019, we've continued to develop our IT and digital capabilities. This has included continuing to develop our new case handling tool, Phoenix, with frequent testing to ensure a smooth changeover from our existing system. We've been piloting our new system with businesses so they can adapt their own operations in anticipation of the launch.

The development of our new portal technology is necessarily linked to the development of Phoenix. Once launched, this new option for communicating and sharing information will create a more convenient service for people who want to refer complaints to us – as they'll be able to share information with us securely and check on the progress of their case without needing to contact us.

In progressing our IT projects, we've been factoring in relevant requirements relating to the new types of complaints we expect to be dealing with from April 2019. Before the proposed start of these new jurisdictions, we plan to launch two microsites relating to our work helping SMEs and customers of claims management companies.

building knowledge, sharing insight

We've explained in previous plans how our knowledge tools and networks are fundamental to the investigation model we launched in 2016 and have been embedding over the last two years. These structures, drawing on the experience of our internal subject matter and knowledge experts, help us maintain levels of quality and consistency – as well as the ability to identify trends – as our case handlers each deal with more areas of complaint, helping us respond flexibly to demand.

The quality of our answers is fundamental to our stakeholders' confidence in us – and to our ability to play our part in promoting confidence in financial services more generally. The changes we've made to our operating model have been accompanied by significant investment in our people's knowledge and skills, as well as in processes that ensure the quality and consistency of our answers. In response to previous consultations, our stakeholders have been clear that we should continue to invest in this way.

We've been careful to ensure that more complex cases, as well as those involving emerging issues, are able to be identified and investigated by case handlers with the necessary specific expertise – and continue to evaluate how things are working to ensure people can rely on our answers. This balance of flexibility and knowledge has also been at the forefront of our plans for managing our new jurisdictions, which we've explained in more depth in the next chapter.

In 2018/2019 we've also continued to engage with stakeholders to share our experience, to hear their perspectives on complaints and to explain the work we do. This has included meeting a wide range of stakeholders face to face – including financial businesses and trade bodies, charities and consumer representatives, other ombudsman schemes and regulators – running our own events, and visiting forums and networks across the UK. We have also maintained regular operational contact with businesses and CMCs – working together to identify and address trends and issues in our casework – and to offer free, informal support to people on the front-line of complaints through our technical advice helpline.

We've also published regular insight into the complaints we're seeing – to help financial businesses resolve complaints fairly without our involvement, and to prevent problems arising in the first place. This has included highlighting the complaints we've been receiving from people unhappy with the rising cost of their insurance.

In August 2018 we shared our insight into the complaints we receive from people who believe they've been the victim of banking fraud – explaining to businesses that it wasn't fair simply to assume scam victims had been "grossly negligent", and at the same time highlighting how people can help protect themselves from being scammed. And in October 2018, supporting our ongoing engagement with the financial advice sector – which we expanded further following the 2016 *Financial Advice Market Review* – we provided clarity around our approach to complaints involving defined-benefit pensions transfers, in the form of detailed case studies and commentary.

Our stakeholders have told us how much they value the insight we share in this way, together with our regular published complaints data. As we look ahead to the financial services landscape of the future, we've been reviewing the way we categorise complaints, as well as improving our management information tools. These changes – which we'll continue to discuss with relevant stakeholders – will help us ensure our data and insight are as meaningful as possible for the purpose of managing our own operations, as well as for external parties who rely on it. We ask more questions about our early insight work in chapter three.

questions

1	What's your perspective on the trends we've highlighted?
2	Are there other trends you're seeing, or any insights you have, that you think we should take into account in our plans?
3	What do you think about our projections for the volumes of complaints we'll see up to 31 March 2019?

2 horizon two

our plans and budget for 2019/2020 and forward look to April 2021

In this chapter we set out our plans for the next financial year, 2019/2020, and the budget we expect to need to carry them out. We explain how we propose to deal with growing and volatile demand in our existing areas of casework – looking further ahead to the end of PPI. We also detail our plans for managing two new jurisdictions: complaints made by small and medium-sized enterprises (SMEs), and complaints made about claims management companies (CMCs).

our 2019/2020 plans at a glance

we expect to

receive
460,000 complaints

250,000
about PPI

50,000
about short-term lending

160,000
about other financial services

1,600
about claims management companies

1,300
from small businesses now able to use our service

resolve
510,000
complaints

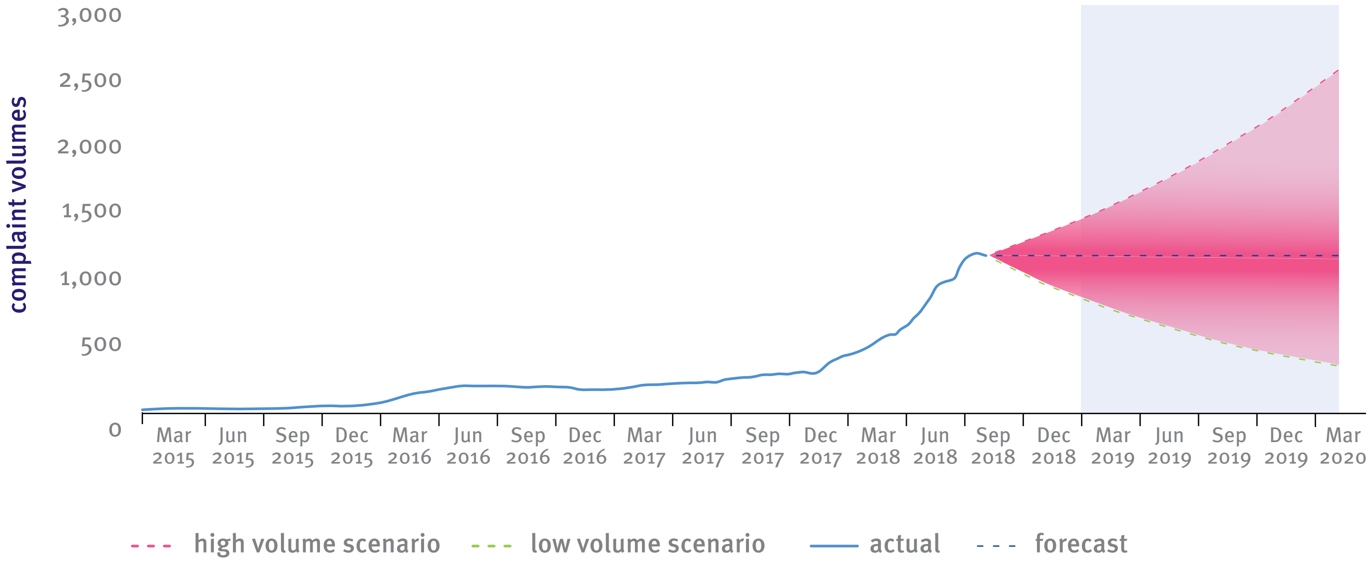
operate on a cost base of
£332.2
million

freeze our case fee at
£550
for the 26th and each subsequent complaint

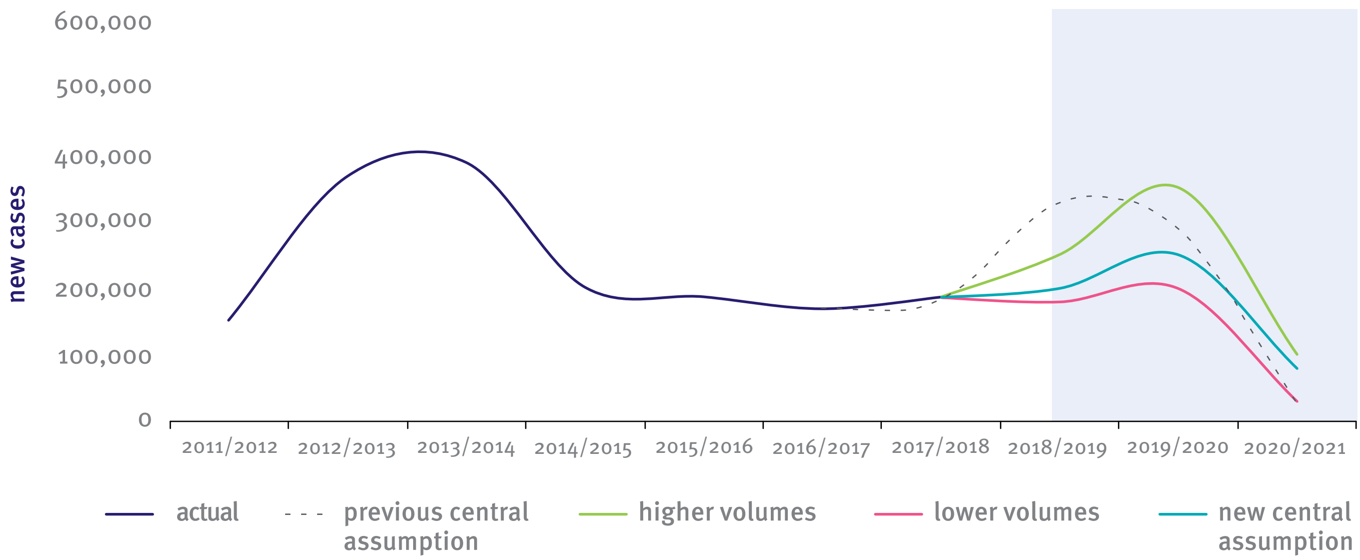
continue to draw on our
reserves
in line with our long-term strategy

raise **£45 million** through our compulsory jurisdiction levy

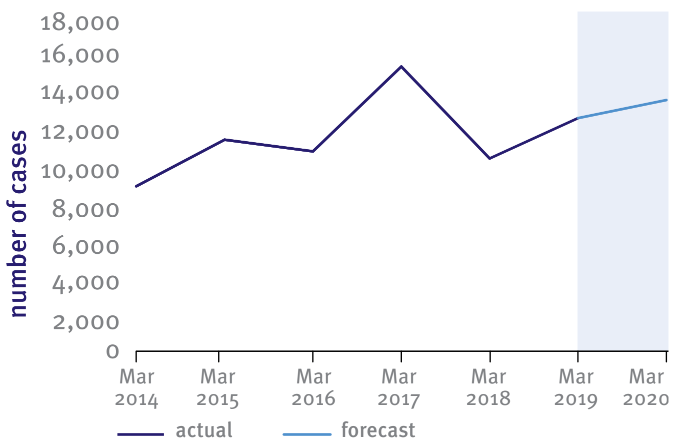
volumes of complaints about short-term lending



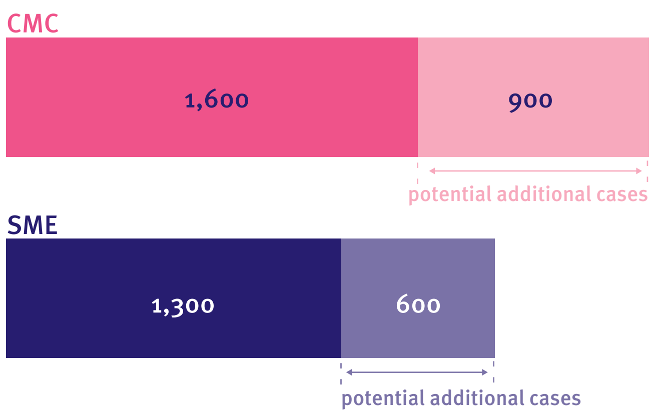
volumes of complaints about PPI



volumes of complaints about banking and credit, insurance, and investments and pensions (our general casework)



potential volumes of complaints about CMCs and from SMEs in 2019/2020



overall picture

In the previous chapter, we set out the trends we're currently seeing in our casework – and some of the issues we think might have, or continue to have, a bearing on our workload over the next year. We expect the key trends we identified – growing demand for our help, and volatility in that demand – to be reflected in our workload in 2019/2020. At this stage, we're forecasting to receive around 13% more complaints – and to resolve 34% more – compared with 2018/2019.

new complaints

financial product or service	2018/2019 budget	2018/2019 latest forecast	2019/2020 consultation budget	2019/2020 comparison with 2018/2019 forecast
PPI	220,000	200,000	250,000	▲ 25%
general casework *including*	130,000	145,000	150,000	▲ 3%
banking and credit (except packaged bank accounts and short-term lending)	74,900	90,500	94,500	▲ 4%
insurance (except PPI)	40,000	40,000	41,000	▲ 3%
investments and pensions	15,100	14,500	14,500	– 0%
total complaints from SMEs *(included in general casework)*	n/a	n/a	1,300	n/a
packaged bank accounts	10,000	12,000	10,000	▼ 17%
short-term lending (payday and instalment loans)	20,000	50,000	50,000	– 0%
complaints about claims management companies	n/a	n/a	1,600	n/a
total	**380,000**	**407,000**	**460,000**	▲ 13%

resolved complaints

financial product or service	2018/2019 budget	2018/2019 latest forecast	2019/2020 consultation budget	2019/2020 comparison with 2018/2019 forecast	
PPI	250,000	230,000	270,000	▲	17%
general casework *including*	130,000	120,000	180,000	▲	50%
banking and credit (except packaged bank accounts and short-term lending)	74,900	76,200	113,600	▲	49%
insurance (except PPI)	40,000	33,500	47,800	▲	43%
investments and pensions	15,100	10,300	18,600	▲	81%
total complaints from SMEs *(included in general casework)*	n/a	n/a	1,300	n/a	n/a
packaged bank accounts	10,000	12,000	10,000	▼	17%
short-term lending (payday and instalment loans)	20,000	20,000	50,000	▲	150%
complaints about claims management companies	n/a	n/a	1,600	n/a	n/a
total	**410,000**	**382,000**	**510,000**	▲	34%

As a demand-led service, we've always needed to account for uncertainty when we're setting our plans and budget. And maintaining and building our capacity to respond quickly and flexibly to emerging and sometimes mass-scale issues is increasingly important. For example, as growing numbers of people use financial services exclusively online, IT problems such as those we've seen over recent years may affect more people at once. And as technology underpins even more aspects of daily life – with different platforms and services interacting with each other behind the scenes – the impact on individual people may also be more complicated to unravel, fully understand and put right.

As we explained in the previous chapter, we're also setting our plans for 2019/2020 against a backdrop of rising demand, which could have a growing impact on our ability to resolve complaints as quickly as people need and expect us to. And in the two single largest areas of our work – PPI and short-term lending – we're facing particular uncertainty around the volumes of complaints we might receive in the future.

At the same time, we'll be taking on two significant additional areas of work, with our jurisdiction extending from April 2019 to complaints made by SME customers of financial services, and complaints made by customers of claims management companies.

As the UK approaches its planned date for leaving the European Union, we've continued to engage with HM Treasury and the FCA about the impact on financial services regulation, and with financial businesses about their own preparations and projections.

PPI and short-term lending – managing uncertainty

In August 2017, the FCA launched its PPI awareness campaign, and set a complaints deadline of 29 August 2019. As we explained in the previous chapter, we haven't yet seen PPI complaints referred to us in the high volumes it was expected we might have at this stage – and have revised downwards our projections for incoming complaints in 2018/2019. Currently our uphold rate for PPI complaints is 30% – down from 90% at its peak – reflecting the way businesses have factored our approach into their own front-line complaints handling.

FCA data for the first half of 2018 shows a rise of 11% in PPI complaints being made to financial businesses – bringing them to their highest level in more than a decade. While there's considerable uncertainty about how many more PPI complaints might be made as the deadline approaches, we think it's sensible to make our plans based on a central assumption that we could receive 250,000 complaints in 2019/2020. However, it's not certain how many people will choose to raise concerns about PPI, or at what stage before the deadline they'll do so. We plan to continue to use our contractor workforce to ensure we can respond flexibly to demand, including any short-term peak we might see.

The volumes of complaints that require our involvement – and how efficiently we'll be able to resolve them – are still dependent on the factors we outlined in last year's consultation:

- How well businesses manage their operations and answer PPI complaints in a timely way.
- How well businesses apply the relevant rules and guidance, apply our well-established approach on their own front line, and satisfy their customers they've got a fair answer about their PPI complaints.
- How far claims management companies – who are involved in around eight in ten PPI complaints – pursue complaints through our service, even where it's clear they won't ultimately be upheld.
- How far businesses and claims management companies cooperate with us in sharing information we need, to the quality we expect, so we can settle their customers' complaints.

As usual, there will also be a lag between PPI complaints being made and reaching our service – as businesses have eight weeks to give their final response, and their customers then have six months to contact us. For example, a complaint made on the day before the deadline, 29 August 2019, could be referred to us until April 2020 and still be in time. We'll then need to investigate and resolve these complaints – and may still be receiving complaints made after the deadline, but which have been accepted due to exceptional circumstances.

So the second horizon of our strategic planning includes, but necessarily goes beyond, the next financial year – taking us through to the end of the time when we'll no longer be dealing with PPI complaints on such a large scale, which will be around April 2021.

At the same time as dealing with the challenge of PPI – and preparing for uncertainty before its conclusion – we've seen a sustained rise in complaints about borrowing and debt. In particular, we've needed to respond to a significant year-on-year increase in complaints about short-term lending: payday and instalment loans.

However, as we highlighted in chapter one, one of the largest payday lenders, Wonga, went into administration in August 2018. As a result, we couldn't take forward the complaints its customers had already referred to us – and haven't been able to take on any new complaints, directing customers instead to the administrators. The possibility remains that further lenders will experience difficulties. So there's a risk that, if we scale up our operations in view of current trends in complaints volumes, we won't ultimately need all the capacity we've built, as we won't be able to look into complaints about businesses that aren't trading.

Our current view is that it's appropriate to invest in more capacity in 2019/2020. Not doing so would risk compromising our ability to respond quickly to complaints. Given the proportion of our current and expected caseload involving borrowing, a significant number of people contacting us may be in vulnerable circumstances – and we'll continue to focus on identifying and supporting people in these situations.

We'd welcome your own analysis of the risks we're balancing. We explain later in this chapter the bearing we think our proposed response will have on our 2019/2020 budget.

December 2018

we've resolved **1.9 million** PPI complaints since April 2010

uphold rate **30%**

March 2018

1.7m

uphold rate **36%**
(excluding cases affected by *Plevin*)

March 2017

1.4m

uphold rate **52%**

March 2016

1.3m

uphold rate **66%**

March 2015

1m

uphold rate **62%**

March 2014

670k

uphold rate **66%**

March 2013

280k

uphold rate **65%**

March 2012

180k

uphold rate **82%**

March 2011

60k

uphold rate **66%**

handling complaints made by small and medium-sized enterprises (SMEs)

We're currently able to look into complaints made by very small business customers of financial services, as well as from certain small charities and trusts. Under the current rules, to be eligible to use our service, businesses must have fewer than 10 employees and an annual turnover or balance sheet of €2 million or less, in line with the EU definition of a "microenterprise".

In each recent financial year we've received around 4,000 complaints from microenterprises. Our insight report into these complaints, published in 2015, identified that, in many cases, these very small businesses had no access to legal or accounting support – and had little or no greater knowledge than individual personal customers when it came to financial services. In 2015, in light of the mistreatment of small businesses by some large financial providers, the FCA began to ask for views on whether access to our service should be extended – recognising that, given small businesses' often limited resources, taking financial disputes to court wasn't an option.

In 2017 the FCA opened a formal consultation on SMEs' access to redress, put forward proposed rules and guidance in January 2018, and in October 2018 published its near-final rules and guidance. The FCA's final rules confirm that from 1 April 2019 our jurisdiction will be extended to complaints made by:

- SMEs with an annual turnover below £6.5m, and fewer than 50 employees or an annual balance sheet below £5m;
- charities with income up to £6.5m and trusts with net assets up to £5m; *and*
- individuals who act as personal guarantors for loans to businesses they're involved in.

The FCA has estimated that these changes will mean an additional 210,000 additional UK SMEs will be eligible to complain to us. And to ensure we can provide a sufficient level of redress, the FCA is consulting until 21 December 2018 on plans to set our award limit at £350,000, rising from the £150,000 it's been since 2012. This limit represents the maximum amount we can make a financial provider pay if we decide their customer has unfairly lost out, but we can recommend they pay more. The new limit would apply to all complaints we handle, rather than only those referred to us by SMEs – and be adjusted each year in line with the Consumer Prices Index.

We set out below how we expect to run our SME operations from 1 April 2019. Before then, we'll continue to engage with parties representing the interests of SMEs, as well as with financial providers involved in the SME market.

our proposed SME operating model

We will have **dedicated specialist teams** dealing with complaints referred to our service by SMEs. We'll begin on 1 April 2019 with four teams – which, in line with our investigation model, will be led by a specialist ombudsman leader and made up of specialist ombudsman managers and investigators. We are currently recruiting for these teams – which will have the expertise and experience required to resolve the widest range of disputes that SME customers may bring to us, including those involving more complex circumstances than we typically see in our current microenterprise casework.

Our specialist teams will use a **range of dispute-resolution approaches**. This will include more formal mediation, and we will also look to resolve more complaints at an early stage – recognising that, even where a dispute-resolution service is free and accessible, being caught up in a protracted financial dispute can be a significant drain on an SME's resources, as well as being stressful and frustrating for the people involved.

We will have a **specialist professional practice group** to develop our service's approach to complaints involving SMEs. This will help us ensure fairness and consistency in our answers, as well as identifying trends and insight to feed back to financial providers and other stakeholders.

An external **expert panel** will provide additional support, knowledge and sector insights to our specialist teams.

Our teams will also have access to additional **legal and actuarial support**, which they will be able to draw on in the event of particularly complex complaints and circumstances.

We will have in place a robust **quality assurance framework** specifically for SME complaints – comprising front, second and third line assurance involving our specialist ombudsmen and practice group, independent quality specialists and executive and non-executive directors.

We will use **enhanced analytics tools** to monitor customer service trends, to help us ensure consistency across both our casework approach and our level of service.

We will have **developed our technologies** to enable efficient handling of SME complaints – using our customer-centric case handling system to provide a flexible and personal service, and developing decision-making tools to ensure jurisdiction thresholds are applied correctly.

We will **have a distinct identity for our SME work**, including a separate microsite, online resources and dedicated phone line for SME customers – providing clear distinction between this area of our jurisdiction and our existing consumer jurisdiction.

We will only be able to consider complaints made by SMEs about acts or omissions that take place after the new rules come into effect on 1 April 2019. We currently think we will receive approximately 1,300 complaints from SMEs in 2019/2020. We'd be grateful to hear further perspectives on our volume expectations and our operating plans in response to this consultation.

handling complaints about claims management companies (CMCs)

In 2015 the Government commissioned an independent review of the regulation of the claims management sector. Following this review, it was proposed that the regulation of claims management companies (CMCs) be transferred from the Ministry of Justice's Claims Management Regulator (CMR) to the FCA – and that responsibility for resolving complaints about CMCs be transferred from the Legal Ombudsman to our service. This arrangement was confirmed in the Financial Guidance and Claims Act 2018.

In June 2018 the FCA consulted on the rules that would apply to CMCs, and in August it consulted on how the costs of this work would be recovered – including its intention that the same funding arrangements that currently apply to regulated financial firms will apply to CMCs. Because we and the FCA share responsibility for our funding arrangements, we and the FCA consulted jointly on the part of the proposals relating to funding our own work.

We're particularly mindful of the need to ensure there's no real or perceived conflict of interest arising from our handling complaints about CMCs, while also engaging with them elsewhere in their capacity as representatives of consumers who've brought complaints to us about financial businesses. This clear segmentation will be a central feature of our operating model. We have already begun to prepare for this new area of work, and have set out our plans on page 28.

our proposed CMC operating model

We will **run our CMC operation from our Coventry office** – creating a geographical, as well as operational, separation from other areas of our work in which CMCs may be involved as representatives.

We will have transferred **CMC case handling knowledge** from the Legal Ombudsman, so we can benefit from existing expertise relating to the issues involved in these complaints. CMC cases that are open with the Legal Ombudsman at the point our responsibilities begin will transfer over to our service.

We will **have in place additional processes to mitigate the risk of real – or perceived – conflicts of interest**, in addition to our existing conflicts of interest policy, which applies to all our employees across all areas of work.

We will **have a specific customer journey** for people complaining to us about CMCs, from their first contact with us through to an ombudsman's final decision – mirroring, but separate to, our existing casework process.

We will **engage with CMCs in early 2019 in conjunction with the Legal Ombudsman**, helping clarify future arrangements and expectations to ensure a smooth handover of complaints.

We will have **developed our technologies** to enable efficient handling of CMC complaints within our customer-centric complaint-handing tool – while ensuring appropriate separation from other areas of complaint.

We will **have a distinct identity for our CMC work**, including a separate microsite and online resources, providing clear distinction between this area of our jurisdiction and others.

We have **consulted jointly with the FCA on proposals for funding our CMC work**, and set out later in this chapter how we plan to resource our service, including our CMC jurisdiction, in 2019/2020.

We expect to receive 1,600 complaints about CMCs in 2019/2020 – and in addition, expect to take on a number of unresolved complaints from the Legal Ombudsman. Before April, we'll continue to engage with relevant stakeholders – including the FCA, the CMR, the Legal Ombudsman, CMCs and financial providers – about our plans for resourcing and running this new jurisdiction. We'd welcome further views in response to this consultation about our projections and proposals for CMC complaints.

developing and resourcing our service in 2019/2020

We explained in chapter 1 that we've needed to divert resources in the current financial year to handle growing demand for our help – and there's no indication the trends we've identified will slow or reverse in the coming year.

At the moment, we're maintaining levels of customer satisfaction in line with our strategic commitments. However, keeping our service resourced at its current levels will put sustained pressure on our ability to investigate and resolve complaints as quickly as the parties involved need and expect. A further implication of this will be that, while we'll continue to meet other requirements, we'll find it increasingly difficult to meet the timeliness standards of the ADR Directive. As we've highlighted, we need to carefully weigh up the risk of "stranded costs" against the risk of significant delays.

Our 2019/2020 resourcing plans and budget will also need to account for our ongoing programme of change – including the investment we're making in responding comprehensively to the recommendations of Richard Lloyd, which our board accepted in July 2018. In summary, we will be:

- Refining our investigation model, with a particular focus on building our people's knowledge and strengthening our quality assurance processes – both in our existing and new jurisdictions.
- Ensuring we meet, and will continue to meet, the expectations of everyone using our service – including improving communications about our processes, and developing the digital capabilities outlined in the previous chapter.
- Making sure we learn from our experience of change by listening to our people's feedback – and strengthening our employee engagement structures to ensure our employees understand our current strategy and can contribute to developing our future strategy.
- Building on our existing complaints-prevention work, supported by new management information tools and insight structures.

At the same time, we will be investing in and running two significant new jurisdictions. And we'll need to continue to manage our PPI casework – ensuring we've got sufficient resources to handle any spike in complaints, before gradually winding down our operations, with associated costs.

funding our service in 2019/2020

In last year's consultation, we explained that, given the progress of our change programme and the work still to be done before PPI was finally resolved, we didn't think it was the right time to fundamentally change our funding model. We still think that's the right approach for 2019/2020, and so propose to keep our model unchanged.

For the next year we propose to freeze case fees at their current levels, and keep our 25 "free" case fee allowance. While we're still maintaining higher than normal levels of reserves, our long-term strategy has been to use our reserves to fund our PPI operations – to help set it up, to manage the costs of our casework and eventually to wind it down, and to make the changes we need to deliver our service when we're not dealing with PPI in such high volumes. In 2019/2020 we propose to fund the investments we plan to make in our service through increasing our compulsory jurisdiction levy.

The rest of this chapter explains our 2019/2020 financial plans in more detail, and the draft FEES instrument is included as appendix a. In chapter four, we outline the engagement we've already carried out to hear stakeholders' views about our funding – and ask for feedback about the options we should consider to ensure our model remains fair and sustainable.

our case fees

For both our compulsory and voluntary jurisdictions, the level of the case fee is set by us and approved by the FCA. Businesses outside the group-fee arrangement aren't charged a fee for the first 25 cases each year, but every complaint we receive about a business counts towards their allowance.

Because a small number of large business groups account for the vast majority of complaints we deal with, nine in ten of the businesses we receive complaints about each year don't end up paying any case fees.

Despite inflationary pressures, we've kept our case fee frozen since 2013. In 2019/2020 we plan to keep it £550, the PPI supplementary case fee at £0, and the number of "free" cases at 25.

group-account fee

Since April 2013, we've run a group-account fee arrangement for the largest business groups – where they pay quarterly in advance based on expected volumes of complaints. If the numbers turn out to be significantly different, there may be some adjustment at the end of the year.

Because large volumes of complaints are involved, this arrangement results in lower administrative costs, increased efficiency and a steadier cash flow. We don't propose to extend the group-account arrangement to more business groups in 2019/2020, and we plan to keep the number of cases before a case fee is charged at 125 per business group.

compulsory jurisdiction levy

The FCA consults separately on the levies it collects from all the businesses it regulates – including levies for our service, the Financial Services Compensation Scheme, the Single Financial Guidance Body, and the FCA itself.

Broadly, allocating the levy relating to our service involves:

- dividing the total levy among industry blocks (based on activities) according to the number of complaints-handling staff we expect to need for complaints arising from that sector; *and*
- dividing the levy for each industry block among businesses in that block according to a tariff rate (relevant to that sector) intended to reflect the scale of each business's activities.

As we've explained, in 2019/2020 we expect to see demand for our service continue to grow. However, only part of our workload relates to "chargeable" cases, with a significant proportion relating to problems we've resolved at an earlier stage. This early resolution work helps the businesses involved avoid the potential costs of entrenched complaints – and in general, the existence of a free ombudsman service, able to resolve problems quickly and fairly, helps promote current and potential customers' confidence in financial services. We think the fairest way to ensure we can deal with the additional demand we're expecting is to raise the levy that applies to all businesses we cover by an additional £20 million from 2018/2019's levels, to £45 million. The costs attributed to our new jurisdictions include the investment in setting up these areas of work. We expect the levy distribution as a result of these areas to fall in subsequent years, after we have recovered the initial investment.

This means the 2019/2020 levy will involve an annual cost for individual firms ranging from about £16 for the smallest businesses we cover, to £2.7m for the largest financial providers. Due to their being in a fixed tariff-based block, 56% of businesses, generally smaller businesses, will see no change in their levy amount.

voluntary jurisdiction levy and case fees

Our voluntary jurisdiction covers businesses that volunteer to join it for activities specified in rules made by our service with the FCA's approval, and for services directed at the UK from the European Economic Area (EEA). The levy is set by us and approved by the FCA – and, as with our compulsory jurisdiction, the income we receive is ring-fenced for this jurisdiction only.

The levy rates we propose for 2019/2020 are broadly the same as last year. In line with our compulsory jurisdiction, we propose to freeze the case fee for our voluntary jurisdiction at £550 and keep the number of "free" cases at 25.

The FCA is currently considering responses to its consultation on establishing a Temporary Permission Regime (TPR) for inbound EEA firms. If the UK leaves the European Union without reaching an agreement on the terms of withdrawal, the FCA has proposed that it will look to maintain the same level of consumer protection and confidence by ensuring that firms that join the TPR are in the compulsory jurisdiction for business carried out under the TPR.

Businesses that are members of the voluntary jurisdiction and join the TPR will continue to be in the voluntary jurisdiction for relevant business carried out prior to joining the TPR, unless they follow the process for leaving. A member of the voluntary jurisdiction that is also in the TPR will pay a reduced levy as a member of the voluntary jurisdiction.

managing our reserves

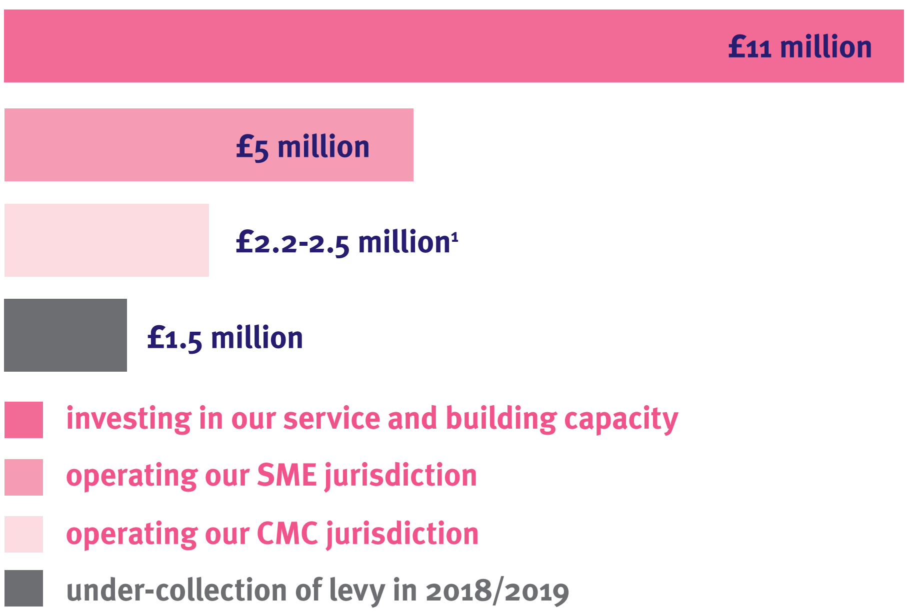
To help us manage the long-term costs of sorting out mass PPI mis-selling, we charged a supplementary fee for PPI complaints between 2012 and 2014. This arrangement was designed so the businesses generating our PPI caseload bore the cost of our resolving their customers' complaints.

In response to previous consultations, our stakeholders have continued to support our using our reserves to help us manage PPI in a stable way. This approach has helped us through significant challenges in recent years. And we think it's right to maintain it in the run up to the PPI complaints deadline, and as we look ahead to incurring the costs of winding down our PPI operations.

our 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 complaints we resolve in the year. We expect that our unit cost for 2019/2020 will be approximately £651, compared with the £745 in 2018/2019 – reflecting the expected benefits we'll receive in the next financial year from the investment in recruitment and capacity-building we've been making in the current year.

how we propose to use our extra levy



[1] we expect to collect £2.2m but have rounded to the nearest £0.5m for simplicity

our 2018/2019 budget forecast and 2019/2020 consultation budget

		2018/2019 forecast		2019/2020
	2017/2018 actual £m	budget £m	latest forecast £m	provisional budget £m
income				
case fees	72.0	79.3	77.9	104.0
group fees	143.6	124.5	123.9	147.4
levies and other income (includes VJ levy)	27.3	26.6	25.4	44.8
total operating income	**243.0**	**230.4**	**227.1**	**296.2**
net movement in deferred income	5.9	1.9	2.3	0.0
total income	**248.8**	**232.3**	**229.4**	**296.2**
expenditure				
staff and staff-related costs	156.0	160.3	169.2	175.7
contractor staff	41.6	74.6	62.5	101.1
consultancy support	4.9	5.0	6.9	5.6
professional fees	1.3	1.4	1.6	1.6
IT costs	8.6	8.9	9.1	8.8
premises and facilities	24.6	22.0	22.3	22.6
other costs	1.5	1.3	1.3	1.3
depreciation	5.4	5.8	4.9	5.1
bad-debt write-off	0.0	0.4	0.7	0.4
contingencies	0.0	10.0	6.8	10.0
total expediture	**243.8**	**289.8**	**285.2**	**332.2**
operating surplus / (deficit)	(0.9)	(59.3)	(58.1)	(36.0)
financial surplus / (deficit)	5.0	(57.4)	(55.8)	(36.0)
reserves and deferred income (£m)	233	176	177	141
closing FTE	3,638	3,978	4,309	4,575
total new cases	339,967	380,000	407,000	460,000
total case resolutions	400,658	410,000	382,000	510,000
cost per case resolution	£612	£706	£745	£651

questions

4	What do you think about our projections for the volumes of complaints we'll receive and resolve in 2019/2020?
5	What are your views on the uncertainties we're facing in PPI and short-term lending?
6	What are your views on our plans for our new small and medium-sized enterprise (SME) jurisdiction?
7	What are your views on our plans for our new claims management company (CMC) jurisdiction?
8	What are your views on our plans to develop our service in 2019/2020?
9	What are your views on our proposed funding arrangements for 2019/2020, including increasing our levy?

3 horizon three

looking ahead, shaping our strategy

In this chapter we look from the end of PPI toward our strategic horizon of 2025. We summarise the strategic approach we've taken in setting previous years' plans and budgets, and what we've achieved through this approach. We think ahead to the landscape in which we could be operating in the future, asking whether the principles that currently underpin our work will still apply, and how people's expectations of our service might have changed. We then outline the next steps in our strategic planning.

our starting point

For almost 20 years, our service has continued to adapt – in response both to the changing mix and volumes of complaints we've been receiving, and to developments in technology that have reshaped people's lives and expectations.

In the early 2000s, we dealt with several hundred thousand complaints about the mis-selling of mortgage endowment policies. But it was from 2011 onwards that the mass mis-selling of payment protection insurance (PPI) really changed the game in how we – and financial businesses – needed to think about handling complaints.

In previous plans and budget consultations, we've explained the significant challenges associated with receiving and resolving PPI complaints in unprecedented volumes. Our service needed to triple in size in response to demand. But it also presented opportunities to establish experience in handling "mass" claims, to build an infrastructure for this, and to understand the efficiencies that can arise from working at scale.

Incoming PPI complaints peaked at more than 12,000 weekly in 2012/2013, and in every period until autumn 2018 they've accounted for more than half of cases we receive. Each year, as part of our consultation, we've outlined our approach to handling and funding PPI – which has included, with our stakeholders' agreement, building up and then drawing on our financial reserves, so we could deal with our PPI workload in a stable way.

However, while dealing with the immediate imperative of giving answers to the hundreds of thousands of people who'd contacted us about PPI, we've continued to plan for a future when it doesn't dominate our workload. Since 2015 our key strategic aims have been to ensure our service remains relevant in the context of a rapidly-changing financial services landscape, and to ensure we're operating in a sustainable way.

key changes since 2015

Over the last few years, we've made significant changes reflecting this focus. In doing so, we've taken account of the views of people who use and take an interest in our service – which we've received in response to our public consultations, our regular customer feedback channels and our stakeholder engagement.

- **We've revised our senior leadership structure**, putting the role of ombudsman front and centre of our service. The position of lead ombudsman and director of casework combines an ombudsmen's knowledge of the issues involved in complaints with professional and operational leadership. This has been reflected in our new operating model, with ombudsman managers leading teams of investigators.

- **We've changed our operating model** to ensure, as technology changes the way people live and work, we continue to meet people's expectations of informal and effective dispute resolution. Having undertaken extensive trials of new ways of working, challenging existing processes that weren't working for people using our service, in 2017 we introduced our new streamlined structure, central to which are our investigation teams.

  Expert problem-solvers, our investigators deal with a wide range of complaints – helping us respond flexibly to spikes in demand for our help – while maintaining areas of expertise. Supporting this model, our "practice groups", networks and knowledge tools help us ensure consistency in our approach, and to identify trends that we need to respond to.

- **We've kept our focus on resolving problems at the earliest possible stage**. This can be especially important where people are in vulnerable circumstances – but also reflects the general principle that resolving a complaint as quickly and informally as possible is better for everyone involved. The work we've done to streamline our own process, bringing our ombudsmen's knowledge and experience to our front line, reflects this ambition.

  Since July 2015, following changes to the FCA's rules, we've been able to step into complaints that businesses haven't yet investigated – as long as both they and their customer agree to this. Having worked with businesses to gauge the impact of this approach, we've now been told by a number of businesses that we can get involved in every case where a customer wants us to.

- **We've invested in technology** to support our aims of providing an efficient, flexible, personal service. Having moved our casework completely online, we're now in the final stages of developing and going live with our new complaint-management tool. We've also continued to develop and test our portal technology, which will allow people to check on the progress of their complaints, as well as to share information with us, without the need to contact us and at a time that suits them.

  In addition, based on feedback from people who engage with us online, we've been updating our online resources, with a new website planned to launch in summer 2019. As part of this, we've been looking ahead to ensure we meet the expectations of the parties involved in our new jurisdictions: small and medium-sized businesses, financial providers, claims management companies and their customers.

- **We've continued to look for efficiencies** to ensure we're getting the maximum value from the funding we receive. We've streamlined our support functions and renegotiated contracts. In view of ongoing volatility and uncertainty in demand for our service, we've made use of a flexible contractor workforce. We've also sought the most flexible, cost-effective options for housing our service. In 2017 we opened a new office in Coventry, where we've based our contractor PPI workforce – helping us respond flexibly to demand for our help, while at the same time reducing our property costs and giving us a presence elsewhere in the UK.

where we're heading

Our objectives of being both relevant and sustainable have helped guide our thinking as we set our annual plans and budgets – and have underpinned our strategic commitments, which we review and report on each year.

In the current financial year, 2018/2019, our commitments are that:

- our service is flexible, resilient and well run;
- our customers trust and respect us and we deliver what they need and expect;
- our people are professional and committed and think we're a great place to work;
- our reach makes us accessible and able to help those who need us; *and*
- our impact means, as well as effectively resolving the complaints we receive, we use our experience and insight to help prevent problems arising.

From this foundation, we want to ensure we continue meet people's expectations in the longer term. As we prepare to take on new responsibilities, we'll ensure we apply the lessons we've learned from our previous experience of change. This includes drawing on the findings of the independent review carried out by Richard Lloyd earlier in 2018 – which provided a valuable and timely insight into what we could do better, and the type of assurance our stakeholders, as well as our own people, will expect into the future.

As previous chapters highlight, there's still a significant amount of work to do before we can finally draw a line under PPI. We could need to resource and run our PPI operation for more than two years to come, given the time it could take for complaints to reach us following the FCA's deadline.

But we need to think now about what our service will need to look like when we're no longer handling these claims in mass volumes. We think this will be around April 2021, and the third horizon we're looking toward is April 2025.

At this stage, we're not setting out any firm plans. We want to hear as many perspectives as possible – both about our future operations, and our strategic approach more generally.
This insight, together with our own programme of work, will inform a more detailed strategic proposal in autumn 2019.

our guiding principles

We were set up under the *Financial Services and Markets Act 2000* to resolve complaints between financial businesses and their customers quickly and with minimum formality. We resolve the problems people refer to us on the basis of what's fair and reasonable in the individual circumstances of each case – which can involve, if necessary, an ombudsman making a legally-binding final decision about what's happened.

As well as these official principles set out in the legislation, there are a number of broad principles that guide our work. As we look ahead to 2025, one of the key questions we need to ask is whether these principles will carry us forward into the future – or whether we need to revise them so they better suit the landscape we'll then be operating in.

fairness

We see fairness as being at the root of everything we do – a defining principle. We're part of the consumer protection landscape, helping to level the playing field between financial businesses and their customers.

But we're not a consumer champion: we take an independent and unbiased view of the problems people present to us. If something's unfair, we make sure it's put right. If a customer hasn't lost out, fairness lies in ensuring both parties understand why the complaint arose – and feel they've got the answer they need to move on from what's happened.

we're a public, not a commercial service

We were set up as a company limited by guarantee on a not-for-profit basis, and generating a profit isn't our objective. We're funded by a levy and case fees paid by regulated financial businesses, rather than by the taxpayer.

However, we see ourselves as a public service – and we have a responsibility to deliver the outcomes we need to not only effectively, but efficiently. We manage our operations carefully, and identify new ways of working to get the most value out of our resources.

we're independent from political or commercial influence

Linked to the principle of fairness is independence from any influence that could compromise our ability to reach unbiased decisions. We and the FCA, as the regulator, have complementary but distinct roles.

Knowing there's a free ombudsman service boosts people's confidence in using financial services – so both financial businesses and their customers benefit from our existence. And although the financial services sector bears the cost of our work, our funding arrangements don't create incentives for us to decide in favour of either party.

our role goes beyond resolving individual complaints

Our core area of work is resolving the individual complaints people refer to us. And many of the indicators of efficiency and value we currently report on focus on this – for example, our unit cost, or "cost per case". However, the existence of a free, accessible ombudsman scheme is also important part of encouraging confidence in financial services more generally. And in dealing with hundreds of thousands of complaints every year, we get a significant insight into how problems arise – which we regularly share to help prevent things going wrong in the first place.

Our wider work involves engaging with businesses and consumer representatives of all sizes across the UK; running a free technical helpline; engaging extensively with policymakers, regulators and other dispute resolution schemes; and regularly publishing commentary and insight on different trends and issues.

our values underpin everything we do

People work for us because they care about fairness. They're also committed to their own knowledge and professional development, and the development and wellbeing of their colleagues. Ten years ago we formalised these aspirations into four organisation-wide values. These continue to underpin the way we engage with and support people using our service, as well as each other:

- we do the right thing;
- we treat our customers well and respect their needs;
- we do what we say we'll do; *and*
- we're inquisitive and build everyone's knowledge

we're active only in financial services markets

The ombudsman service's aims are closely aligned with the FCA's statutory objective of ensuring relevant markets function well, and its strategic objective of securing an appropriate degree of protection for consumers. Our jurisdictions correspond with the FCA's regulatory remit – which has historically been limited to financial services, but will extend in April 2019 to the claims management sector (whose biggest sector by far in terms of turnover is financial services).

Even so, we already regularly look into complaints that, on the face of it, don't look like problems with financial services. For example, each year we're able to help thousands of people having trouble with goods and services ranging from home appliances and improvements, through to faulty cars and solar panels – because they've bought these things using finance.

looking ahead to 2025 – what do we need to ask?

As we look ahead to our planning horizon of 2025, we're interested to hear our stakeholders' views about whether these principles remain relevant. There are a number of issues we think it will be fundamental to address.

who will be using our service?

From April 2019 our jurisdiction will extend for the first time beyond complaints about financial businesses. There's also growing convergence between financial and other types of service, which raises new questions about who's responsible for complaints. For example financial services are increasingly linked to phone handsets and apps – and following changes to payment services regulations, more traditionally non-financial businesses can offer customers their own ways of paying.

what will our service look like?

At the moment we're located in physical offices in East London and Coventry. We'll need to consider whether this is the right way of doing things into the future – or whether our customers, as well as current and potential employees, will want and need something different. And as we plan for a time when PPI is no longer a mass issue, we'll need to consider what the "normal" size of our service should be – and how we retain the flexibility to deal with volatility in demand.

are we just an "alternative to the courts"?

Many of the people who use our service couldn't afford to take their complaint to court. This means people are really relying on us – and we need to continue to invest in building a service that does what people need and expect it to. However, given everything we do outside resolving individual complaints, it seems a very narrow definition of our role – and of the role of an ombudsman service more generally. We already do a significant amount of engagement and insight sharing, stemming from our aim of preventing complaints – and as we look ahead, these are things we might want to consider doing more of, as well as doing in different ways. We will also need to think about how we measure the value of what we do – outside narrower casework-related metrics, which don't and can't give the full picture of what we provide.

do people want a human voice in a digital world?

The cliché of "computer says no" relates to what's been to date the common experience of getting an inflexible answer from a machine. Given the frustration this can cause, it might be assumed that people want the alternative – to talk to a human being who can really relate to them. However, developments in artificial intelligence and machine learning are raising new questions about whether technology can do more. And investments in our own technology have acknowledged that some people prefer to engage with us – and other services – online only. We'll need to consider whether this makes a human voice more or less relevant, and what the alternatives are.

are complaints really only either "upheld" or "not upheld"?

Currently, our complaints data reflect the proportion of complaints we've "upheld" in favour of financial services customers. The binary choice between upheld or not reflects the general direction of our conclusions about a complaint. But it doesn't give a lot of insight into the pragmatic way we can often arrive at an answer that feels fair.

our next steps

The feedback we receive in response to our consultation will help inform our strategic planning over the course of the next year. This will involve using a variety of tools and techniques to explore the themes and questions we've outlined in this chapter. These include:

- **Engaging extensively with our people** so our strategy development isn't, and doesn't feel, top-down – but is instead informed by the diverse range of experience and expertise our employees bring to their work and our organisation more generally.
- **Engaging extensively with external stakeholders**, to ensure we make best use of their ideas and experience in setting our strategy, and so they can feed back about how it's developing.
- **Building an evidence base** through reviewing published research and commissioning our own where necessary.
- **Learning from others**, looking for examples of good practice in areas such as service delivery, organisational design and technology.
- **Looking for inspiration** from innovative individuals and organisations who've broken with convention, to ensure we really challenge our existing principles and ways of working.
- **Tests and trials** so we can try things out in real time, using what we learn to refine and improve our ideas.
- **Evaluation**, developing and using clear criteria for evaluating the impact and value of what we're doing.

The result of this work will be a strategic proposal, which we expect to publish in late 2019. We will provide an update on timescales when we publish *our plans for the year ahead* in March 2019.

questions

10	How far do you think our guiding principles remain relevant as we look ahead to 2025?
11	What are your views on the questions we've set out?
12	Are there any other questions you think we need to ask, or any other developments you think we should take into account?
13	What do you think about the next steps we've identified in developing our strategy?
14	Do you have any other feedback about our strategic approach?

4 our future funding

In this chapter we focus specifically on how our service is paid for. We outline our current arrangements, and highlight some of the views people have already shared with us about what they agree with and what they don't. We then set out the principles we think should continue to apply to our funding, and present some options to generate discussion about what the future might look like.

In this consultation, we've detailed our plans for the rest of 2018/2019 and for 2019/2020, as well as how we plan to fund them. In the last few years' consultations, we explained that, given the uncertainty we've been facing about demand on our service, as well as the ongoing challenge of PPI, we didn't think it was the right time to fundamentally change our funding arrangements.

We think it's sensible to maintain that approach in 2019/2020. However, we've been saying for some time, including in our plans and budget consultations, that our current arrangements aren't sustainable in the long term. The model we're using is broadly the same as the one we've used since we were established. It's increasingly not suited to the landscape we're operating in, the complaints we're dealing with, and the type of service we're providing – including resolving problems that don't become "chargeable" complaints, and our complaints prevention work.

Although we're not yet sure about the exact number and timings of new PPI complaints, we can now say with greater certainty when PPI will end. And as we look beyond the end of PPI to 2025, we need to be working now to ensure we have a funding arrangement in place that's going to be sustainable into the future. The answers to the questions we raised in the previous chapter – ranging from who'll be using our service and how big we'll be, to the ways we'll engage with people and how we can prevent more complaints – will have a bearing on what that arrangement looks like. Richard Lloyd's recommendations around our funding (see chapter 5) align with our aim of ensuring our future model allows us to deliver what people need from us.

During 2018, in line with the commitment we made in our plans, we held roundtables for stakeholders, representing financial businesses and their customers, to generate discussion around what the future might look like.

In this chapter we set out the principles on which we propose any funding model should be based – and some potential arrangements to consider.

how our funding currently works

Chapter two sets out the different elements of our funding in detail. In summary, we receive income from businesses via:

- **case fees** charged for the 26th and each subsequent complaint, payable by businesses within our compulsory and voluntary jurisdictions – including our "supplementary" PPI case fee, which is currently set at £0;
- **levies** on businesses in these two jurisdictions; *and*
- **a group-account fee**, which involves eight large business groups paying money upfront based on projected case volumes.

A decade after we were set up, the mass mis-selling of PPI had an unprecedented impact on our operations. The funding plans we put in place to meet this challenge necessarily had to be long-term – and to reflect our commitment to fairness and stability. Looking back, those plans have helped us manage uncertainty – and mean the businesses responsible for the most mis-selling have shouldered most of the cost of sorting it out. Though there are still challenges ahead, the end of PPI now looks to be in sight.

It's also the case that, while we've again frozen our levy and kept our case fees at the same level for six consecutive years, this isn't sustainable indefinitely. And as we've been developing our service, we know we'll need a funding model that's better-suited to the more streamlined and flexible way we're now resolving complaints.

our 2018/2019 *plans and budget consultation*

views about our funding

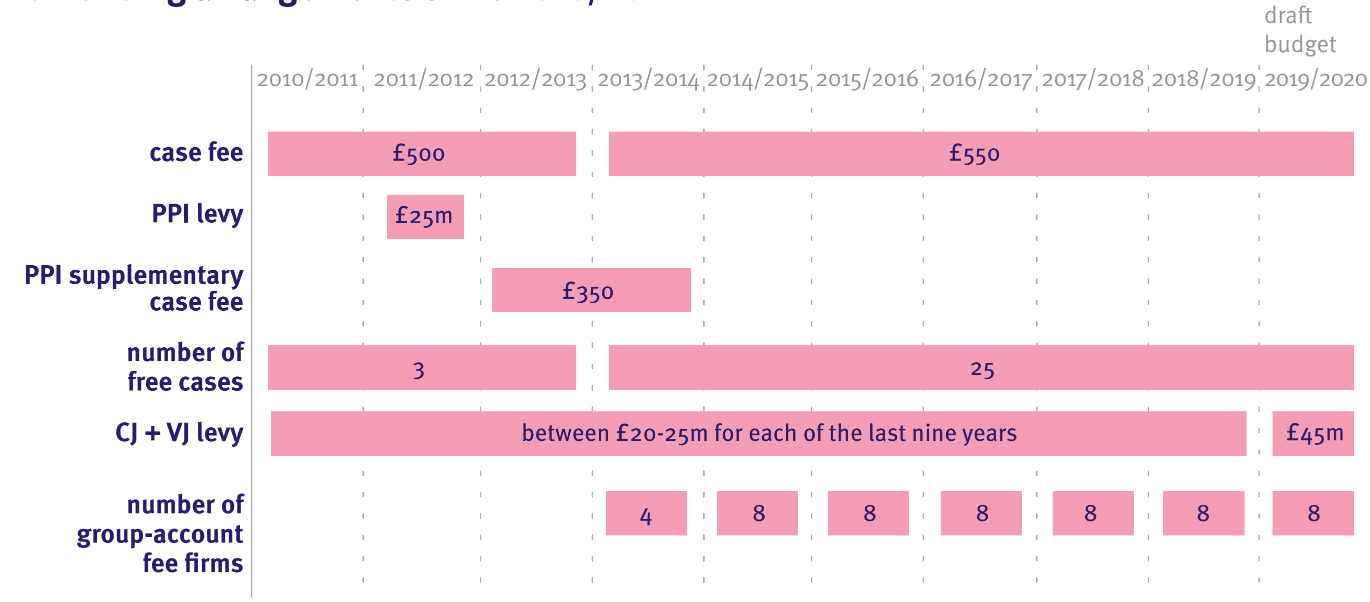
In response to previous plans and budget consultations, a majority of stakeholders have said they support our proposed approach for the year ahead. But many have also given further feedback – in the form of wider comments about the principles behind our funding, as well as specific comments about what they agree with and what they don't. These sometimes convergent ideas include that:

- We should charge financial services customers for bringing complaints to us – in particular, if their complaints aren't upheld.
- We should charge claims management companies to refer complaints to us, and punish them for bringing "frivolous and vexatious" complaints.
- We should use a sort of sliding scale, charging less to resolve complaints that might be seen as more straightforward, and more where the circumstances are more complex.
- Fees should vary by product type.
- We should consider using the "supplementary case fee" model we previously used in PPI to respond to other issues in the future.
- We might in future charge for the early resolution work we do that doesn't result in "chargeable" complaints, but the cost should be less in general for complaints resolved at an early stage.
- Businesses' fees should be offset against any refunds we tell them to pay their customers.
- The cost of regulation is burdensome on small financial businesses especially, meaning our levy is especially problematic.
- Businesses should pay more depending on the proportion of complaints we uphold against them.
- The wider social value of the ombudsman service should be considered as part of our funding decisions.

At the same time, many stakeholders have emphasised that:

- Fundamentally, our service should remain free for customers of financial services.
- It's essential that our funding arrangements shouldn't create perverse incentives.
- Our arrangements shouldn't be overly complex, with all the costs that would involve.
- We need to ensure we're able to cover our fixed costs.

our funding arrangements since 2010/2011



principles for our funding

We've welcomed people's willingness to engage with previous years' proposals – and have responded in our feedback statements to many of the specific comments we've received, as well as in our conversations with individual stakeholders. At a practical level, compared with our existing model, our future arrangements will need to:

- align with our new casework model;
- cover a wider range of activities; *and*
- be better able to withstand volatility.

There are also a number of principles that we think should apply to any future model. In our view, it should:

- be fair;
- be broadly proportionate – that is, the cost to firms broadly relates to the workload they generate for us;
- not create perverse behavioural incentives;
- not create the incentive for our service to reach a particular outcome;
- be transparent;
- be easy to understand;
- be simple to administer, for us and for firms;
- be free to consumers;
- be sustainable over time ;
- provide, within reason, predictable/stable revenue flow;
- promote price predictability, as far as possible;
- be sensitive to our operating/political environment – such as budget cuts across public services;
- not subsidise between (compulsory and voluntary) jurisdictions; *and*
- have no, or minimal, transitional difficulties if the system is changed.

The following pages show just a few examples of options we might want to consider. Each will have strengths and limitations – we know that different stakeholders will take different positions on them, and it won't be possible to find a solution that perfectly matches everybody's ideal arrangement. We'll need to aim for a "best fit" – a model that our stakeholders agree is underpinned by fair and sensible principles, and that will allow us to provide the service they need and expect from us.

In considering our funding arrangements, we will also take into account views shared by claims management companies in response to the specific consultation about fees for this sector.

control option – case fee and compulsory jurisdiction (CJ) levy

This option indicates what would happen if we kept our case fee and CJ levy in line with their proposed 2019/2020 split, to cover our future cost base.

what are the advantages?	what are the disadvantages?	what's the impact?	
• Firms pay fees relative to the amount of complaints they're responsible for, and a fixed amount through the CJ levy based on their industry size. • The arrangement is proportionate to the costs and amount of complaints generated by each firm.	• Income is received when we close the number of complaints from firms outside our group-fee arrangement, so we can't quickly respond to increased demand. • Firms can't be sure of the financial impact, as fees aren't fixed year-on-year. • Our work resolving complaints at an early stage – before they become "chargeable" cases – isn't funded.	**type of firm**	**possible impact**
		large bank	Continues to pay more in comparison to other types of firm, due to having a comparatively higher number of complaints and operating in multiple industry blocks with the CJ levy.
		medium-sized insurer	Pays less than large banks due to operating in one industry block and generating lower volumes of complaints.
		small financial adviser	Pays a fixed fee or tariff in the CJ levy and continues to have 25 "free" complaints.
		payday lender	Pays more than medium-sized insurers due to the number of complaints for which they're paying individual case fees, but lower fees through the CJ levy due to their respective size in the consumer credit block.

option one – 100% income through CJ levy

This option indicates what would happen if we didn't charge case fees, and used the CJ levy to cover all our operating expenditure.

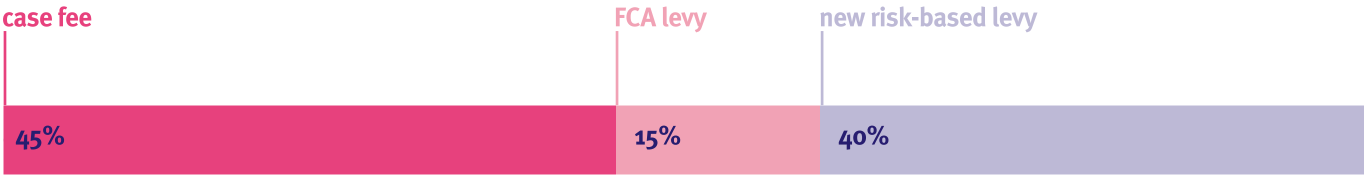
FCA levy

100%

what are the advantages?	what are the disadvantages?	what's the impact?	
		type of firm	**possible impact**
• Funding would be based on existing levy blocks, with a clear breakdown of how fees are calculated. • Revenue for the year ahead is fixed for firms and the ombudsman service.	• Revenue is fixed at the beginning of the year, so we can't react to an in-year increase in demand. • There's less of a link between funding and the number of complaints we receive from individual firms – it's based solely on the industry, and the size of firm within the industry. • There's no incentive to reduce complaints, as the cost recovery is fixed and not apportioned based on complaints. • Larger firms might feel they're subsidising the rest of the financial services sector.	large bank	Continues to pay more in comparison to other types of firm, as they are still the largest firms operating in industry blocks with no link to complaints.
		medium-sized insurer	Sees an increase in costs because all costs are directed through the levy, where their industry block picks up a higher distribution of complaints as a result of turnover and activity.
		small financial adviser	Doesn't benefit from the 25 "free" cases, and potentially has a higher cost if they're in an industry block with a variable tariff.
		payday lender	Sees a reduction in cost due to there being no link to firm-specific complaints, and their small turnover compared with industry block.

option two – case fee, CJ levy and risk-based levy

This option indicates what would happen if we reduced case fees for all firms, kept our CJ levy, and collected the remaining income from a new risk-based levy. This would mean a 55%:45% split between levy and case fees, compared with the current 85%:15%.



<table>
<tr><th rowspan="2">what are the advantages?</th><th rowspan="2">what are the disadvantages?</th><th colspan="2">what's the impact?</th></tr>
<tr><th>type of firm</th><th>possible impact</th></tr>
<tr><td rowspan="4">• All firms will pay a reduced case fee, with the smallest firms benefiting from lower costs.
• The case fee ensures firms are incentivised to reduce complaints.
• A new risk-based levy is distributed based on firm size and risk to the ombudsman service.
• The new levy is structured to allow us to react to demand during the year.</td><td rowspan="4">• The new risk-based levy, based on a risk factor calculation, might be seen as complex.
• There's increased in-house administration relating to calculating risk.
• There's some unpredictability in the risk-based levy, as significant changes in the numbers of complaints referred to us by large firms could potentially cause fluctuations in how much other firms need to pay.</td><td>large bank</td><td>Continues to pay a larger proportion of total income, due the volumes of complaints received and risk to the ombudsman service.</td></tr>
<tr><td>medium-sized insurer</td><td>Might not experience any effect, as reduced case fees are offset by the risk-based levy.</td></tr>
<tr><td>small financial adviser</td><td>Potentially sees a reduction in costs because of lower case fees and not being captured by the risk-based levy.</td></tr>
<tr><td>payday lender</td><td>Potentially sees an increase in costs due to being captured under the new risk-based levy and continuing to pay case fees.</td></tr>
</table>

option three – 50% CJ levy and 50% risk-based levy

This option indicates what would happen if we removed our case fee and attributed all costs equally through the CJ levy and a new risk-based levy.

FCA levy	new risk-based levy
50%	50%

what are the advantages?	what are the disadvantages?	what's the impact? type of firm	possible impact
• Revenue for the year ahead is fixed for firms and the ombudsman service. • Under the risk-based levy future costs are determined by the risk firms bring in terms of demand for our service, or likelihood of complaints being referred to us.	• All firms pay a larger fixed sum, and the largest firms will pay more as part of the risk-based levy. • There's no incentive for smaller firms – or new firms generating high demand – to reduce complaints, as they may not be captured in the risk-based levy for that year. • Smaller firms creating high demand for our service pay less, due to their relative size in the industry block under the CJ levy.	large bank	Sees an increase in their proportion of the total cost of the ombudsman service compared with other firms, as banks are the largest participants in multiple blocks in the CJ levy and pose the biggest risk.
		medium-sized insurer	Sees an increase in costs due to the size of the insurance industry block, and, depending on thresholds, the potential to be captured in the risk-based levy.
		small financial adviser	Potentially sees a reduction in costs due to the fixed tariff and not being captured in the risk-based levy, and having no case fees to pay.
		payday lender	Potentially sees a reduction in costs or no impact based on the risk levy calculation, with minimal impact from the CJ levy increase, and has no case fees to pay.

The soonest we could make any changes is 2020/2021 – though we'd be interested in stakeholders' views about whether this is feasible, or whether we should wait. This decision will involve balancing the costs and disruption relating to implementing a new model, against the costs and risks of continuing with one that already doesn't account for the full range and nature of our work.

We will use the feedback we get to this consultation, together with the insight we've already got from our discussions this year, to refine our models. We plan to consult specifically on our future funding in summer 2019, with this consultation feeding into our wider strategic proposal later in the year.

questions

15	What are your views on the principles that underpin our funding?
16	What do you think about the options we've presented?
17	When do you think we should change our funding model?
18	Do you have any other views about our future funding?

5 Richard Lloyd’s recommendations

review of our progress

We're determined that people who rely on our service, as well as those responsible for overseeing our work, are assured they can have confidence in the quality of our answers to complaints, our professionalism, and our work more widely. In March 2018 our Board commissioned Richard Lloyd, who has significant expertise and experience in the fields of dispute resolution and consumer protection, to carry out an independent review of our service. The scope of this review included specific issues raised by Channel 4's Dispatches earlier that month – but also took a wider view of the context in which these issues were raised, to identify lessons we should learn and improvements we should make.

Richard Lloyd's review was published on our website in July 2018. As we've explained earlier in this consultation, its recommendations form a fundamental part of our plans for 2019/2020, and of our strategic approach as we look further ahead. This chapter represents the update we committed to providing before the end of 2018 about the action we've taken in response to the review's recommendations.

> In summary, I have found that the FOS provides an effective and essential service for many thousands of people. It is important that more consumers use the FOS, knowing that it is not institutionally biased against them, while realistic about its limitations and aware of their right to escalate complaints. But to retain public confidence the FOS must work hard to continuously improve the service it provides for consumers and businesses.
>
> **Richard Lloyd's independent review, July 2018**

	recommendation	update
	service quality	
	casework capability	
1	The FOS should identify gaps between existing capabilities and what is needed for the future, including in relation to case-handling, developing casework approaches, knowledge support, training and quality assurance. The FOS should then plan for continuous improvement to ensure that the quality of casework, including complex cases, is sufficiently robust and consistent.	People rely on the quality of our answers, as well as our professionalism – and these depend on our having the right knowledge and support structures in place for our case handlers. Building on our existing work to assess our casework capabilities, we have further strengthened our planning capability by establishing a new governance structure to help support this analysis on an ongoing basis. This will seek to ensure we have the right expertise and resources in place to deal with changes to incoming demand and the types of complaints we see. Our board will continue to have oversight of this work. We will continue to update our knowledge tool, Discovery, and in the last six months have created around 60 new pieces of guidance to support our case handlers. Our new case-management system, Phoenix, includes the capability to direct case handlers to relevant technical case handling guidance. We have continued to provide a significant amount of technical training to our investigation teams, and, as part of our ongoing work to ensure training is up to date, in the new year we will be rolling out mandatory updated training on awards for non-financial loss. The ombudsmen who lead practice groups are recognised experts in their casework areas. We have now successfully completed a first round of external recruitment for our investigation teams – and will continue to recruit internally and externally to ensure we've got the specialist expertise in place to begin our new SME and CMC jurisdictions in April 2019. Our plans for these new jurisdictions – which have recently been reviewed and agreed by our board – include establishing a panel of experts to support complex SME casework, and transferring CMC complaint handling capabilities from the Legal Ombudsman. We are also developing a tool to help ensure the accuracy of upfront decisions about whether we have jurisdiction over complaints from SMEs, given the sometimes complex assessments involved. The next phase of our strategic planning includes a programme for work focused specifically on improving our case handling process and capabilities, including how we approach our most complex casework.

	recommendation	update
	service quality	
	preventing bias	
2	Staff continuous development training and incentives that work against bias should be strengthened at the FOS, along with investments in technologies that support staff, enable machine learning and better data analytics.	We see fairness as the defining principle of our service. All our people are required to carry out training about equality, diversity and inclusion. Our senior staff – including our ombudsmen and executive team – have completed unconscious bias training run by an external expert in the field. From December 2018 we are piloting a new e-learning module on unconscious bias – to be launched in early 2019 – that all our people will need to complete every year. We are currently working with employees from all areas of our service, and at all levels, to put in place revised performance measures. These will focus on high-quality casework, and provide additional protection against bias. Our decision-making tools reduce the likelihood of bias by helping our case handlers navigate to an indicative answer – and strengthening these tools, including making greater use of data and machine learning, is key to our future plans. Our new business intelligence system has increased our ability to identify trends and risks in our decision-making. We have also updated our conflicts of interest policy, introducing additional recording and reporting procedures to support the annual obligation on our ombudsmen and senior staff to report on all potential conflicts of interest.
	casework objectives	
3	The management approach should focus more on quality, learning, technological support, and motivational team building. There should be a realistic view of productivity targets that enable robust, high quality casework, proper resource planning and appropriate funding.	We have engaged external specialists who have analysed our casework processes to help us identify how we could improve the quality of service we provide, as well as how our investigation teams are managed and motivated. The approach to this work included running drop-in sessions and one-to-one meetings with our people to hear their feedback and ideas. The results will inform the next stage of our strategic planning – in particular, our focus on the continuous improvement of our investigation processes and capabilities. The specialists' recommendations provided the foundation of discussions with representatives from across our investigation teams about developing a new set of realistic and balanced performance measures, including around productivity. These will be launched in the new financial year, supported by a suite of new reporting tools that help encourage good complaint handling. In this consultation on our strategic plans and budget, published in December 2018, we have shared our ideas on possible future funding arrangements – which will need to reflect the full range of services and value we provide, such as our insight sharing, early resolution and signposting.

	recommendation	update
	service quality	
	complaints about the FOS	
4	Clearer, earlier, oral or written communications to consumers should explain the implications of an ombudsman's decision, and its final and binding nature in the event it is accepted by the consumer. Such communication should also provide an explanation of the right to make further representations and submit additional evidence. Consumers should also be fully informed about their right to make a service complaint. Quality assurance checks should be carried out to ensure that staff are not putting undue pressure on consumers to accept a decision quickly.	We are updating our website and publications, including factsheets sent at different stages of our process, to make clearer to people what they can do if they're not happy with the level of service we've provided. We have provided our people with additional training about how to manage complaints and effectively communicate customers' rights (see recommendation five), and will continue to carry out quality checks to ensure this is happening consistently. We are carrying out a further "deep dive" review to provide further assurance, and will monitor this area as part of our ongoing commitment to fairness and improving people's experience of using our service.
5	The single stage complaints process for handling issues should be introduced across the organisation without delay, and an extension of the process that explicitly encompasses both service issues and casework substance should be piloted where senior ombudsmen investigate complaints in the round.	A single-stage process was in place across our investigation teams from the end of May 2018. We rolled out this process across all areas of our work in October 2018. We launched new mandatory e-learning about handling service complaints in September 2018, informed by the findings of our pilot. This was available to all staff and mandatory for all casework managers, and supplemented by training about handling complaints and the process of referring complaints to our independent assessor. We are currently running a pilot in which senior ombudsmen investigate service issues and the quality of our casework in the round, and will use what we learn to help improve our service complaint process.
6	The FCA should examine the impact of CMC behaviour in relation to threats of litigation against the FOS, and take this into account in developing new rules of conduct for CMCs, preferably before the FOS takes on the handling of CMC complaints.	We have been in close contact with the FCA as we prepare for the extension of our jurisdiction to complaints about claims management companies (CMCs). This has included sharing our ten years' experience of working with CMCs in their capacity as representatives in individual complaints, and we will provide further information and support if required. The FCA confirmed that it would address the specific issue raised in recommendation six when publishing its final CMC rules.

	recommendation	update
	service quality	
	quality assurance	
7	The FOS should update and bring together its policies and procedure guides for casework quality assurance and ensure these are better communicated to staff and interested service users. In doing this, it should carry out an assessment of the effectiveness of quality assurance, the scope for improved data collection and analysis, and identify how the quality assurance function could be improved.	We are reviewing and strengthening our principles and approach for quality assurance across our casework areas. We will ensure these are accessible to and understood by our people, and will publish information about them on our website. As part of our strategic planning, we are considering further investment in data analytics and machine learning – which will help us to enhance the consistency of our casework and of quality assurance systems across our service. There is more about our approach to quality assurance under recommendation eight.
8	There should be a continuing role for assurance checks by experienced and knowledgeable staff at arm's length from the primary decision-making teams, focused on the greatest risks.	We already have well-established quality assurance principles and controls in place, which have been reviewed and strengthened as set out under recommendation seven. Assurance is carried out across our casework teams by quality assurance specialists, within a governance framework led by an executive director and two non-executive board members. We take a risk-based approach, using additional support and controls in new and emerging areas of our work. Our sample sizes for quality assurance activity are calculated according to good industry and statistical practice. In the year to October 2018, we carried out more than 8,000 full end-to-end file checks and more than 80,000 focused checks on specific aspects of how we do our work. We have improved our capabilities further by investing in our quality specialists: more than two-thirds of the team (11 out of 16) have now become accredited practitioners with the Chartered Institute of Quality, and 3 have auditing qualifications. In addition, our new business intelligence system will provide additional data, helping us to identify the areas of greatest risk, and to improve our responses. We will continue to identify how technology can enhance our quality assurance.

	recommendation	update
	organisational issues	
	reorganisation	
9	As part of its medium-term planning, the FOS board should reflect on and learn from the operational execution of the reorganisation to date and consider ways to more effectively realise its objectives, including the approach to case handling and the capabilities that will be required. This should include a further exercise to check an appropriate sample of casework, to make sure that decisions made during the early stages of the reorganisation were handled in accordance with the controls and standards put in place at the time.	The board and executive team are committed to learning from our experience of reorganisation, recognising that there were many areas for improvement. The outcome of the review we've carried out form a key part of our strategic planning. We have now appointed a new head of internal communications to lead a strengthened internal communications team. This is in addition to engaging external change management and delivery support, and investing in training and development across our investigations teams (see recommendation one). We have also commissioned independent parties to carry out a two-stage exercise to check a sample of our casework. The results of this are in appendix b of this consultation.
	knowledge, technology and data	
10	The FOS should realistically assess the balance between digital knowledge capture and provision and caseworkers' experience of financial products and services, in particular for complex problems, and value and invest in people accordingly.	As we've set out under recommendation one, we've assessed skills and capacity across our investigation teams, and invested in significant training and development for our people. Our technology plans include the capability to direct our case handlers to relevant content from our knowledge tool. In addition, we have revised our casework structures to include dedicated areas of specialism. Our practice groups are led by recognised experts in their field of casework. And to ensure we're able to respond successfully to the demands of our new jurisdictions, we are identifying and using internal specialist knowledge, supplementing this through recruiting external experts, and setting up a specialist external panel to help us resolve our most complex SME casework.

	recommendation	update
	organisational issues	
	knowledge, technology and data	
11	The FOS should review its investment in information technology, and ensure that planned levels of investment and delivery are fit for operational purposes. Consumer-facing technology that enables people to better manage their complaints should be built on a mobile-first platform that works for those who have been less engaged with the FOS to date.	We have already made a significant investment in our IT and digital capabilities. We've set out these developments in our annual plans, and outline our plans for 2019/2020, as well as our aims for the future, in this consultation. In summary, we have developed a new customer-centric case handling system (Phoenix), as well as mobile-optimised portal technology, allowing people with complaints to manage their case with us online. This will be launched in the new year. The continuous improvement of our case handling system, as well as future technological improvement, is included in our strategic planning – and we will draw on external expertise to support this work.
12	The organisation should invest in building its technical capability for data analysis, to strengthen its early insight for preventative work and engagement with the financial services industry, regulators and government.	We're committed to sharing our insight to prevent complaints arising, and see it as a key responsibility for our service. In addition to developing a new case handling system, we have introduced a new business information tool and propose to build our data science capabilities – which will help improve our ability to identify trends in our casework. As part of a review of our capabilities at executive level (see recommendation 20), we are recruiting for a chief information officer. We have also continued to build our insight capability within our stakeholder team, complementing the work we've done over previous years to build insight networks across our service. This includes a new process for identifying insight from the external engagement undertaken by the stakeholder team and the enquiries they receive; the use of new management information tools to better identify and analyse complaints trends; and a planned programme of insight research projects that reflect our engagement priorities and our stakeholders' needs. In March 2018 we launched a new practice group focused specifically on helping our people to support people in vulnerable circumstances, as well as those whose behaviour may have been challenging when dealing with us. As well as providing internal support, this practice group has begun to share its insight externally – including submitting evidence to the Women and Equalities Committee's investigation into the enforcement of the *Equality Act 2010* – and will continue to do so as its work develops.

	recommendation	update
	organisational issues	
	management capability and internal communications	
13	Strategic planning should be less top-down and informed by a wide range of experience and expertise within the FOS.	We're committed to learning from past experience of organisational change, and ensuring we not only improve communication about our strategy, but factor the diverse range of expertise and experience our people bring to our service into our strategic planning. Our recent engagement has included a workshop in October 2018 for senior managers to share their views about our future strategy; and a concise all-employee survey in October 2018 to help gauge areas of improvement and ongoing challenges since our last survey. Our latest results show that 88% of people are committed to helping our service achieve its goals, and that a growing proportion feel informed about our plans and performance – as well as highlighting areas where we still need to improve. In December 2018 we ran an event for employees across our service, where we responded to people's questions and feedback about themes arising from the survey and our strategic plans for the near and longer-term future. Our new governance approach and structure for strategic planning gives more ownership and accountability at a level below the executive team. The strategic plans and budget on which we're currently consulting reflect the contribution of a wide range of people – and we will continue to take a collaborative approach to shaping our strategy, asking for ideas and feedback to ensure our decisions about the future draw on the significant range of experience and ideas our people bring. Our strengthened internal communications team will be developing a full engagement plan for the coming year, using a business partner model to ensure effective support is provided across our service.
14	Managers at all levels, but the executive in particular, must give a much greater priority to ensuring clear and consistent communication, starting with a demonstrable commitment to an inclusive style of leadership. Communications and staff engagement expertise should be central to future change.	Engaging and retaining a talented and diverse workforce is fundamental to our ability to do our job effectively. In recognition of the importance of this recommendation, we have developed a new internal communications strategy, which will be carried out by our dedicated internal communications team, using a business partner model. We will use a range of channels to ensure our engagement and communication is as effective as possible, and have engaged external expert to provide change management expertise. Building a commitment to inclusive leadership will be central to this work.

	recommendation	update
	organisational issues	
	culture and morale	
15	A consistent, strategic and expert approach is needed for staff engagement to be returned to a satisfactory level, including a shift in leadership approach and skills in some areas at senior and middle management levels.	In addition to the steps outlined under recommendation 14, we have put in place a reverse mentoring programme. This involves employees mentoring members of our executive team, helping to promote inclusive leadership by building the executive's understanding of diverse backgrounds and experiences. We have also developed and rolled out a management development programme for middle and senior managers. This includes leadership skills, and also looks more widely at management capabilities – defining what good practice looks like, and focusing on people, performance and change. The programme includes training for all managers – for example, around performance management – and from October 2018 to April 2019 we are piloting a six-month programme to develop cohorts of managers. This is one element of our wider work to improve employee engagement. Following a concise staff survey in October 2018, we will carry out a full survey in 2019. There is more detail in recommendation 13.
16	Alongside the staff Information and Consultation Council, the FOS should extend its recent work with a trade union, taking into account union membership levels.	Quarterly meetings have now been arranged with Unite representatives, in addition to existing engagement with our formal employee engagement body (the Information and Consultation Council, or ICC). Unite representatives are now given time off for trade union training, to ensure they can continue to provide appropriate support for their members. We've continued to discuss with employee representatives how different forums for engagement can complement each other. The ICC's terms of reference are being reviewed to ensure our people feel sufficiently represented through the ICC, and to support this aim, the ICC membership has been increased by four.
	finances	
	resourcing	
17	The FOS should project its medium-term costs based on sensible assumptions about case volumes and the organisational capabilities, human and technological, required to provide a good quality, efficient service.	We are working to refine our medium-term outlook, with the benefit of insight from how our investigation model has been performing – and we will also take into account the latest views of our external environment corresponding with our casework areas. We will use the external analysis and recommendations relating to our investigation model to continue to make improvements, so it reaches its full potential. Our new case handling system is designed to provide case handlers and their managers with clearer management information. We have committed to the continuous improvement of this system, which will help us run our operations more effectively and efficiently. This work forms a key part of our strategic planning.

	recommendation	update
	finances	
	funding	
18	Based on this analysis, the FOS and FCA should consider consulting on a new levy funding structure for the FOS that meets this cost, is based on the risk that firms bring to the market, and enables more stable forward planning.	Following discussions with our board in March 2018, we've continued to ask stakeholders for their perspectives on our future funding arrangements – including holding a series of roundtables focused on this topic. This strategic plans and budget consultation summarises the current position with our funding, explains the principles that we think should support any future model, and asks for stakeholders' views on a range of options. These include options involving a risk-based levy. We plan to consult specifically on a new funding structure in 2019, with a view to implementing a new model in 2020/2021 or the following year, subject to our stakeholders' feedback.
	governance	
	strategic planning and risk	
19	The FOS board should now lead the development of a new strategic plan, taking into account the conclusions of this review.	This consultation is structured around a "three horizon" framework, which was agreed by our board in September 2018. The strategic plans and budget on which we're now consulting have been informed by the conclusions of Richard Lloyd's review.
	Board and executive effectiveness.	
20	The FOS board and executive should, as part of its succession planning, assess its composition, effectiveness, capabilities and skills in the light of this review and strategic planning.	We have engaged a talent strategy expert to help establish a new framework for talent management and succession planning, including where this relates to the executive team. As we shape our service for the future, we have assessed the composition of the executive team and our future capability needs. The team is being restructured and the changes in 2018/2019 will include the departure of the chief operating officer and the director of strategy, and the recruitment of a chief information officer. A board effectiveness review was carried out in September 2018. The findings were discussed at the October 2018 board meeting, and an analysis of the board's composition and skills mix will be available to the incoming chair in August 2019, when the current chair's term ends. The role profile and person specification for the new chair will reflect the skills and experience our service will need as we shape and put in place our strategy for the future.

	recommendation	update
	governance	
	whistleblowing	
21	The board should consider engaging an external provider to facilitate its whistleblowing procedures as confidence in the management of the organisation is rebuilt.	An updated whistleblowing procedure was agreed by the audit committee in October 2018, and will be put into use in January 2019. As part of this work, we are currently procuring external support to help us ensure our people feel comfortable with the channels they can use to raise any concerns. We will ensure the new policy is communicated effectively across our service.
	reporting on progress	
22	The FOS should publish its review of progress against these recommendations before the end of 2018.	This chapter of our strategic plans and budget consultation represents our review of our progress.

6 appendices

FOS 2019/X

FEES MANUAL (FINANCIAL OMBUDSMAN SERVICE CASE FEES 2019/2020) INSTRUMENT 2019

Powers exercised by the Financial Ombudsman Service

A. The Financial Ombudsman Service Limited:

(1) makes and amends the scheme rules relating to the payment of fees under the Compulsory Jurisdiction;
(2) fixes and varies the standard terms for Voluntary Jurisdiction participants relating to the payment of fees under the Voluntary Jurisdiction, and
(3) fixes and varies the standard terms for the Voluntary Jurisdiction,

as set out in the Annex to this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000:

(a) section 225 (the scheme and the scheme operator)
(b) section 227 (Voluntary jurisdiction);
(c) paragraph 14 (The scheme operator's rules) of Schedule 17;
(d) paragraph 15 (Fees) of Schedule 17; and
(e) paragraph 18 (Terms of reference to the scheme) of Schedule 17.

B. The making and amendment of these scheme rules and fixing and variation of these standard terms by the Financial Ombudsman Service Limited is subject to the consent and approval of the Financial Conduct Authority.

Approval by the Financial Conduct Authority

C. The Financial Conduct Authority consents to the making and amendment of the scheme rules and approves the fixing and variation of the standard terms by the Financial Ombudsman Service Limited.

Commencement

D. This instrument comes into force on [1 April 2019].

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 2019/2020) Instrument 2019.

By order of the Board of the Financial Ombudsman Service Limited
[*date*]

By order of the Board of the Financial Conduct Authority
[*date*]

Annex

Amendments to the Fees manual (FEES)

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

5 Annex 2R Annual Levy Payable in Relation to the Voluntary Jurisdiction ~~2018/19~~ 2019/20

Voluntary jurisdiction – annual levy for VJ participants				
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 gross written premium	£0.103	£100
3V	*VJ participants* undertaking life insurance activities	per £1,000 of gross written premium	£0.025	£100
6V	Intermediaries	n/a	n/a	£75
7V	Freight-forwarding companies	n/a	n/a	£75
8V	National Savings & Investments	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*; 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 11 Part 3	£0.10 per £1,000	£75
13V	Persons not covered by 1V to 9V undertaking activities which are CBTL activities or would be if they were carried on from an establishment in the *United Kingdom*	n/a	n/a	£75
14V	Persons not covered by 1V to 9V providing *credit information*, under the *Small and Medium Sized Business (Credit Information) Regulations* or providing *specified information* under the *Small and Medium Business (Finance Platforms) Regulations* or would be if it was carried on from an establishment in the *United Kingdom*	n/a	n/a	£75
<u>15V</u>	<u>*VJ participants undertaking activities relating to claims management services*</u>	<u>annual income</u>	<u>£50 plus £3 per £1,000 of annual income</u>	<u>£75</u>

Notes
… (5) For *VJ participants* undertaking activities relating to *claims management services* (fee-block 15V): Income is defined as turnover. "Turnover" means the sum of the amounts paid to, or received by, a *VJ participant* in respect of activities relating to *claims management services* carried on from an establishment in the *UK* or elsewhere in the *EEA* which are not *regulated claims management activity*, including: (a) charges, commission, the share of any compensation, fees and subscriptions; (b) the monetary value of any services received by the *VJ participant* where it makes no payment for those services or where the payment received is worth less than the monetary value of the services; and (c) the monetary value of any advertising in respect of the *VJ participant* that it has not paid for out of funds referred to in sub-paragraphs (a) and (b). "Annual income" means the *VJ participant*'s annual turnover for the financial year ended in the calendar year ending 31 December.

5 Annex 3R **Case Fees Payable for ~~2018/19~~ 2019/20**

Part 3 - Charging groups	
The *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*: 3i BIFM Investments Limited Oak Pension Asset Management Limited Barclays Asset Management Limited Barclays Bank Plc Barclays Bank Trust Company Limited Barclays Capital Securities Limited Barclays Insurance (Dublin) Designated Activity Company Barclays Insurance (Dublin) Limited Barclays Insurance Services Company Limited Barclays Mercantile Business Finance Limited Barclays Private Clients International Limited Barclays Sharedealing Barclays Stockbrokers Limited Barclays Trust Company Limited Clydesdale Financial Services Limited Firstplus Financial Group Plc Gerrard Financial Planning Ltd Gerrard Investment Management Limited Solution Personal Finance Limited Standard Life Bank Plc Woolwich Plan Managers Limited

2	HSBC Group, comprising the following *firms*: CL Residential Limited HFC Bank Limited HSBC Alternative Investments Limited HSBC Bank Malta plc HSBC Bank plc HSBC France HSBC Global Asset Management FCP (France) HSBC Global Asset Management (France) HSBC Global Asset Management (UK) Limited HSBC Hervet HSBC International Financial Advisers (UK) Limited HSBC Investment Funds HSBC Life (Europe) Limited HSBC Life (UK) Limited HSBC Private Bank (Luxembourg) S.A. HSBC Private Bank (UK) Limited HSBC Securities (USA) Inc HSBC SPECIALIST INVESTMENT FUNDS HSBC Trinkaus & Burkhardt AG HSBC Trust Company (UK) Ltd HSBC UK Bank plc John Lewis Financial Services Limited Marks & Spencer Financial Services plc Marks & Spencer Savings and Investments Ltd Marks & Spencer Unit Trust Management Limited The Hongkong and Shanghai Banking Corporation Limited

3	Lloyds Banking Group, comprising the following *firms*: Aberdeen Investment Solutions Limited 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 Assurance Ireland Ltd 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 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 Bank Plc Lloyds TSB Financial Advisers Limited Lloyds Bank General Insurance Limited Lloyds Bank Insurance Services Limited Lloyds TSB Investments Limited

	Lloyds Bank Private Banking Limited Pensions Management (SWF) Limited Scottish Widows Administration Services Limited Scottish Widows Annuities Limited Scottish Widows Bank Plc Scottish Widows Fund Management Limited Scottish Widows Limited Scottish Widows plc Scottish Widows Unit Funds Limited Scottish Widows Unit Trust Managers Limited St Andrew's Insurance plc St Andrew's Life Assurance Plc SW Funding plc The Elms Financial Services Ltd The Mortgage Business Plc Uberior Fund Manager Ltd MBNA Limited
4	RBS/NatWest Group, comprising the following *firms*: Aberdeen Infrastructure Asset Managers Limited Adam & Company Investment Management Ltd Adam & Company Plc Coutts & Company Coutts Finance Company Lombard Finance Ltd Lombard North Central Plc National Westminster Bank Plc National Westminster Home Loans Limited RBOS (UK) Limited RBS Asset Management (ACD) Ltd RBS Asset Management Ltd RBS Collective Investment Funds Limited RBS Equities (UK) Limited

	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 Limited Ulster Bank Ireland Designated Activity Company Ulster Bank Ireland Limited Ulster Bank Ltd
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 Friends Annuities Limited Friends Life and Pensions Limited Friends Life FPLMA Limited Friends Life Investment Solutions Limited Friends Life Limited Friends Life Marketing Limited Friends Life Services Limited Friends Provident International Limited Optimum Investment Management Limited Sesame 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*: Cheshire Building Society Derbyshire Building Society 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 Portman Building Society 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 Santander ISA Managers Limited Hyundai Capital UK Limited

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)* – {£0 x [~~220,000~~ 250,000] x the 'proportion X'} – {£0 x 125}

	(2) in respect of closed *chargeable cases (PPI)* – £550 x [~~250,000~~ 270,000] x the 'proportion Y'
	(3) in respect of closed *chargeable cases (general)*– {£550 x [~~160,000~~ 240,000] 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 (4) 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 10,000 and is more than [115%] of {[~~220,000~~ 250,000] 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 {[~~160,000~~ 240,000] 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) closed *chargeable cases (general)* 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 {[~~160,000~~ 240,000] 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%].

appendix b – independent exercise to check a sample of our casework

In response to recommendation nine of Richard Lloyd's review, we commissioned an independent exercise to check an appropriate sample of our casework from the early stages of our investigation model. This appendix includes the report of the two independent reviewers, as well as our response to their findings.

We know our knowledge is central to people's confidence in us. Getting the right answer matters to everyone involved – whether the problem in hand is relatively straightforward, or whether it's complex and entrenched. We're very grateful to Deloitte and Carol Brady MBE for the thoroughness with which they carried out their respective reviews, and the opportunity this exercise has given us to further improve what we do.

action we are taking

We have explained in this consultation, including in our response to Richard Lloyd's recommendations, that we have made significant further investment in providing technical training to our investigation teams, in supporting them with online knowledge content and tools, and in putting in place a framework for the ongoing review and development of their skills.

Since the period in question, we have reviewed all our technical content and nearly doubled the amount of technical guidance available to our investigators. In addition, we have ring-fenced some of the more complex consumer credit issues we see, so they are now dealt with by a smaller group of specialist investigators. While we will continue to keep our technical guidance up to date as a matter of course, we will review our content in light of the observations made in this review. It's reassuring that none of the additional pensions and investments cases reviewed by Carol Brady provided cause for concern. We are committed to continuing to ensuring this remains the case – including in our new small business jurisdiction, where we have put in place significant measures to address the greater potential for complexity.

We know people choose to work for us because they're motivated by making a difference – and we're pleased and reassured that this is reflected in Carol Brady's comments about their sensitivity and professionalism. We note the areas for improvement raised in this review, and will ensure they are addressed through focused training – as well as through the work of our specialist practice groups, which builds our case handlers' capacity to provide people using our service with the understanding and practical support they need.

We're grateful for Carol Brady's feedback about the way we communicate with both parties to complaints. Many people who complain to us are happy for us to use their first names – and our case handlers necessarily have regular contact, and professional relationships, with employees of financial businesses. However, it's essential that there's no scope for any doubt that we investigate complaints in anything other than an independent, impartial way – and we will ensure that our case handlers' training is strengthened in the areas this review has identified. This includes their awareness of how bias might be perceived, even if it's not present; their skill in ensuring people feel the issues they've raised have been fully considered; and their confidence in identifying and raising areas of potential concern with financial businesses. We will also incorporate the first-stage review findings into our ongoing work to review and improve the way we record information on case files. Ensuring we capture and record the right information on our case files is already part of our quality assurance framework, and we are satisfied that the auditors' findings don't reflect underlying problems in this area. The requirements of our new case handling system, Phoenix, have included the development of additional prompts and safeguards around identifying and recording complaint issues – to ensure consistency in the way these complaints are resolved, and also in the processes that are followed and how they are recorded.

First-stage review

Background

The Richard Lloyd Independent Review report contained 22 recommendations in respect of which the Financial Ombudsman Service (the Service) agreed to report back on progress by 31 December 2018. One of the recommendations, Recommendation 9, recommended that the Service:

"As part of its medium-term planning, the FOS board should reflect on and learn from the operational execution of the reorganisation to date and consider ways to more effectively realise its objectives, including the approach to case handling and the capabilities that will be required. This should include a further exercise to check an appropriate sample of casework, to make sure that decisions made during the early stages of the reorganisation were handled in accordance with the controls and standards put in place at the time."

Scope of work

An agreed upon procedures exercise (stage one review) was undertaken with respect to the second part of Recommendation 9 which included:

- Selecting a statistical sample[1] of case files from the early stages of the reorganisation, defined by the Service as 1 May to 30 November 2016 (Wave 1).
- Confirming whether the statistical sample of cases complied with the controls and standards put in place at that time.

The work did not confirm whether the outcomes arrived at for each of the cases in the sample were the correct decisions or express any opinion or overall conclusion in relation to the work performed or the controls and standards put in place between 1 May and 30 November 2018.

Methodology

Between 1 May and 30 November 2016, the first wave of the Service's investigation model resolved 8,390 consumer cases, excluding mass claim cases. A statistical sample[1] of 947 case files was selected on a random basis from the 8,390 cases that were resolved between 1 May and 30 November 2016.

Each of the cases in the sample was assessed against the controls and standards in place between 1 May and 30 November 2016, following an agreed upon procedures approach. This was completed by undertaking a test for each of the procedures that should have been undertaken for each case in the sample. Unrestricted access was given to the case file records and case handling guidance to enable the work to be undertaken.

Any cases identified where it was not clear from the records that the case was handled in accordance with the controls and standards that were put in place between 1 May and 30 November 2016 were handed to the Service for the second stage review.

The approach adopted for the stage one review did not consider whether the outcomes for each case in the sample were fair and reasonable decisions.

Results

Of the 947 cases included in the sample, in 148 cases, it was not clear that the case was handled in accordance with the controls and standards put in place between 1 May and 30 November 2016. These 148 cases were passed to the second stage review.

A further 14 cases were identified with a set of circumstances which were outside the parameters of the procedures tested against. The Service has since decided that, for completeness, these cases will also be passed to Carol Brady for review.

[1] to provide a 95% confidence level and a +/- 3% error rate over the population

Second-stage review – Carol Brady MBE

Carol Brady MBE is a former legal ombudsman, author of the Brady report for HM Treasury and the Ministry of Justice on the future regulation of CMCs, and a current independent Advisory Member of the Commission for the Local Government and Social Care Ombudsman. She is independent of the Financial Ombudsman Service.

Terms of reference

Richard Lloyd's independent review of the FOS in July 2018 recommended that it should undertake an exercise to check an appropriate sample of casework, to make sure that decisions the FOS made during the early stages of its reorganisation were handled in accordance with the controls and standards put in place at the time. The FOS subsequently committed to an independent two-stage review.

The first stage of the review, which was independent of me, was carried out by the FOS's independent auditors, Deloitte, who reviewed a statistically valid sample to identify any case which was not handled in accordance with the controls and standards put in place at the time. Deloitte reviewed 947 of the 8,390 cases which had been resolved during the relevant period – being from 1 May to 30 November 2016.

The FOS asked me to carry out the second stage of the review, involving a detailed consideration of the outcome of cases identified at the first stage – meaning that my focus was on cases most at risk of having unsafe outcomes. My task was to decide whether, in my view, the outcomes were 'safe' – in other words, whether they were ones which a reasonable ombudsman would reach, taking into account the duties of the ombudsman in resolving cases.

The FOS provided me with full and unrestricted access to its case-handling systems. This included not only the initial complaint raised, but access to all the evidence provided by both parties; email exchanges and notes of telephone conversations. I was also able to access internal guidance and policy documents.

I carefully considered 178 cases in total. 148 cases were identified by Deloitte at the first stage of the review. An additional 30 cases were passed to me by the FOS to ensure that the mix of cases I reviewed included more 'complex' complaints. These additional cases represented a random selection of pensions and investment complaints from Deloitte's sample, which had not already been reviewed by me because they were found to have been handled in accordance with proper controls and standards.

My findings

From the 178 cases which I reviewed, my view is that the FOS is unlikely to have reached safe outcomes in four cases. Two of these cases involved claims under Section 75 of the Consumer Credit Act, where the case-handlers concluded that the complaints would be unsuccessful because there were no debtor-creditor-supplier arrangements for Section 75 to apply. Based on the available evidence, I consider it likely that the arrangements would have applied and that the case-handlers should have gone on to satisfy themselves as to whether there had been a breach of contract and/or misrepresentation which would have given rise to justified claims. The other two cases involved car finance, specifically around the quality of goods. I considered that an independent report would have been appropriate in each case in order to confirm whether the outcomes reached were fair and reasonable.

Each of these four cases had only reached the first stage of the FOS's process – having received initial assessments by investigators. The FOS has agreed to take another look at these cases and, where necessary, pass them to ombudsmen to consider afresh and make final decisions. Additionally there were a small handful of cases where, although the outcome was not unreasonable, if I were the deciding ombudsman, I would ask the investigator to provide me with some additional evidence or clarification. The FOS has, in any event, agreed to take these cases back and relook at them in the light of my comments. I also made the following general observations.

Customer service which showed sensitivity and compassion

It is clear that the FOS has a difficult job, the nature of which inevitably means that one side or the other will not get the outcome they want. Many of the cases I reviewed involved complaints which affect lives and livelihoods – emotions can run high. In my view, case-handlers coped with this well, sometimes going above and beyond to achieve the FOS's aim of getting complaints resolved at the earliest opportunity. I saw some particularly vulnerable complainants – one case involving a claim on their late son's insurance policy – who were treated sensitively and with compassion. There were also examples of case-handlers remaining calm and professional, despite the complainant displaying threatening and menacing behaviours.

Well-reasoned explanations – but sometimes further probing would help

In most of the cases I reviewed, case-handlers were thoughtful in their approach and provided clear explanation and reasoning when expressing their views to both the complainant and respondent business. However, there were a handful of cases where I considered further questions and probing would have been helpful – not just for the case-handler to be able to more clearly show that the decision reached was fair and reasonable, but also to reassure the complainant that all of the issues they had raised had been carefully considered. In situations where the FOS was not able to help with a particular issue, case-handlers generally signposted complainants to an appropriate alternative agency, though the FOS must ensure that this happens in every case where possible.

Ensuring informality does not lead to a perception of bias

The FOS is required by law to resolve complaints 'quickly and with minimum formality'. In most of the cases that I reviewed, case-handlers had taken an informal tone in line with the FOS's approach, including using first names in correspondence. However, it is important for the FOS to ensure that this informality does not lead to a perception of bias or lack of independence. For example, in some cases, case-handlers would use the first names of staff at the respondent business and use over familiar language, while taking a much more formal approach with complainants. There were also a handful of cases where I took the view that the FOS could have been more critical of the practices and handling of particular issues by respondent businesses.

Conclusion

In conclusion, from the cases I have reviewed, the FOS's approach to casework is, in my view, robust and reflects the conclusion in Richard Lloyd's independent report that consumers can feel reassured that the FOS is not institutionally biased against them.

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