



Financial
Ombudsman
Service

Our future funding

A consultation

July 2019

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 and reasonably, quickly, and with minimal formality. On 1 April 2019, our remit was extended to complaints made by more small businesses about financial services, 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. For complaints about events that happened after 1 April 2019, we can tell a business to pay up to £350,000.

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.

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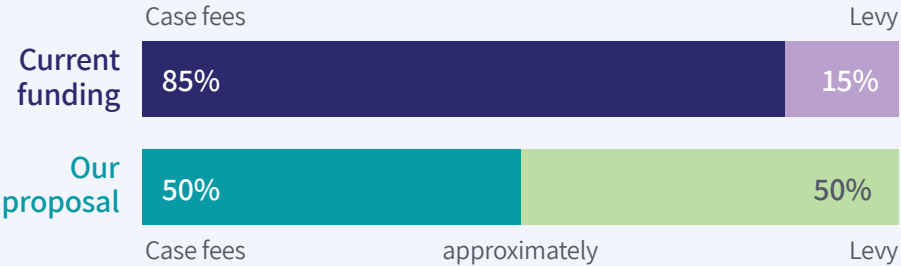
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Overview

Our proposals

Rebalancing the proportion of our income we get from our levy compared with case fees

To give greater certainty and stability in our funding, ensure we can respond to changes in demand, and fund our wider work to prevent complaints and encourage confidence.



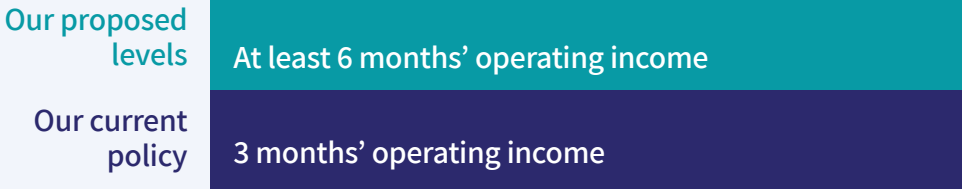
Changing the number of “free” cases to 10 per firm, and to 50 for each group within our group account fee arrangement

Following an increase that happened at the height of complaints about payment protection insurance (PPI), as we look ahead to a time when we’re no longer receiving them in mass volumes.



Maintaining reserves of a minimum of six months’ operating income

Helping us continue to ensure stability in our funding.



The discussion in this consultation and the projected figures we’ve included are based on current assumptions about the medium-term outlook. In line with our normal processes, we’ll consult annually on our plans and budgets for future financial years, including the volumes of complaints we expect and the level of our case fee and levy, before each year begins. Our budgets are subject to approval by the Financial Conduct Authority (FCA).

What we're asking

Question 1

Our planning assumptions reflect our expectation that our service will be smaller in the future, and that our overall cost to the sector will significantly fall. Are you aware of anything that might affect this expectation – for example, issues that could create significant demand for our service?

Question 2

Do you have any further insight into the different types of complexities apparent in complaints?

Question 3

- a) To what extent do you support our wider work to help prevent complaints and encourage fairness?
- b) Do you have any further suggestions about what more we could do, or ideas for working together with us?

Question 4

To complement the work we've already done to improve our efficiency, we'd welcome your ideas for how we could work in partnership to deliver additional savings in future. Do you have any suggestions?

Question 5

To what extent do you agree or disagree that our levy and case fee income should be rebalanced, so there's a broadly 50:50 split?

Question 6

In refining our proposal, we carefully considered different funding options – including different types of risk-based models. Do you have any thoughts about alternative approaches to overcoming the obstacles we identified, in ways that are consistent with our funding principles?

Question 7

- a) To what extent do you agree or disagree with our proposal to reduce the “free” case threshold for non-group account fee firms from 25 to 10?
- b) To what extent do you agree or disagree with our proposal to reduce the “free” case threshold for groups within the group account fee arrangement from 125 to 50?

Question 8

To what extent do you agree or disagree that we should look to maintain a level of reserves of six months' operating income or higher?

Question 9

Do you have any comments about the timing for implementing any changes to our funding model that arise from this consultation?

Question 10

Do you have any additional feedback about our future funding or the proposals presented here?

How to respond

This consultation is open for six weeks until 13 August 2019.

The easiest way to respond is [online](#), where you'll be able to answer all the questions we've asked, including giving additional comments if you want to.

Alternatively, you can email your response to consultations@financial-ombudsman.org.uk, or send it to:

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

We may summarise your organisation's response and publish its name (or your response and name if you're responding as an individual) as part of our consultation process. If you think there's a reason your response should be confidential, please let us know.

The next steps

Consultation opens	2 July 2019
Deadline for responses	13 August 2019
Consultation opens on 2019/20 plans and budget	December 2019
Proposed implementation date	1 April 2020

Introduction from the chief ombudsman & chief executive



We're a public service that operates as a not-for-profit company – paid for by the industry we cover, yet independent and unbiased. Given these dynamics, it's not surprising that, for as long we've existed, our funding has generated discussion.

Today, we're on the cusp of some big changes. With the FCA's PPI complaints deadline of 29 August 2019 less than two months away, we've been preparing for a future when PPI doesn't dominate our caseload, while knowing there's still hard work ahead to bring it to a conclusion.

Our service tripled in size in response to PPI. Assuming something on that scale doesn't happen again, we're planning on the basis we'll be a smaller organisation in future. So, in combination with our focus on finding efficiencies and smarter ways of working, we expect the overall cost of our service to fall.

However, with PPI behind us, we expect to see a changing mix of complaints, and a continued trend toward complexity in our casework. Looking ahead, we know we'll need to account for the potential for volatility in demand for our help. And we also want to maintain, and build on, the wider value of our service – looking beyond resolving individual complaints to stopping unfairness arising. It's against this backdrop that we're asking for views on the fairest and most effective way of collecting the funds we'll need.

The good news is that there's already plenty of common ground. We've consistently received feedback from stakeholders that they value our insight and engagement, which helps reduce unnecessary referrals to our service and prevent complaints at source. Few disagree that the existence of a proactive ombudsman helps promote confidence in the financial services sector – or that we should be free to its customers. There's also agreement that our funding arrangements should create certainty and stability, and avoid unnecessary complexity or costly administration.

When we consulted on our *strategic plans and budget* in December 2018, many stakeholders reflected on the strengths of our existing levy-plus-case-fee model. There was interest too in exploring the possibility of a risk-based levy. Since then, we've considered these options in light of changing demands on our service, feedback we've received, and the funding principles we've previously established. We're now proposing what we think, given all these factors, is a practical and fair way forward.

This consultation is the latest step in the ongoing conversations and consultation we've been having with our stakeholders. Our shared interest in fairness stands us in good stead to reach a consensus about the future – and I'm looking forward to hearing your views.

A handwritten signature in black ink, appearing to read 'C. Wayman'.

Caroline Wayman

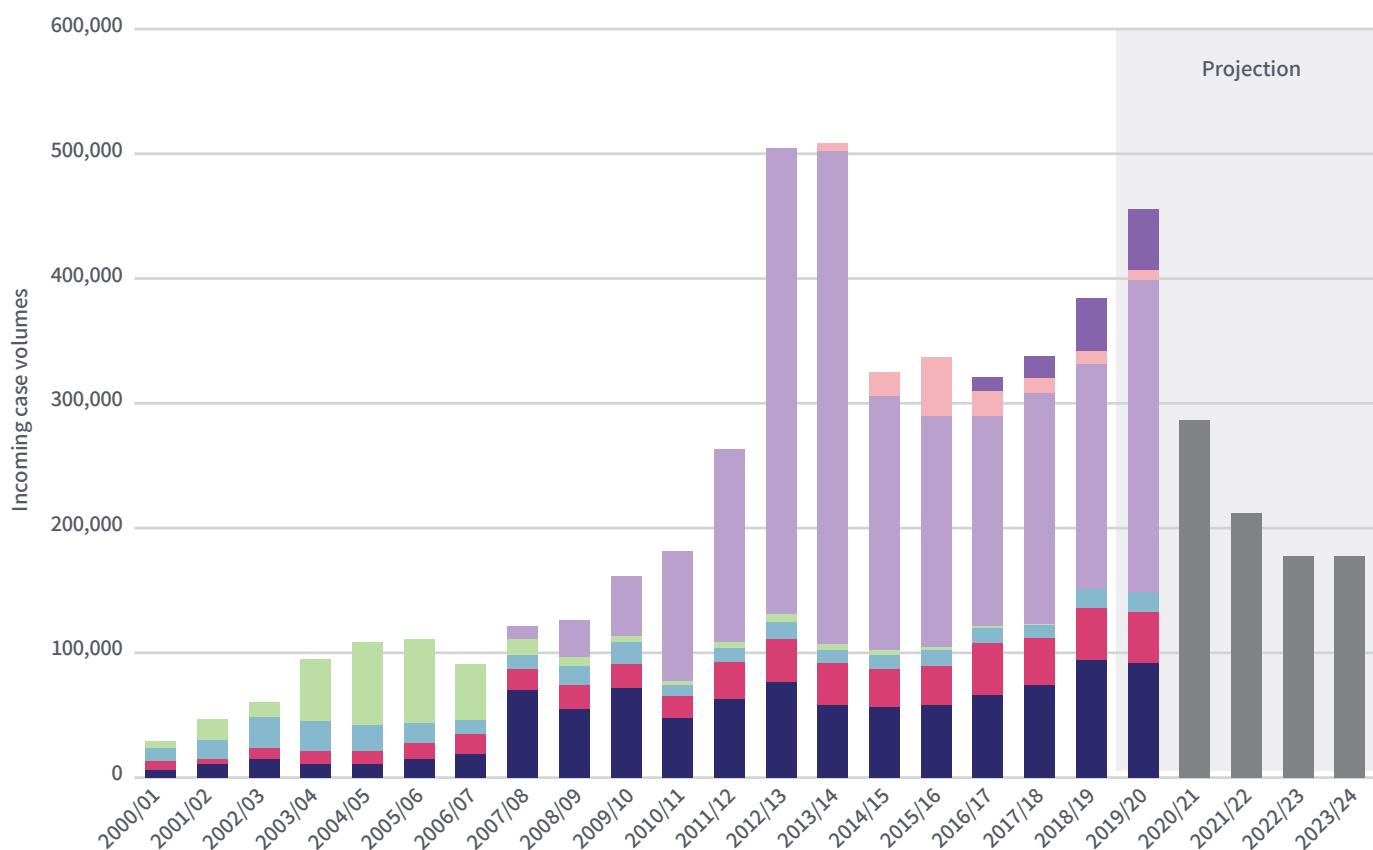
Chief ombudsman & chief executive
2 July 2019

The context for change

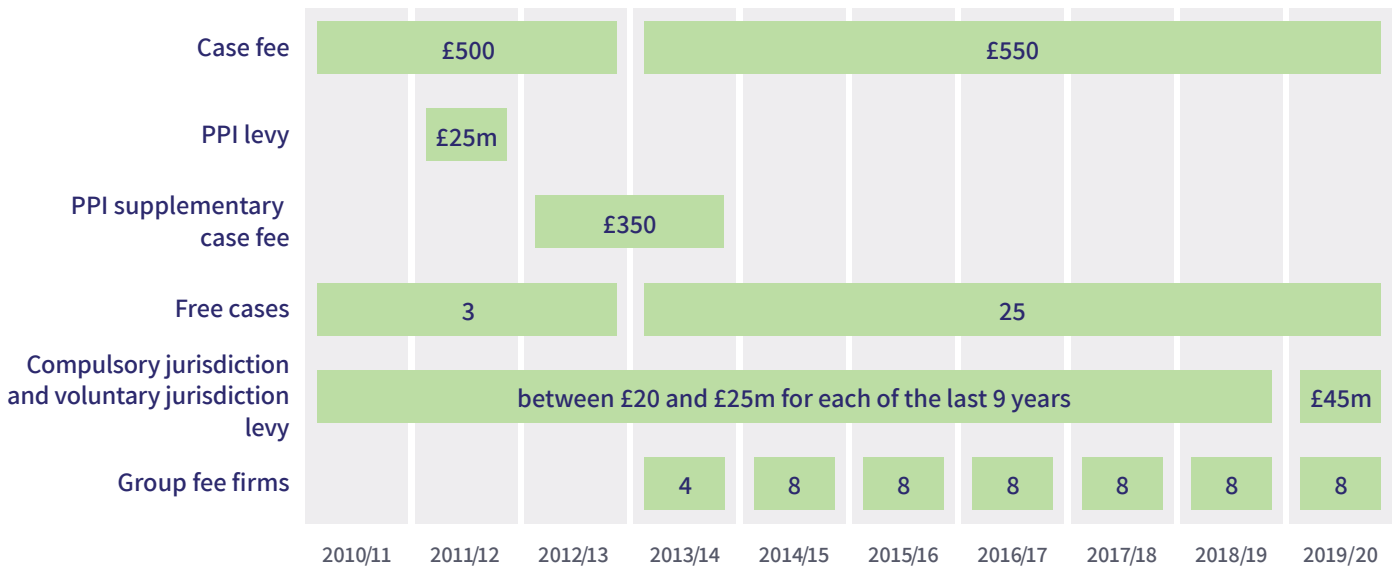
In this chapter we review how our service has been funded in the years since we were established. We then look ahead, explaining how we expect the overall cost of our service to fall significantly after PPI reaches its conclusion. We also highlight the continued trend toward complexity and potential for volatility in complaints, our complaint-prevention work and the wider value of our service as factors that have a bearing on our future funding.

- Banking (excluding packaged bank accounts)
- Insurance
- Investment (excluding mortgage endowments)
- Mortgage endowments
- PPI
- Packaged bank accounts
- Short-term lending
- Total volume

Demand for our service over time



Our funding over time



About our funding

Our service, which brought together a number of separate financial dispute resolution schemes, has been fully operational since 2001. Over the last two decades, developments in the financial services sector, technology and wider society have continued to change the mix of complaints people bring to us, as well as people’s expectations of the service they’ll receive. Several instances of “mass” complaint – payment protection insurance (PPI) in particular, but also mortgage endowments, bank charges, packaged bank accounts and short-term lending – have meant we’ve needed to scale up our operations, and find new ways of resolving people’s disputes.

Since we were set up, our service has been paid for through a mixture of a levy on financial businesses collected by the FCA, and case fees for individual complaints referred to us. Since 2013/14, we’ve also had a “group-account fee” arrangement, which involves the largest financial business groups paying an annual fee (charged quarterly) based on our assumptions about the proportion of our work that

will relate to each group. For two years from April 2013, we charged an upfront “supplementary” case fee for new PPI complaints, which helped us scale up to respond to demand. The reserves we built up have helped us manage the challenge of PPI as it played out over a number of years – and most recently, so we can manage PPI to an orderly conclusion, deal with the costs of winding down our operations, and make the investments we need for the future.

Over the last few years, we haven’t increased our standard case fee or levy. In the current financial year 2019/20, the levy we asked for reflected the need for us to have the capacity to handle a sustained growth in demand for our service, including a significant rise in complaints about short-term lending. It also reflected our activities relating to two extensions to our jurisdiction from 1 April 2019: complaints from more small businesses customers of financial services, and from customers of claims management companies.

About our levy

The FCA consults separately on how to allocate the levies it collects among the businesses it regulates – which include levies for our service, the Financial Services Compensation Scheme, the Money and Pensions Service, and the FCA itself.

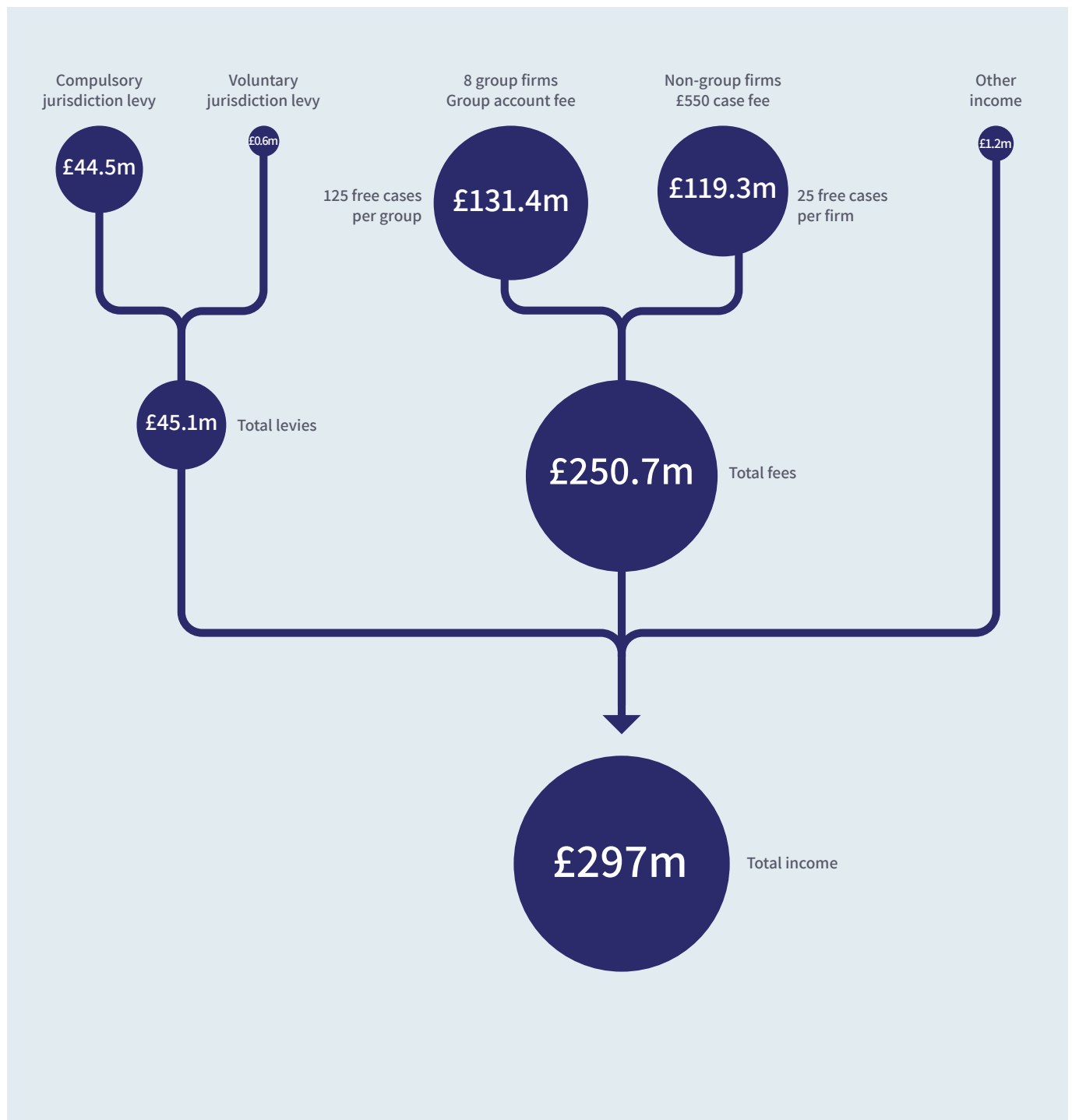
The amount of money businesses pay for our service can be seen as risk-based – as the levy is linked to the volume of complaints we expect they will generate, and those that generate more complaints pay more in case fees.

Broadly, allocating the levy relating to our service involves:

- Dividing the total levy among industry blocks (based on activities) according to the budgeted costs and numbers of complaints-handling staff we anticipate we'll need for complaints arising from that industry block.
- Dividing the levy for each industry block among businesses in that block according to a tariff rate (relevant to that industry block), which is either a flat fee or intended to reflect the scale of each business's activities.

Before the start of each financial year, we consult publicly on the amount of money we think we'll need to collect through our levy, as well as on our case fee arrangements. For the 2019/20 financial year, our levy involved an annual cost for firms ranging from about £35 for the smallest financial businesses, to £2.6 million for the largest financial providers.

How we're currently funded



Looking to the future

We're now receiving significantly more income from case fees than levies: an estimated £251 million in 2019/20, compared with £45 million from levies.

Over recent years, we've decided – in the interests of stability, and taking stakeholders' feedback into account – to maintain our current funding model until PPI has been brought to a conclusion. As we approach the FCA's PPI deadline of 29 August 2019, we can now see the end of this work; factoring in complaints-handling timescales, we should have received the vast majority of PPI complaints by the end of this financial year, and a cumulative total of well over two million PPI complaints.

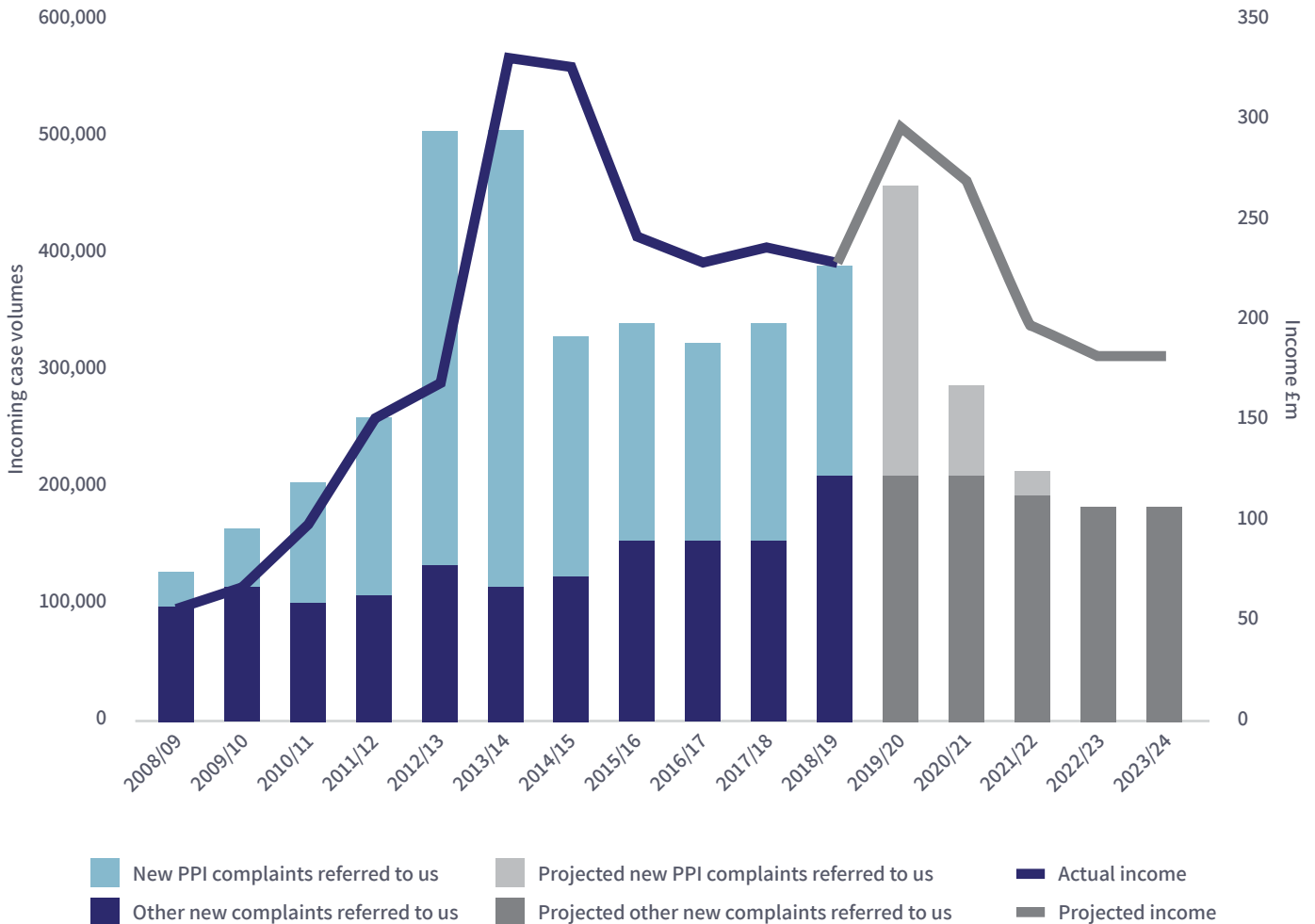


We expect our service to be smaller, and our overall cost to the financial services sector to fall significantly.



As we look ahead, we've considered the level of demand and mix of complaints we might see in the future, using a number of assumptions. The chart below sets out the anticipated general profile of our casework over the next few years – and based on these assumptions, the expected cost of our service. It shows that once PPI has been brought to a conclusion – assuming we don't have to deal with another problem on that scale – we expect our service to be smaller, and our overall cost to the financial services sector to fall significantly.

New complaints referred to us



We've continued to talk to stakeholders about the challenges we expect to see in the future, and what that means for how we're funded. Before PPI has been brought to a conclusion, we'll need to agree on a model that's both stable and sustainable. Any new arrangement will also need to ensure we have the capacity to respond to complexity and volatility in our casework, and reflect the wider role and value of our service in preventing complaints and encouraging confidence in financial services.

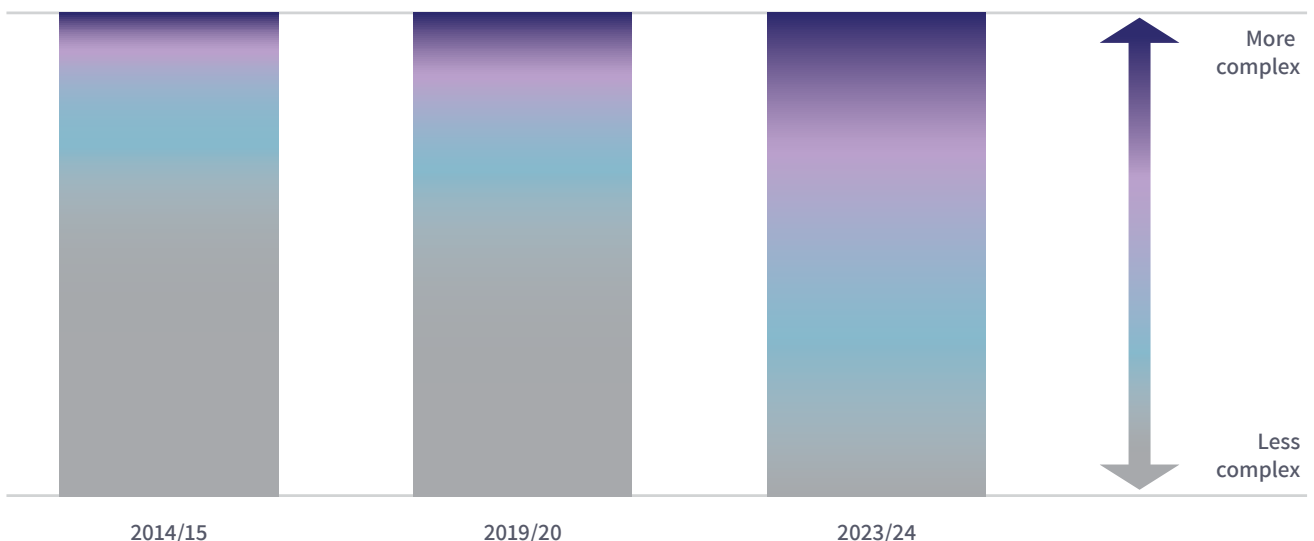
Managing complexity and volatility

As we've considered the future make up of our casework, we've identified the trend toward complexity we expect to see in our complaints – in the context of a caseload that should have decreased overall, if we see no new areas of mass claim.

This shift has a bearing on our future funding requirements. Over the last few years, we, as well as businesses we cover, have benefited from the economies of scale that a larger operation brings – spreading our costs over a larger number of complaints. This ability to very efficiently resolve a large segment of our casework has been a major factor in our being able to hold case fees at their current levels for as long as we have. However, the situation is changing quickly; the closer we get to the end of PPI, the less potential there will be to take advantage of our scale.

We've already been seeing increasing complexity in our non-PPI casework, and have invested in our ability to respond to this. In the future, in the context of a smaller overall caseload, we expect a greater proportion of our work will involve challenges and complexities.

Broad trend in complexity



Importantly, a case's complexity isn't always to do with the particular product or service involved; while some products may be inherently complicated, the substance of customers' complaints may not. While we do resolve complaints involving complex products, in general the complexity of a complaint tends to be more about the circumstances of the customer or firms involved, or external factors such as questions of policy, regulation or law that need resolving.

For example, ten years after the financial crash, we still see many complaints centred on financial hardship and the affordability of lending; complaints about consumer credit products and services now represent one in three of all complaints referred to us that aren't about PPI. A range of individual circumstances, including vulnerability, may increase the potential for detriment when something goes wrong – even if the problem, such as a failed payment, might superficially look fairly straightforward to put right.

In addition, the same new technologies that have led to faster, more convenient transactions have also presented opportunities for criminals to exploit. For example, in 2018/19, we received over 40% more complaints about banking fraud and scams than we did in the previous year. Other external factors, such as evolving legal action and regulatory changes that haven't yet been finalised, can also add extra complications to certain tranches of our casework. And it's likely that complaints brought by small businesses, especially those newly able to access our service since April 2019, will involve complexities specific to the operations and needs of commercial enterprises.

We've also experienced significant volatility in demand for our service – and in general, there's increasing scope for problems to very quickly escalate into areas of complaint. Issues such as IT failure can affect millions of people at once – and social media can be used by upset customers to mobilise people who feel the same way. Areas of mass complaint such as PPI, and bank charges and mortgage endowments before it, have highlighted the potential for significant volumes of cases to be referred to our service, often via CMCs. More recently we've seen this happen in other areas: notably short-term lending, where in the last financial year we received more than double the number of complaints we expected.

So it's essential we have the ability to scale up rapidly and efficiently in response to demand for our help if it's needed. However, apart from those fees that we get from our group-account fee arrangement, we only receive case fees when we've resolved a complaint and closed our case against the business concerned. With most of our income coming from case fees, as things stand at the moment, we don't have the means to scale up our operations in response to significant increases in new complaints during the financial year. This can mean we need to divert resources from elsewhere in our casework – potentially leading to people having to wait longer for our answer.

We also need to consider the repercussions of the financial vulnerability of businesses who generate high volumes of complaints to our service. If a business fails and we can't continue to consider complaints against them – as we experienced with the payday lenders Wonga and Curo in 2018/19 – we may need to join the list of creditors ourselves, and it's possible we won't receive any income for investigation work we've already carried out. Our current reliance on income from case fees – as opposed to the more certain income we get from our levy – creates challenges in ensuring stability in our funding.

Question 1

Our planning assumptions reflect our expectation that our service will be smaller in the future, and that our overall cost to the sector will significantly fall. Are you aware of anything that might affect this expectation – for example, issues that could create significant demand for our service?

Question 2

Do you have any further insight into the different types of complexities and volatility apparent in complaints?

Our wider role

Stakeholders have recognised the value of our involvement with their customers before complaints are “converted” and formally referred to us – which often prevents the need for this to happen. In fact, around half the enquiries we register each year don’t go on to be converted into a complaint with our service. Our involvement at an early stage can range from signposting someone to the business they’re unhappy with, to a far more involved process of establishing what exactly has happened, and liaising with the business to get the issue resolved.

In addition, our technical advice desk helps people working in complaints – including firms’ complaints-handlers, advice workers and caseworkers – to understand, on an informal and non-binding basis, what fairness might look like in complaints that haven’t yet reached us. The helpline handled around 19,000 queries in the last financial year from more than 2,000 individual organisations. And since we were set up, we’ve maintained a wide range of online resources aimed at supporting businesses to understand and apply our approach.

As well as needing to account for these activities that don’t relate to “chargeable” complaints, our future funding needs to reflect the work we do that has wider value to the financial services sector as a whole. This work includes the regular strategic engagement we have with financial businesses, CMCs and consumer organisations. This is two-way: we’re able to flag trends we’ve seen in complaints, to help businesses resolve issues at source – and businesses are able to share with us details of their own activities, so we can help anticipate potential problems and the likely impact on complaints volumes. This type of activity has a track record of preventing issues escalating into widescale complaints – and preventing too all the associated costs and frustrations for the parties involved. However, our current funding model is heavily weighted toward case fees received only for converted complaints, and charged once the complaint has been resolved.

We also carry out a significant amount of engagement with those interested in our work – helping to prevent complaints and to encourage fairness and confidence in financial services more generally. Each year, we have thousands of conversations with stakeholders, and regularly speak at and participate in events, networks and forums across the UK. We also run

our own workshops and roundtable events for both financial businesses and the consumer advice sector – helping people learn from our approach, as well as sharing experiences with people on the front line of complaints across the UK.

We have a duty to share information with the FCA about the complaints being referred to us. And we also regularly and proactively share trends and themes we’re seeing in complaints through our website and publications. Over the last year, this has included insight into potential unfairness in insurance pricing, developments in fraud and scams, our approach to complaints about pension transfers, and practice we’re seeing in debt collection.

We also publish quarterly data about the products and services people are complaining about, and twice-yearly data naming individual businesses about which we’ve received and resolved 30 or more complaints. Our proactive work with the media helps maintain public awareness of our service, so anyone who needs us knows who we are and how to reach us.

In response to previous consultations on our plans, stakeholders have consistently said they’re keen for us to build on this work: engaging with them further, and sharing more of our insight into trends in complaints.

Question 3

- a) To what extent do you support our wider work to help prevent complaints and encourage fairness?
- b) Do you have any further suggestions about what more we could do, or ideas for working together with us?

Staying effective and sustainable

In recent years' **plans and budgets**, we've explained the investments we've been making in developing our service and ensuring we're ready for the future – and our proposed new funding arrangements will need to allow us to continue to do this. At the same time, however, we'll also continue to improve our efficiency – contributing to an overall fall in the total cost of our service to regulated businesses.

In particular, our Horizons programme of work, which we outlined in our strategic plans for 2019/20, will help us improve our service in the short term, while ensuring we remain effective and sustainable in the medium and longer term. In our first horizon, we're currently working to improve our casework processes, building on changes that have already taken place – including investing in new tools to help our people manage and prioritise their work, and identifying and addressing points in our process that have the potential to cause delays. Our work in horizon two involves ensuring our service – including both our casework teams and our support functions – is the right size, and working in the right ways, for a time when we're not handling PPI complaints in high volumes. This includes continuing to focus on smarter, more flexible ways of working – ensuring we're using space efficiently and investing in technology, as well as meeting the needs of our people.

Examples of action we've already taken include moving the majority of our London-based employees into our main building in Exchange Tower, leaving some buildings entirely and vacating or sub-letting floors in others. Decisions relating to our property generated savings of £2.5m in 2018/19, with ongoing savings of £5m in future years. We've also continued our strategy to increasingly use a contractor workforce to manage our PPI workload and volatility in demand for our service more generally. In October 2017, we opened an office in Coventry – which has also meant that, as a service for people across the UK, we've now got a physical presence outside London. We've also continued to use procurement activities as opportunities to find savings and efficiencies.

Question 4

To complement the work we've already done to improve our efficiency, we'd welcome your ideas for how we could work in partnership to deliver additional savings in future. Do you have any suggestions?

Our proposals

In this chapter we set out our proposals for funding our service in future years, based on our current assumptions about the future – and having carefully considered stakeholders’ feedback and the principles we’ve established through previous conversations about our funding. Our proposals include rebalancing the income we get from our levy with income we get from case fees for individual complaints. We also consider the impact of changing the number of “free” cases a firm has each year, and our policy for holding reserves.



Rebalancing the levy and case fee

When we consulted on our 2019/20 *strategic plans and budget*, we illustrated the types of elements that could potentially form part of our future funding arrangements. This helped us get a sense of stakeholders’ views about features of our existing model, as well as new ones we might want to introduce. The options we put forward for discussion included relying exclusively on our levy, removing case fees altogether – as well as introducing a new risk-based levy.

From the responses we received – and based on previous conversations and feedback – it’s clear many stakeholders believe our existing model has a number of strengths. In light of this, the proposal we’re now consulting on retains the key elements of our current model – combining case fees, our compulsory jurisdiction levy, and a group-account fee arrangement for the largest financial groups. For future years, we propose to significantly increase the proportion of our income we get from our levy as opposed to case fees – aiming for a split that’s closer to 50:50.

We’ve carefully considered the options, and the feedback we’ve received, against the principles we’ve previously established following significant discussion over the years with parties with an interest in our funding. We think our proposal aligns with these principles, as well as meeting the requirements we outlined in the previous chapter. It would ensure we have greater stability and certainty in our income,

support our investigation casework model, and mean we can continue to develop our service as we ensure we’re the right size and working in the right ways for a time beyond PPI.

Our funding principles

Our funding should:

- Be fair.
- Be broadly proportionate (costs relate to the workload users generate for the service).
- Not create perverse behavioural incentives.
- Create no incentive for our service to reach a particular outcome.
- Be transparent.
- Be easy to understand.
- Be simple to administer (for us and 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.
- Not subsidise between (compulsory and voluntary) jurisdictions.
- Have no/minimal transitional difficulties if the system is changed.

Reducing our reliance on income from case fees would also help us manage the continued trend toward complexity in complaints as PPI subsidies. It would also help protect us against volatility in demand for our help, and the uncertainty this creates over our income – reducing the risk that we need to ask the businesses we cover for additional funds during the course of a financial year.

As part of our analysis of potential options, we considered whether we could achieve the funding we need by raising the level of our case fee (see separate discussion about our case fees below). However, this wouldn't give sufficient stability or certainty for us or for businesses we cover. A more equal levy-case fee balance would give the businesses we cover more certainty about how much our service will cost them each year, because a smaller proportion of this cost would be linked to an as-yet unknown number of cases and associated fees. It would also recognise the wider value of the ombudsman service to the financial services sector as a whole – helping to prevent complaints and promote fairness and confidence.

At the same time, our proposal also retains the principle that businesses who generate the most demand for our service in terms of individual complaints should contribute more towards our costs. We know from previous feedback that many stakeholders feel very strongly about this, as it creates an important incentive to prevent complaints – something that wouldn't be achieved in a model where our income came exclusively from our levy.

The level of our case fee

Based on our current assumptions about complaints volumes and the income we'll need, rebalancing our levy and case fee income in the way we've suggested would involve a case fee that's around its current level, £550. The precise level of the fee would continue to be reviewed and set annually as part of our established budgeting cycle, and subject to public consultation.



Rebalancing our levy and case fee income in the way we've suggested would involve a case fee that's around its current level, £550.



As part of our analysis of different funding options, we considered the impact of varying the level of our case fee, based on the same central assumption of complaints volumes. In our view, decreasing the financial implications of referring a case to us by reducing the level of the fee would act against the principle that businesses who generate more work for our service should contribute more to its funding.

On the other hand, increasing the level of our case fee would mean that, holding projections for complaints resolutions steady, proportionately less of our funding would need to come from our levy. But this would also work against the intended impact of our proposal – which, for the reasons we've outlined earlier in this chapter, is to increase this more certain and stable element of our funding.

Question 5

To what extent do you agree or disagree that our levy and case fee income should be rebalanced, so there's a broadly 50:50 split?

Alternative ideas

As part of reaching our proposals, we also considered other potential options that stakeholders had suggested we explore. In particular, we reviewed options that rely exclusively on the levy, and don't include a case fee. However, a considerable number of stakeholders are supportive of keeping case fees as part of any future model.

A small number of stakeholders have continued to suggest our fees should vary based on complaints' individual complexity – but our view remains that protracted discussions about whether complaints are “complex”, and how much they should cost, would involve a disproportionate level of resources. For these reasons, it doesn't meet the principles we've set. In contrast, both our existing model and new proposals have the advantage of simplicity, allowing time and energy to be focused on the far more valuable work of resolving and preventing complaints.

In response to our December 2018 consultation, some stakeholders expressed interest in introducing a new risk-based levy – acknowledging that further detailed discussion and analysis would be required before making a decision.

Importantly, our existing funding model is already risk-based, even if not as explicitly as the indicative model we presented in December – as the amount of money businesses pay through the levy is linked to the volume of complaints we expect they will generate, and businesses which generate more complaints pay more in case fees. In view of stakeholders' feedback, however, we carefully considered alternative ways of calculating risk: for example, whether we might rank the top ten (or another number of) firms based on the FCA's industry blocks and historic complaint figures blocks, create some kind of “tier” system, or apply a “risk factor” based on firms' ratios of front-line complaints to ombudsman service referrals.

As we did so, we identified a number of questions that would need resolving. For example:

- Would it be fair – or sensible – to charge firms based on historic complaints? A firm that hadn't historically generated high volumes of complaints could then be involved in an area of mass claim, but not pay any fees in that year – and potentially go out of business before it paid any. In contrast, both our current and proposed models aim to strike a balance between forecast complaints and those that actually arise.
- How many firms should be included in any ranking system? And would these firms feel they were subsidising “polluters” outside the ranking?
- Under a tier system, what should the thresholds for the different tiers be? These would also need regular review, which would require significant resources on our part as well as stakeholders'.
- In any system that compares the volume of cases a firm generates for us with its overall complaint volumes, should the proportion we uphold also be taken into account?

Having carefully considered alternative risk-based models, we don't think any new option would meet our funding principles – because of the potential for significant disagreements about how to calculate risk; the complexities of the calculations required; the costs of administration; and the potential for unfairness to arise.

Question 6

In refining our proposal, we carefully considered different funding options – including different types of risk-based models. Do you have any thoughts about alternative approaches to overcoming the obstacles we identified, in ways that are consistent with our funding principles?



Number of “free” complaints

We’ve also considered the impact of changing the number of “free” cases for which firms pay no case fee.

Before April 2014, this threshold was 3 for firms both inside and outside our group-account fee arrangement, which came into effect after that date.

We then increased this to 25 cases for non-group firms, and to 125 for groups within the group account (which, as we’ve explained in the previous chapter, involves fees being paid up front to create more stability in our income from the largest financial businesses).

To date, we’ve kept the thresholds at this level. However, as we review our future funding options in today’s context, we’re proposing to reduce the number

of free cases to 10 per firm. Many of the smallest firms we cover, who haven’t ever reached the 25-case threshold, are very unlikely to have more than 10 cases referred to us each year – and many will continue to have none. Mirroring this proposal for non-group firms, we’re also proposing that the number of free cases for group-fee firms should be 50.

The tables below show the impact of lowering the case fee threshold in terms of both our income and the number of firms paying fees.

Non-group firms

Free cases	0	3	5	10 (proposal)	15	20	25 (current)
Notional value of “free” cases	-	£4.2m	£5.6m	£8.0m	£9.7m	£11.2m	£12.5m
Change in case fee income	+£12.5m	+8.3m	+£6.9m	+£4.5m	+£2.8m	+£1.3m	-
% of total firms not paying a case fee	-	65%	75%	82%	85%	88%	90%
Additional firms paying	3,351 firms	969 firms	576 firms	288 firms	164 firms	60 firms	-

Group-account fee arrangement

Free cases	0	25	50 (proposal)	75	100	125 (current)
Notional value of “free” cases	-	£0.1m	£0.2m	£0.3m	£0.4m	£0.6m
Change in case fee income	+£0.6m	+£0.5m	+£0.4m	+£0.3m	+£0.2m	-



Level of reserves

As the tables show, we estimate that around 280 additional firms would pay a case fee with a “free” case threshold of 10, as opposed to 25. At the same time as generating additional income for us of around £4.5m, it would still mean the smallest firms typically wouldn’t pay any fees. Overall, more than eight in ten firms whose customers complain to us wouldn’t pay any fees at all, compared with around nine in ten at the moment.

At this stage, we’re not proposing to extend our group-account fee arrangement. In the same way as the level of our case fee, we’ll keep the position for our group account and “free” cases under review, and ask for stakeholders’ feedback on our specific plans for each future year.

Question 7

- a) **To what extent do you agree or disagree with our proposal to reduce the “free” case threshold for non-group account fee firms from 25 to 10?**
- b) **To what extent do you agree or disagree with our proposal to reduce the “free” case threshold for groups within the group account fee arrangement from 125 to 50?**

Our current reserves policy is set at three months’ operating income. However, during 2011/12, we charged an additional levy to supplement our reserves. This was to help protect against significant volatility in incoming PPI complaints during the time our approach to them was the subject of a judicial review brought by the British Bankers’ Association, which was ultimately unsuccessful. Then in 2012/13 and 2013/14 – at the peak of incoming PPI complaints – we charged a PPI supplementary case fee of £350, further building up our reserves.

Our reserves have played an important part in our multi-year strategy to handle the fall-out of PPI mis-selling in a stable way – investing in, running and finally winding down our operations and making the investments we need for the future. In previous consultations on our *plans and budgets*, we’ve suggested that, at an appropriate time, we might look to return some of our reserves to relevant firms. In response, our stakeholders have given broad support to our proposals not to do so while the potential for volatility still exists, and while we’re still to incur all the costs of winding down PPI.

At the beginning of the current financial year, we were holding around seven months’ operating income as reserves – and have budgeted for this to have fallen to around six months’ income by the end of March 2020. As we’ve previously explained, demand on our service is still subject to volatility; for example, in the last financial year we received more than double the anticipated volume of complaints about short-term lending.

In view of this, we think it would be prudent to maintain a minimum of six months’ operating income as reserves, so we have the resources we need to react in-year to unanticipated volumes of new complaints. We’re keen to get stakeholders’ views on whether they think, in view of the potential for volatility we’ve outlined above, it would be prudent to aim for higher levels.

The decision we make about our reserves policy will influence how much income we need to generate in the coming three to four years, before breaking even in 2023/24 to retain a stable reserves figure.

Question 8

To what extent do you agree or disagree that we should look to maintain a level of reserves of six months' operating income or higher?

Next steps

This consultation closes on 13 August 2019. We'll consider the responses we receive and publish a summary later in 2019.

The FCA has responsibility for confirming the levy it will collect from regulated firms each year, and approving proposals we make about our case fees. Changes made to our compulsory jurisdiction will be reflected in our voluntary jurisdiction.

Any changes we propose to be effective from April 2020 will be included in our forthcoming *strategic plans and budget* consultation for 2020/21, which we'll publish in December 2019.

Question 9

Do you have any comments about the timing for implementing any changes to our funding model that arise from this consultation?

Question 10

Do you have any additional feedback about our future funding or the proposals presented here?



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