

Financial Ombudsman Service Limited

MINUTES

MINUTES of the meeting of the directors, held on Monday 2 November at 11.00am, via video conference call

Present	Baroness Zahida Manzoor CBE	Chair of the board
	Gerard Connell	Director
	Alan Jenkins	Director
	Heather Lauder	Director
	Jenny Watson	Director
	Graham Brammer	Director
	Bill Castell	Director
In attendance	Caroline Wayman	Chief executive & chief ombudsman
	Julia Cavanagh	Chief financial officer
	Annette Lovell	Director of strategy and engagement
	Caroline Nugent	Director of HR&OD
	Garry Wilkinson	Principal ombudsman & director of investigation
	Nicola Wadham	Chief Information Officer
	Richard Thompson	Principal ombudsman & director of quality
	Alison Hoyland	Board secretary
	Megan Webster	Policy and communications manager
	Yvette Bannister	General counsel
	Paul Mills	Head of risk and governance (for item 3)

1-2/2011 Board and committee meetings:

The board:

- approved the note of the board away day held on 21 September and the minute of the formal board meeting held on the same day.

Matters arising

Matters arising were picked up in the main business on the agenda.

Chief ombudsman and chief executive's update
fos/20/11/02

The board noted the update from the Chief ombudsman and chief executive which highlighted the service's operational and organisational resilience during the current Covid-19 pandemic and against the backdrop of the current restrictions. The service continued to balance its dual priorities of providing a good customer service and supporting its people and their wellbeing (both physical and mental). The latter was becoming increasingly important against the context of an extended period of remote working and the service was continuing to look for new and effective ways to support staff and supplement existing support services.

The update noted that the context provided by Covid-19 would be a prominent feature in the later items on the agenda on performance at the mid-year point and the outlook for the remainder of the year and the 2021/2022 plans and budget.

In wider matters, the board noted the latest developments in relation to alternative/high-cost lending, where the issues were of interest to a wide range of stakeholders currently, and the recent ICO enforcement action against the credit reference agency, Experian.

03/2011 Mid-year performance review and forward forecast

fos/20/11/03

For the whole of the first half of the year, the service had been working remotely due to Covid-19 and staff had shown resilience and flexibility and the board noted its thanks for their continuing commitment to customers.

At the end of the first quarter, the service had reviewed its plans and operational assumptions in the light of the impact of Covid-19. At the time, the service anticipated that it would see higher non-PPI case volumes than budgeted and that underlying performance could be impacted by up to 15%.

The second quarter of the year had played out largely as expected – with new non-PPI volumes considerably higher than budget. While the service continued to see output in non-PPI track slightly below the original budget expectations, the service finished the first half of the year slightly ahead of the position it set out under the Q1 review and the revised assumptions agreed by the board.

At the mid-year point the service was also tracking well against plans to resolve the oldest non-PPI cases and reduce waiting times for an ombudsman decision. Quality scores were holding up very well and were ahead or on track against the relevant targets.

In PPI, the service was seeing much lower volumes than budget forecasts and, against the view that this was a trend that would continue, it had reduced its contingent resource further and made cost savings.

Inevitably, the current circumstances of remote working, and the operational limitations this brought, together with significantly higher non-PPI volumes, meant that there were service pressures evident in the performance measures. Allocation timeliness at the front end, as well as timeliness for issuing views on cases, were being affected and customer satisfaction levels were lower than the service would otherwise want to see. The board noted that work was underway to analyse the front end contacts to better inform interventions and resourcing. This analysis indicated a notable increase in contacts from consumers who were coming to the service because they had not received a response to their complaint from the financial firm within the 8-week timescale permitted under the rules. If the issue persisted, the service would raise the matter with the FCA and the board noted the opportunity to do so at the next oversight committee on 16 November.

The revised outlook for the remainder of the year reflected the higher non-PPI cases and lower PPI cases the service was seeing and that the service would, therefore:

- receive 180,000 new and resolve 155,000 non-PPI cases; and
- receive 50,000 new and resolve 90,000 PPI cases.

In noting the different pressure points, the board acknowledged that there would need to be some trade-offs in where the service focussed its efforts and resources, for example, as between waiting times at the front end and in relation to oldest cases. This would be a key consideration when the board came to set the success measures and performance objectives and targets for 2021/2022.

The 'people' update included key staff-related activity around engagement (where the most recent surveys had shown positive levels of engagement across casework and in support) and a summary of the wide-ranging support that was being provided to people during the extended period of remote working, as people's wellbeing remained a central priority. The board congratulated the service's recent achievements in receiving a highly commended award at the Public Service People Managers' Association Awards (PPMA) for Inclusion and Diversity. The HR team had also been nominated for PPMA and the Chartered Institute of Personnel and Development awards and for an HR excellence award for its learning and development and diversity and inclusion strategies.

The 'risk' update noted the positive movement for a number of key corporate risks, with many reaching tolerable levels since the last report to the board. The current circumstances elevated the risks around people and their well-being and the board agreed that a higher overall risk rating should be maintained for now, albeit that a number of other people-related risks had reduced.

In noting that some target dates to reach tolerance had been extended, the board noted this was almost entirely down to the impact of the Covid-19 environment, rather than any underlying issues or lack of focus. The board agreed that it might also be prudent to revisit tolerance levels to test the risk appetite in the current climate, as a number would inevitably run high for a period of time, notwithstanding mitigating steps being taken.

The IT update provided a round-up on three key projects – the decommissioning of the legacy case-handling system, the ongoing implementation of the new case-handling system and the new HR and Finance system. The board noted the importance of maintaining a close oversight of performance of third party providers who were contracted to support projects and noted the mitigating steps the service was taking under different aspects of contract and cost arrangements.

04/2011 2021/22 Budget

fos/20/11/04

At the board's strategic away day in September, colleagues had taken a first look at what the following year might have in store. The outlook for the second half of the current year, as discussed under the mid-year performance earlier on the agenda, helped set the scene for the year ahead.

Discussions at this point marked the start of the formal budget cycle and at this stage helped shape and test the assumptions and budget envelope which would be subject to consultation in December. The initial assumptions would provide the basis for early talks with the industry and other stakeholders, including the FCA at the upcoming oversight committee later in the month.

Thereafter, the service would continue to refine the assumptions during the course of the budget cycle. The plans and budget would come back to the board later in November, ahead of the public consultation in December, and then in February and finally in March to agree the budget for submission to the FCA for approval.

The papers set out the service's plans to consult on a central view which saw non-PPI complaint volumes return to more steady levels and where the current increased volumes subsided. This central view represented a reasonable estimate of work and resources for consultation and reflected the trajectory businesses had described having seen lower incoming case volumes themselves in recent months. It was also predicated on an increasing emphasis on the service's insight and preventative work and an increasing appetite among financial service providers to work collaboratively and constructively to respond and resolve issues themselves. The role of the regulator and the interventions it could make also informed the assumptions and the expectation

that the right balance would be struck between regulatory remedy and the backstop the ombudsman service provided.

For PPI, the expectation was that the service was now unlikely to see high volumes come through to the following year. Again, this was based on feedback from the industry, and the consultation process would test that assumption.

The board noted the range of plausible scenarios either side of the central assumption – and that the central assumption was co-dependent on business behaviour and the role the regulator would play in the event a significantly higher volume scenario played out.

In discussing the options for the funding approach, the board noted that the service had mitigated the impact of Covid-19 on financial firms, particularly smaller firms, in 2020/2021 most notably by reducing the levy income it sought by around £25m (which meant a further reduction of reserves). Further, the economies of scale and the associated cost efficiencies that the high-volume PPI caseload delivered would diminish as PPI closed out and the balance of the service's caseload was becoming increasingly complex. Maintaining prices would put the service's reserves policy (under which it maintained 6 months' operating costs) under pressure, but the service recognised that increases would be difficult for financial firms to absorb in the current climate too. The board noted that the next steps would include discussions with stakeholders, including at the upcoming industry steering group meetings and the FCA oversight committee.

The board would discuss the volume assumptions and funding options at its meeting later in the month, when it would have the benefit of the feedback from the stakeholder meetings. The board asked for the November papers to include an analysis of the alternative volume assumptions and the funding scenarios (showing, in particular, the impact on reserves). It noted too that further detail on the medium-term outlook and the assumptions for future years would come to the later November board, so that colleagues could take a view on 2021/2022, with an understanding of the trajectory across successive years.

The board noted too that it would be important to be clear in the consultation, and in engagement with stakeholders, how the service would continue to target cost savings and efficiencies and set out the explicit savings it had made and planned to make. In the immediate term, the board noted the savings the service would make if it took the opportunity of some upcoming lease breaks under its property strategy and agreed it should proceed to do so.

05/2011 PPI update

fos/20/11/05

As noted under the previous items, PPI volumes were much lower than anticipated and the service was planning on the basis of receiving around 20,000 new PPI cases in 2021/2022 – again this was based on current incoming volumes and what financial businesses themselves were reporting.

As part of its preparations to bring an orderly conclusion to its PPI operations, the service had reduced its contingent workforce in line with falling volumes. Against the backdrop of the current higher volumes in non-PPI and the pressure this was putting on customer waiting times, it was considering a range of interventions for responding to demand.

The board would continue to keep options under review and a further paper would be coming back to the board on 24 November.

Papers for noting

Two papers were presented to the board for noting.

06/2011 Future strategy – measuring success fos/20/11/06

The paper provided an update on the work that was being undertaken on developing the measures of success against which the service would track performance from 1 April 2021. A substantive discussion would be coming to the later November board.

The board would be asked to take a final view on the measures and targets in March, in time for reporting from 1 April 2021.

On a related note, against the background of four new non-executive directors and the unprecedented circumstances of the last six-months, the chairman noted that she was giving some thought to an additional away day/workshop to ensure a shared understanding on the future strategy and the interplay between the overarching strategy, the service's values, the underlying supporting strategies and success and performance measures. The chairman would discuss the objective of such a session further with the chief executive and chief ombudsman.

07/2011 Governance review fos/20/11/07

The paper provided an update on the governance review that was being undertaken. The chairman had taken the opportunity of the appointment of new board members to review the board sub-committees – both in terms of their scope and membership – and as part of that to look too at decision-making and delegations as between the board, the board sub-committees, the informal critical friend assurance fora and the executive.

The board was due to undertake an external board effectiveness review during 2020/2021, in line with good corporate governance practice which advocates that this is done every three years. The service was out to tender for an external provider to undertake a two-part review – an initial stage to look at the board sub-committees and make recommendations for a new structure, and a later stage to undertake a full board evaluation on the effectiveness of the board and its sub-committees, once the new arrangements had time to bed in.

AOB

Board terms

The chairman noted that Gerard Connell would be stepping down at the end of his term on 11 December, so the 24 November board would be his final meeting. The chairman proposed to make an interim appointment to the role of audit committee chair, pending the outcome of the governance review, and would circulate a paper to the nominations committee after the board meeting to appoint Graham Brammer to the role.

[The nomination committee subsequently approved the appointment].

There being no other business, the meeting ended at 14.30.