Looking back over the past month or so, I doubt that consumers of retail financial services can ever before have been given a more vivid lesson in how unpredictably financial markets can change, and how quickly trusted brands can prove hollow.

This lesson comes on top of events in recent years which have included an estimated million or so people complaining to their banks about what they saw as unfair charges. Many of these consumers discovered not only that their bank was willing to re-pay the charges when challenged, but also that the customer/bank relationship could survive the challenge without the world coming to an end.

The legal issues on unauthorised-overdraft charges are still being argued in the courts. Meanwhile, what the media described at the time as a national ‘re-claim’ exercise has led to a growing number of empowered and experienced consumers – ready, willing and able to engage in the complaints process – with no inhibitions about taking on financial giants when it comes to making a claim.

Add to these numbers the many disappointed consumers who have discovered in recent years that the endowment they took out to pay off their mortgage is now unlikely to do so – and that only by making a formal complaint might their situation be remedied.

Add also the growing numbers of consumers who now believe that the payment protection insurance (PPI) they were sold on the back of loans and credit may have been inappropriate to their individual needs – of little value to them, but helping to contribute to the £1.4 billion of excess
profits which the Competition Commission estimates the major PPI distributors have been earning in a single year.

Given these levels of consumer dissatisfaction, it is hardly surprising that claims-management companies, the consumer press and the power of the internet have helped mould a generation of confident consumers, well versed in complaining and getting their voice heard.

So as we begin our budget-planning process for the next financial year (2009/10), we at the Financial Ombudsman Service need to consider what volume of complaints we might be called on to deal with next year. Inevitably we envisage numbers rising. Everyone I meet is warning me that turbulent times breed complaints. The challenge I face is to anticipate the impact of an increasing workload and the need to gear up and expand our capacity.

In a financial world in which economists and market-watchers agree that ‘the impossible has become the probable’, who is prepared to forecast confidently the number of complaints we will have received by the end of March 2010?

Walter Merricks, chief ombudsman
whether consumer was wrongly advised to take out a with-profits savings endowment policy

Mrs G complained to the business that had advised her to take out a with-profits savings endowment policy. She said she had been wrongly advised, as the policy had not given her a reasonable return on her money. When the policy came to the end of its term she received just £2,470, having paid in a total of £2,600.

The business told her the amount she received from the policy depended entirely on market forces, which were outside its control. Mrs G then brought her complaint to us.

complaint upheld
Mrs G had been aged 60 when the business advised her to take the policy. She and her husband had both retired, were living on a state pension and benefits, and had some modest savings in a deposit account. They had no debts other than a repayment mortgage, which they were still paying off and which was protected by a decreasing term insurance policy.

Our rules let us dismiss complaints about the performance of an investment. But often, although the consumer expresses the complaint in terms of performance, the underlying issue is whether the policy was suitable for them. So when we receive a complaint such as this one – about an endowment policy providing little or no return – we will examine the evidence to see why the policy was sold, and whether it was a suitable recommendation.

Mrs G’s savings endowment policy provided life cover and was designed to produce a lump sum when it matured. When recommending the policy, the business had recorded that Mrs G wished to start putting aside a modest amount of money each month in a regular savings plan. There was nothing to suggest that she asked for – or needed – any additional life cover.
And her age at the start of the plan meant that the life cover was significantly more expensive than it would have been for a younger person.

We upheld the complaint, as we did not consider the policy to have been appropriate for Mrs G’s particular circumstances.

During the course of our investigation, Mrs G told us she had been looking to invest her money cautiously, with perhaps just a limited amount of exposure to shares.

We therefore said the business should calculate the amount Mrs G would have received if she had invested the same amount of money – over the same period – at Bank of England base rate + 1%. We considered this would best reflect the level of return she could reasonably have expected from a suitable alternative investment. We said the business should compare this figure with the amount Mrs G actually received. It should then pay her the difference – adding simple interest on this sum at 8%, from the date Mrs G’s policy matured until the compensation was paid.

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consumer complains about misleading product literature for with-profits savings endowment policy

Mrs D was very disappointed with the amount she received when her with-profits savings endowment policy matured.

She complained to the business that had provided the policy, saying its marketing material had been misleading. When the business rejected her complaint, Mrs D referred it to us.

complaint not upheld

Mrs D had taken out this policy in 1992, after receiving a mail shot containing a brochure for the policy. The business had not given her any individual investment advice, so it was not responsible for ensuring the policy was suitable for her needs. We therefore looked at whether the product literature that had led Mrs D to invest had set out all the details of the investment clearly, and had not been misleading.

Mrs D told us she had decided to invest because of what she described as ‘impressive promises’ in the brochure.

... the amount she actually received bore no relation to the amount she had been led to expect.
about the level of return she could expect when the policy matured. However, she said the amount she actually received bore no relation to the amount she had been led to expect.

We examined the brochure and found it made no promises other than stating the guaranteed ‘sum assured’ – the amount payable if Mrs D died during the period covered by the policy.

The brochure explained that the policy’s value would grow by means of bonuses, which were dependent on the performance of the underlying investments and could not be guaranteed. The brochure did include some figures about possible returns from the investment. However, the text made it very clear that these figures were given only as an example, describing an investment made by a man who was considerably younger than Mrs D and paying a much larger monthly premium.

The other point Mrs D made to us was that the firm had not been prepared to tell her how it calculates policy maturity values and bonuses.

We explained that the calculation of maturity or surrender values and bonuses is a matter for the firm’s actuaries. We do not normally consider complaints about such matters because they involve the legitimate exercise of a firm’s
commercial judgement. However, we will often refer such issues to the Financial Services Authority under our wider implications procedure, for their confirmation that they have no objection to the way the fund is managed.

We concluded that the product literature that had led Mrs D to invest had not been misleading. We did not uphold the complaint.

consumer complains of poor return from his with-profits savings endowment policy

Mr B complained to the business that had advised him to take a with-profits savings endowment policy. He said he had been led to expect a reasonable return when the policy matured. However, after paying into the policy for 10 years he received £185 less than the total amount he had paid in.

The business rejected Mr B’s complaint. It said the product literature made it clear that the policy contained an element of risk. The business also pointed out that Mr B had benefited from the life cover provided by the policy.

complaint upheld

The ‘fact find’ that the adviser completed at the time he recommended the policy recorded that Mr B’s primary aim was to find a suitable means of saving. At the time he asked the business for advice, Mr B had been 45 years old. He was single with no dependants and was living at home with his parents. He was a member of his company pension scheme which provided a death-in-service benefit.

Mr B had not asked for life cover and there was nothing to suggest he needed it. The cover was expensive and, together with the policy charges, had a significant impact on the policy’s potential for producing a reasonable rate of return. We noted that the illustration for a possible ‘mid-growth’ rate of return, quoted in the product literature, showed that the policy would produce hardly any more than the premiums paid in. Overall, we concluded that the financial advice given to Mr B had been inappropriate.

During our investigation, Mr B told us he was not sure what he would have done with the money if he had not been advised to invest in the endowment policy. We thought it likely that he would have kept his money in a deposit-based savings account, as he had only ever used deposit accounts in the past and had no experience of investment-based products.

We told the business to compare the amount Mr B had received from the endowment policy with the amount he would have received, if he had put the
... he had not asked for life cover and there was nothing to suggest he needed it.

same amount of money in a bank deposit account, over the same period of time. We said the business should pay him the difference between the two amounts, if any, and add interest at 8% on that sum.

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73/4

Business that sold consumer an endowment savings plan tells her the Financial Ombudsman Service cannot consider her complaint about it

Mrs A complained that she had been wrongly advised when she had taken out a savings endowment plan some ten years earlier.

She said she had understood she was paying into a savings plan that had no risks attached to it and that would produce a lump sum for her retirement. However, she had been very disappointed with the plan. She said that little or nothing in the way of bonuses had been added to her policy in the past few years. She was also concerned that the premiums she paid included the cost of life cover, which she had not asked for and did not need.

The business that had advised Mrs A turned down her complaint. It told her she had left it too late to complain about the life cover and that this part of her complaint was now ‘time-barred’. The business said that the rest of her complaint was essentially about investment performance. This was outside its control and not something that the Financial Ombudsman Service could look into.

Initially, Mrs A accepted what the business had told her. However, she then decided it would be worthwhile contacting us, just to check that what she had been told was correct.

Complaint upheld

The business objected to our involvement when we told it that Mrs A had referred her complaint to us. It repeated what
it had told Mrs A about her complaint not being one we would be able to consider.

Our rules set down time-limits for consumers bringing complaints to us. Generally the consumer needs to bring their complaint to us within:

- six months of a business sending them its final response to a complaint; and
- six years from the event the consumer is complaining about or (if later) three years from when the consumer could reasonably have known that they had cause for complaint.

The business said the policy had been sold more than six years before Mrs A had made her complaint and – in its view – it was more than three years since she should have known the policy included life cover (because this would have been clear from the product literature given to her at the time of the sale). The business added that Mrs A could not complain to us about the performance of the policy as that was a matter that was outside its control.

We said that if we agreed that the complaint fell outside our remit, we would explain that to Mrs A. However, it was for us – not the business – to determine whether or not we could deal with the complaint.

We reached the conclusion that Mrs A’s complaint was one that we could investigate. We told the business that simply giving Mrs A information that her policy contained an element of life cover did not enable her to know whether this made the policy particularly suitable or otherwise. It was the responsibility of the business to ensure it gave her appropriate advice. And the evidence we saw made it clear that Mrs A had complained about the policy very shortly after she had become aware that it might not have been appropriate for her needs. So we did not agree that the complaint was ‘time-barred’.

We also considered Mrs A’s complaint to be not only about the performance of the policy, but also about the way in which it was sold and about whether the business had made a suitable recommendation, given her individual circumstances.

We concluded that the business had not provided Mrs A with suitable advice. She had asked for advice about a form of savings that would produce a lump sum after ten years, to coincide with her retirement. She had not required any additional life cover. The combined effect of the policy charges and the cost of the life cover made the policy inappropriate for Mrs A, given her particular circumstances and objectives.
We told the business to put Mrs A back into the position she would have been in, had she not been given the inappropriate advice. We said it should also pay Mrs A an additional £100 for the distress and inconvenience its poor handling of the complaint had caused.

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Consumer complaints he was wrongly advised to take a with-profits savings endowment policy

Mr J complained that he had been wrongly advised to take out a with-profits savings endowment policy. He had started paying £50 a month into this policy in 1997, following a consultation with a local financial adviser about a suitable form of longer-term savings.

After 10 years, Mr J had made a ‘profit’ of only £140 – which he thought was very poor and less than he would have got if he had put the money in a bank deposit account.

The adviser rejected Mr J’s complaint. He said that despite the disappointing level of growth, this recommendation had not been inappropriate. The policy offered the prospect of higher returns than those available from a deposit account, over the longer term. The adviser also noted that Mr J had benefited from the life cover that the policy provided.

Mr J referred his complaint to us, saying he had only ever wanted a form of savings and had not required life cover.

Complaint not upheld

The adviser was able to provide evidence from the time of the sale that he had discussed the issue of life insurance with Mr J, and had made him aware that the policy contained life cover. He had recorded that Mr J had said one of his objectives was ‘family protection’. He had also recorded that he had pointed out to Mr J that, given his age, the life cover element of the policy was not particularly expensive.

At the time he consulted the adviser, Mr J was in his early 30s and married, with two young children. In the circumstances, it did not seem inappropriate for the adviser to have recommended a savings policy containing life cover.

Mr J accepted that he might have expressed a preference for a form of savings that offered this cover, and he admitted that he might well have forgotten his discussion with the adviser about this.

We understood Mr J’s disappointment about the policy’s poor level of growth but we concluded that the advice he had been given was not inappropriate. We did not uphold his complaint.
Last month we set out our plans for publishing information – for the first time – on the complaints we handle about named individual firms. In this *ombudsman focus* we answer the questions we’ve been asked most frequently about these plans – and about what publishing this information will involve.

**doesn’t the ombudsman service already publish data about the complaints it receives?**

Since the formation of the Financial Ombudsman Service in 2000, we have published information in our *annual reviews* about the number and type of complaints we receive – and about the outcome of those complaints. This continues a tradition set by the ombudsman schemes that merged to form the Financial Ombudsman Service. But none of those predecessor schemes released information about the *individual* financial businesses they covered. And this has also been our position to date.

Almost a decade on, however, there are far greater expectations of openness. Increasingly, public opinion is that relevant information should not be kept secret without good reason. It was in this context that the non-executive board of the Financial Ombudsman Service asked Lord Hunt of the Wirral to consider the question of releasing more information about complaints – as part of his recent independent review of the accessibility and openness of the ombudsman service.

**what did Lord Hunt say about the publication of complaints data?**

In April 2008, Lord Hunt published his report on the ombudsman service, *opening up, reaching out and aiming high*. In this report he recommended that greater transparency in complaints-handling should include our making information publicly available about how individual businesses deal with complaints.
As announced in our *annual review* (published in May 2008) and in the policy statement, *our strategic approach to transparency* (published in July 2008), this recommendation was accepted by the board of the Financial Ombudsman Service.

Separately, the National Consumer Council published a paper earlier this year on the future direction of ombudsman schemes in consumer markets – encouraging ombudsmen to publish details of complaints they upheld. And in May 2008, the Financial Services Authority (FSA) issued a discussion paper, suggesting that it should publish the complaints-related data it collects from the firms it regulates.

**what kind of data about individual firms does the ombudsman plan to make public?**

In our document, *publication of complaint data: next steps* – published in September 2008 (available in the publications section of our website – under *policy statements and other documents*) – we have proposed publishing:

- the number of complaints referred to the ombudsman service in relation to the 150 or so financial businesses that produce between 85% and 95% of all cases; and
- the percentage of ‘upheld’ complaints – where the outcome changed in favour of the consumer, after the involvement of the ombudsman service.

**how will the ombudsman’s complaints data fit in with information on complaints that the FSA has said it plans to publish?**

Our plans for publishing data about the cases we handle concerning named individual firms are separate from – but complementary to – the FSA’s plans. The FSA has proposed publishing information it receives from regulated firms about the number and outcome of complaints that those firms receive from consumers and handle themselves.

We are working closely with the FSA on issues such as the inter-relationships between the format and content of the data it proposes to publish itself – and the format and content of the data that we plan to make available.

**when will the information about named firms first become available?**

Our case-handling system was not originally set up to produce statistical data for external use, and we would not want to publish data before putting in place some changes to our systems (including verification procedures). Depending on the answers to some of the remaining practical issues, the first information we publish about named firms could relate to either the first or the second half of 2009.
what are the remaining issues about publishing this kind of complaints data?

We are currently working with consumer organisations and industry trade-bodies – and seeking comments from all interested parties – on a number of specific practical issues relating to publishing complaints data about individual financial firms. These issues include:

❖ how to show data for businesses that operate under various trading names;
❖ how data on the outcome of complaints should be verified;
❖ what period the data should cover; and
❖ how far it is possible to put the data in a wider context (such as the size of the businesses concerned).

For more information about our proposals for publishing complaint data about named individual firms, please see our document, *publication of complaint data: next steps* – available in the publications section of our website (under *policy statements and other documents*).
household insurance disputes involving incidents that happened outside the home

Most of the complaints we see about ‘household’ insurance policies concern claims made in connection with the contents or structure of the policyholder’s home. However, as these case studies show, ‘household’ insurance disputes sometimes involve incidents that have taken place outside the home – in the garden, driveway, garage or outbuildings.

■ 73/6
	household contents insurer refuses claim for theft of ‘minimoto’ from policyholder’s garage

Mr W was very surprised when his insurer said it would only pay part of his claim, after several items were stolen from his house and garage. The insurer refused to pay for the replacement of his young son’s ‘minimoto’ (a very small powered bike), that had been kept in the garage. The reason given was that Mr W’s contents and personal belongings policy excluded ‘Motor vehicles, electrically, mechanically or power-assisted vehicles (other than domestic gardening equipment)’.

Mr W argued that the minimoto was not a ‘motor vehicle’ as described in the policy but a child’s toy. He said its engine was tiny, it had a top speed of less than 20 mph and it was incapable of being used to transport people from A to B. It could not be used on roads and no motor or motorbike insurance was available for it.

The insurer disagreed. It said the powered bike did fall within the policy definition. It was a power-assisted vehicle and even with the limited engine in the model in question, could reach speeds of up to 35 mph. The insurer added that if minimotos were toys, they would be readily available from toyshops. However, this was not the case and they could usually only be obtained from specialist dealers.

Unhappy with the insurer’s stance, Mr W brought his complaint to us.
complaint not upheld

We took account of evidence provided by Mr W that some minimotos were sold as toys and were available from toy shops and toy websites.

However, Mr W acknowledged that his son’s minimoto could travel at speeds of over 20 mph. It was therefore difficult to accept his claim that it should be classed as a child’s toy. No adult could effectively supervise a child using it. And while we accepted Mr W’s point that it was not a means of transport, it was capable of being used for sporting purposes. It was also considerably faster than other powered toys used by children, such as mini cars and go-karts intended for domestic use.

We concluded that in the particular circumstances of this case, the insurer had acted correctly in declining the claim for the theft of the minimoto.

... he had been confident that his claim would be met.
... her insurer said the wall had collapsed because of its poor construction and its age.

Mr M then referred the complaint to us, saying he thought the insurer was attempting to ‘hide behind the small print’ so that it would not have to pay out on what he considered a ‘perfectly straightforward and valid claim’.

complaint not upheld
We examined the policy documents that Mr M had been given when he took out the insurance. Like most household policies, it provided cover against certain specified events including fire, flood and theft.

The terms of the accidental damage cover that Mr M had selected as an ‘add-on’ to his policy were set out very clearly and referred specifically to:

- ‘Accidental damage to TV, video, hifi, computer or telecommunications equipment; and
- accidental breakage of glass and furniture and fixed kitchen appliances.’

We found nothing to indicate that the accidental damage cover had been described to Mr M in an inaccurate or misleading way. So while we sympathised with his honest misunderstanding about the nature of the cover he had bought, we did not uphold his complaint.

73/8  
insurer rejects claim for collapse of garden wall and resulting damage

The retaining wall at the end of Mrs K’s garden collapsed after a short period of exceptionally heavy rainfall, causing extensive damage to her garden, garden shed and garden furniture.
However, her insurer turned down her claim. It said that the wall (which was over 140 years old) had collapsed because of its poor construction and its age. Mrs K’s policy only provided for specific perils and events, such as storm or flooding. The insurer said there was no evidence of storm conditions or flooding in the period leading up to the collapse of the wall, so there were no grounds on which Mrs K could claim under her policy.

Extremely unhappy with this response, Mrs K instructed a surveyor to inspect the collapsed wall and produce a report about it, which she then sent to the insurer.

The surveyor said the wall had been in a good state of repair. Its collapse had not come about because of its poor construction or its age, but because a substantial amount of water had built up behind it. In the surveyor’s view, the wall’s age was relevant only in so far as it meant the wall lacked features such as ‘weep holes’ that a more recently-constructed wall would have had – and that might have helped it to withstand the water pressure.

The surveyor’s report included weather records showing that in each of the three months before the wall collapsed, the rainfall in that part of the country had been considerably above the regional average. In the month immediately before the wall collapsed, the rainfall was the highest ever recorded in that area for a single month.

The insurer did not respond to Mrs K for some considerable time after receiving this report. When it did eventually contact her, it simply confirmed that its position had not altered and it did not consider there were any grounds for paying her claim. Mrs K then came to us.

complaint upheld
We had little sympathy with the insurer’s argument that the faulty construction of the wall was to blame for its collapse.
Modern construction methods are not the same as those in use 140 years ago, and insurance cannot be offered on the basis that old structures must conform to more recent building standards.

The more difficult issue to decide was whether the damage to the wall had been caused by ‘flood’. The insurer had been correct in saying no flooding had taken place in the area. However, the problem had not arisen as a result of rising surface water but because of the very rapid build-up of water behind the wall. We concluded that this could, in itself, constitute a ‘flood’.

We said the incident was therefore covered under the terms of the policy and that the insurer should pay Mrs K’s claim.

We said it should also pay her £750 in recognition of the distress and inconvenience she had suffered as a result of its excessive delay in progressing her complaint and dealing with her queries about it.
... we told him the insurer’s offer was a very fair one, in the circumstances.

73/9

insurer rejects claim for quantity of metal stolen from policyholder’s garden

Mr T put in a claim under his household contents policy after thieves removed a large quantity of copper, brass, lead and aluminium from his back garden. The insurer rejected the claim on the grounds that the policy did not cover ‘scrap metal’.

Mr T then complained to us, saying the insurer had acted unfairly and that the claim should be met. He said he had only been keeping the metal in his garden temporarily, until he had time to use it. He had bought some of it in order to repair his front porch and he intended to use the rest to make garden furniture.

complaint not upheld
We examined the terms of the policy and noted that cover was provided for ‘household goods, valuables, personal money, deeds and documents, business equipment and personal belongings’.

The insurer said that this clearly did not include scrap metal or raw materials used in the course of construction work.

We accepted Mr T’s evidence that he had been keeping the lead in his garden with the specific intention of repairing the roof of his front porch, and that he had indeed made garden furniture out of the remaining materials in the past.

After discussing the complaint with us, the insurer said it was prepared to cover the loss of the lead that Mr T had intended to use for the repair of the front porch. However, it would not pay the remainder of the claim.

We told Mr T that the insurer’s offer was a fair one in the circumstances and we advised him to accept it. We did not believe he had been misled about what the policy covered. The lead was intended for household repairs, so it was reasonable for it to be covered under the terms of the household contents policy. However we retained some doubt as to the intended use of the remaining materials. Mr T told us he would accept the insurer’s offer.
meet the ombudsman service

We take part in roadshows, exhibitions and events across the UK, sharing our complaints-handling knowledge and listening to the experiences and views of consumers, businesses and consumer advisers.

Our popular series of workingtogether training days, give front-line consumer advisers (including trading standards officers, money advisers and community workers) the opportunity to learn more about the ombudsman service and how we work. workingtogether events planned for the next few weeks include:

- Darlington – Thursday 13 November
- Dumfries – Thursday 27 November
- Bournemouth – Friday 5 December

Other upcoming events where you can drop by and meet us face-to-face include:

- 7 and 8 November The Retirement Show 2008 the SECC, Glasgow
- 12 and 13 November Mortgage Business Expo Earl’s Court, London
- 5 to 10 December Clothes Show Live/the Style Show the NEC, Birmingham

For more details about these and other events, visit our website [www.financial-ombudsman.org.uk/news/out-and-about.htm](http://www.financial-ombudsman.org.uk/news/out-and-about.htm) or call our events coordinator, Kerrie Coughlin, on 020 7964 0130.
ombudsman news ...

travel insurance and the ombudsman
the owner of a holiday company asks ...

Q  My business arranges coach holidays around the UK and Europe. We offer customers the option of taking out travel insurance thorough us at the same time that they book their holidays.

At a recent conference I heard someone say that all travel companies selling this type of insurance will soon be regulated and will be covered by the ombudsman service. How can I find out more?

A  From 1 January 2009, travel firms and holiday providers selling what is sometimes known as ‘connected travel insurance' will be regulated by the Financial Services Authority (FSA). They will also be automatically covered by the Financial Ombudsman Service.

This means that businesses like yours that sell travel insurance alongside a holiday will need to have in place – and operate – in-house complaints-handling procedures that comply with the complaints-handling rules published by the FSA (http://fsahandbook.info/FSA/html/handbook/DISP).

You can find out more about the ombudsman service by looking at our website, and specifically at the dedicated information resource we’ve put together for businesses that will be coming under the ombudsman for the first time in January 2009 (www.financial-ombudsman.org.uk/news/updates/travel-insurance.htm).

You’ll also find details there of the events aimed at travel businesses that we’ll be attending over the next few months, giving you the chance to meet some of our staff and talk to us direct about any questions you may have about the ombudsman service.

omeudsman news gives general information on the position at the date of publication. It is not a definitive statement of the law, our approach or our procedure. The illustrative case studies are based broadly on real-life cases, but are not precedents. Individual cases are decided on their own facts.

meeting different communication needs
a consumer-advice agency emails ...

Q  Some of our clients have difficulties with written English. Is it possible to get information about the ombudsman service in a format that would be suitable for these clients, in cases where we need to tell them about the ombudsman?

A  We provide information about our service in a wide range of formats – to meet people’s different needs. This includes:

• online videos (in English and Welsh) showing what happens when consumers first contact the ombudsman service;
• details in British Sign Language on how to complain; and
• information in easy read (accessible text format) which we have produced in consultation with local community-groups.

Our website provides information in over 20 languages – including audio-clips (in mp3-format). And there’s also a speech-browser you can download, to hear our website being read aloud.

For more details about how we can help in different formats and languages, look at our ‘accessibility’ page at www.financial-ombudsman.org.uk/accessibility/index.htm or phone us on 020 7963 7279.