

Financial Ombudsman Service Limited

Minutes

Minutes of the meeting of the directors, held on 20 July at 10.15, via video conference call

Present

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| Baroness Zahida Manzoor CBE | Chair of the Board |
| Heather Lauder | Director |
| Bill Castell | Director |
| Sarah Lee | Director |
| Ruth Leak | Director |
| Jacob Abboud | Director |

In attendance

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| Nausicaa Delfas | Chief executive & chief ombudsman |
| 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 |
| John Odgers | Senior legal counsel |
| Chandra Hirani | Head of strategic finance |
| Caroline Wood | Horizons portfolio director |
| Dominic Hurndall | Partner, Oaklin |
| Alison Hoyland | Board secretary |
| Megan Webster | Policy and communication manager |

Apologies:

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| Julia Cavanagh | Chief financial officer |
| Yvette Banister | General counsel |

01/2107 Board and committee meetings

The Board agreed the minute of the Board meeting on 22 June 2021 and noted the minutes of the Remuneration Committee on 4 May 2021 and the Nominations Committee on 8 June 2021. The Board also noted the oral update from the Audit Committee on 29 June 2021, the Remuneration Committee on 5 July and the Nominations Committee on 1 July.

The Board noted that, at its meeting on 1 July, the Nominations Committee had appointed Sarah Lee as Senior Independent Director.

Matters arising

Three recommendations for Board approval arose from the Remuneration Committee meeting on 5 July:

Employee Benefits

The Board approved the recommendation for changes to the pension scheme benefits, subject to the outcome of the necessary staff consultation, comprising the removal of the provision of Death in Service Protection, (where the cost of death in service premiums was cost prohibitive) and the provision of alternative cover by way of enhanced life insurance.

Executive Salary at Risk (SAR)

The Board approved the recommendation to consolidate the 15% of executive team salary currently 'held back' under the SAR arrangement into base pay and to maintain the option to pay a 5% performance bonus for the current financial year.

Future ways of working

The Board approved the recommendation that the ombudsman service should update its flexible working policy and move to a hybrid approach to working, with staff typically attending the office in person for four days over a two-week period. The Board noted the policy would be kept under review and the implementation would be subject to relevant Covid-19-related government guidance.

02/2107 Interim Chief Executive & Chief Ombudsman's report fos/21/07/02

The Interim Chief Executive and Chief Ombudsman presented her update to the Board which focussed on:

- Key internal and external stakeholder engagement and key issues on the radar.
- Financial, casework and business performance.
- Quality and customer satisfaction.
- Key people measures.
- Key IT projects, system availability and security.
- Key litigation, service complaints, data access and data protection compliance and MP contacts.

The Board discussed the key matters arising and noted that the chairman and audit committee chairman had asked for a historic analysis of financial performance for each business unit to help inform understanding of the baseline position and savings and efficiency progress being made.

Actions:

- Consideration to be given to what information was provided in the monthly CEO update and what was included in the quarterly performance update reports to help minimise any duplication [Open].
- Published complaints data outlining uphold and non-uphold rates to be shared with the Board [Completed].

03/2107 Periodic review fos/21/07/03

Oaklin had been appointed to carry out the Ombudsman Service's latest Board commissioned periodic review aimed at informing how the Service could best adapt and meet both the current operational challenges it faced and to remain fit for purpose in the future – delivering on customer expectations in a cost effective and efficient way.

Part one of the periodic review had examined the current operating position and service performance, against the context of the 2015/2016 restructure. The part one analysis had been informed by a paper-based review of key documents and reports, a range of interviews and focus group discussions with members of the Ombudsman Service, as well as by interviews with external stakeholders, including the FCA, industry bodies and parliamentarians.

The Board noted that Oaklin's findings at this stage were preliminary and their hypotheses would be scrutinised further under part two of the review. The emerging findings were captured under four broad themes – the operating model, organisation capability, people & performance and technology.

Oaklin would continue to develop and test the emerging findings during part two of the review which would be forward looking, with a focus on developing an implementable road map for change. The findings under part two would be presented to the Board for discussion at its annual strategic away day in September.

04/2107 Update on unallocated queue proposals

fos/21/07/04

Following the Board's discussion in June, an update was provided on work underway to reduce the unallocated case queue over and above the plan and budget for 2021/22. Since June, efforts had been focussed on moving forward with any 'no regrets' options to reduce the queue further in-year.

While the options were considered 'no regrets', the Board noted that few, if any, carried no risk and would require varying degrees of work, would require a number of trade-offs and, in some cases, additional budget.

One of the options being explored was around signposting calls that were not for the Ombudsman Service using the IVR system – an initiative that would help free up case handlers time and allow them to focus on resolving the cases they had. The Board agreed there was an important balance to strike between gaining efficiencies and ensuring more vulnerable consumers were supported appropriately. The Board noted that other organisations set up under the Financial Services and Markets Act had experienced signposting challenges of their own, and that work was underway to explore how signposting might be done in a more streamlined and collaborative way across the different organisations.

Other 'no regrets' initiatives being explored included new opportunities and approaches for recruitment and training and further engagement with financial businesses to help resolve cases sooner.

Any initiatives which would require more funding would need to come back to the Board with a full cost/benefit analysis for approval.

Action:

- For a full cost/benefit analysis of any intervention requiring additional funding to be brought back to the Board for approval [Open]

06/2107 Digital Programme

fos/21/07/06

The Ombudsman Service intended to augment its existing customer channels (telephone, email, post) with a digital channel. The Board noted the proposed initial scope for the functional components of the new digital channel and that the initial scope would be delivered with the Service's digital partners (procurement for which was currently underway). The business case would be presented to the Board in due course, at which point more clarity would be provided on the schedule and timetable for delivery.

07/2107 Quarter One (Q1) performance and re-forecast

fos/21/07/07

Performance at Q1 reflected the picture at the end of the previous financial year – with all areas of casework overperforming against case resolutions targets.

In PPI casework, incoming case volumes had been lower than forecast during Q1. The Board agreed there were reasons to believe that it might be too early to reduce the overall forecast for the remainder of the year, but incoming volumes and the external landscape should be closely monitored throughout Q2. In terms of resolved cases there had been a strong performance in PPI during Q1, which the Board noted had been achieved against the context of a recent redundancy exercise with staff.

Achieving the resolution objectives in PPI would remain a challenge over the year due to lower than expected case volumes and the potential implications of a recent court of appeal judgment in March on the subject of 'secret commission'.

General casework areas had overperformed compared to budget for all three months of Q1, resolving around 4,000 more cases than planned. However incoming cases had been higher than forecast by around 3,000 in Q1, but in closing the additional 4,000 cases, overall, the Service remained ahead of plan. The Board noted that in more recent weeks, new case conversions had begun to reduce to close to pre-pandemic levels, which had enabled the Service to start to resolve more cases than it had received. Unallocated cases remained high in general casework and as discussed earlier in the agenda, the Service continued to look for a range of different levers to reduce the unallocated queue beyond the budget plans.

The Board noted that at the end of Q1 annual costs were £5.1m higher than budget and noted the relevant movements in the cost base including higher depreciation costs, higher property dilapidation provisions and maintenance costs to prepare for returning to the office following the pandemic and additional Board and executive team recruitment and associated costs which had not been provided for in the budget.

The Board noted the position but agreed that further work and analysis should be undertaken to make further savings where possible to off-set the higher costs. The Board would review the position at Q2.

Actions

- Progress against savings and efficiencies plans to come to the September Board [Completed].
- Future financial outlook to come to the September Board. [Completed]

08/2107 Q1 risk report

fos/21/07/08

The Board reviewed the latest position on the key corporate risks. The risk category for 'cases handled quickly' remained at critical to reflect the ongoing challenge with customer waiting times. As discussed earlier in the agenda, work was underway to explore potential approaches to exceeding the agreed plan and budget targets – the benefit of any changes would be reflected in the next risk report.

Elsewhere the Board noted that other risk categories had increased to high, again reflecting the current environment within which the Service was operating and the challenges it was facing. The service faced significant operational challenges, had undergone Board and executive level change and was preparing for a transformation agenda from the periodic review. The expectation was risk levels would settle in time, as the service got on top of the operational challenges and had a clear road map for its forward change agenda.

Risk reporting and developing a risk appetite framework

The audit committee had previously noted that while the current risk report was a valuable dashboard of risk information across the Service, it could draw out the information on the most significant risk areas more clearly by providing a "Top Risk Analysis". The Board noted the indicative draft of how that might be presented for Board review in the future and agreed it would be a helpful addition to the regular quarterly reporting.

Work was also underway to develop the risk management framework further by introducing 'risk appetite statements' and a mechanism for monitoring adherence, reviewing and updating the position at executive and Board level to ensure the Service's appetite remained relevant and appropriate. The audit committee was due to review a draft risk appetite framework and the executive's initial analysis in September,

before being submitted to the Board for approval in October.

Actions

- Head of Risk and Governance to assign a risk owner for each of the 'top risks' identified [Open]
- Risk appetite framework to come to the October Board for approval [Open]

09/2107 Annual assurance reports

fos/21/07/09

As part of the Board assurance framework, year-end reports were provided on:

- The work of the audit committee;
- The work of the remuneration committee;
- The work of the Horizons' Programme steering committee;
- The work of the quality assurance group;
- Legal and litigation work;
- Data protection
- Health & safety
- Social responsibility
- Property and estate management;
- The composition of the ombudsman panel; and
- Our statutory obligations in relation to the FCA

Under the reports from Board sub-committees, the Board noted that, following the outcome of the independent governance review, the Terms of Reference (ToR) were in the process of being updated to reflect the recommendations agreed by the Board in June. The updated ToR would be agreed by the respective committees and then submitted to the Board for final approval. Any changes to the ToR would be reflected in the schedule of matters reserved for the Board, which would again be put to the Board for final approval.

Under the audit committee update, the Board agreed the updated annual Modern Slavery Act statement for the chairman's signature and publication.

Under the property and estate management update, the Board noted that the landlord at Exchange Tower had recently approached the Service in respect of an early surrender of the level 11 café – the lease for which wasn't due to end until September 2023. The Board noted that ending the lease early would be in line with the overall property strategy and would generate savings over the length of the remaining lease. Given that staff would be working remotely more frequently, and a number of staff had recently left the service following the orderly conclusion of PPI consultation, there would be less need for two cafes going forward. Staff would also still have access to a café on another floor. The Board agreed that the Service should take forward the proposal with the landlord.

Action:

- The service's 'carbon footprint' targets to be shared with the Board and consideration to be given for a 'net zero' target to be set [Open]

AOB

Heather Lauder was stepping down from the Board on 31 July following her recent appointment as a non-executive director for Zurich Assurance Ltd. Heather had joined the Board in September 2020, and during her time had made a significant contribution to Board business, including as remuneration committee chair and as a Board critical friend to the Service's quality committee. The Board and executive wished Heather every success in her future endeavours.