

Financial Ombudsman Service 2021 Periodic Review

An independent review compiled by Oaklin Consulting.
2 December 2021



Preface

The Periodic Review is an independent report compiled by Oaklin Consulting, a management consulting firm selected by the Financial Ombudsman Service to carry out the review.

Although the Oaklin team have worked closely with people at every level in the Financial Ombudsman Service and across the financial services industry, the review remains an independent production. The analysis and recommendations are the product of careful and measured investigation by the Oaklin review team. They have been discussed in detail with the Financial Ombudsman Service Executive Team and the Board, but full editorial control and responsibility for the review's conclusions and recommendations has remained with Oaklin.

Every effort has been made to base the analysis on objective data or referenceable information. Where this was not possible, the review team have relied in good faith on the subjective contributions and opinions from the many people who were generous enough to give up their time. Wherever possible, subjective contributions have been corroborated with data or secondary investigation.

Every conversation and piece of information has been considered in detail and has helped to shape the final report, even if it was not possible to include all the details collected in the report. The necessity to produce a concise report means that not every proffered opinion or component could be included, even if it was gratefully received and carefully considered.

The team are grateful to the many individuals and organisations who contributed ideas and evidence to help generate the final conclusions and recommendations drawn. A list of the organisations who contributed is included at Appendix B, but the names of those spoken to remain anonymous in line with the assurances of confidentiality given in the process.

It has been a privilege to work closely with the fantastic people in the Financial Ombudsman Service and to meet so many from across the other regulatory organisations and the retail financial service sector.



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Introduction

1. The Financial Ombudsman Service was established by the Financial Services and Markets Act 2000. Its purpose is to resolve disputes on a fair and reasonable basis, quickly and with minimum formality. It is free to those who are eligible to bring a complaint.
2. By resolving disputes independently and impartially, with minimal formality and by providing decisions that are legally binding, the Financial Ombudsman Service gives consumers the means to get free and fair redress, which would otherwise only be available through the courts. The function of the Financial Ombudsman Service gives consumers confidence to participate in the retail financial services market, which in turn benefits the financial services organisations that offer products and services to consumers. Without an effective ombudsman, confidence in regulated financial market products would suffer. This makes the Financial Ombudsman Service a key part of the financial services regulatory system and one of the foundations of an active and profitable retail financial services industry in the United Kingdom.
3. The Chair of the Financial Ombudsman Service, having set a new vision for the organisation and having refreshed the Board and appointed an interim Chief Executive, commissioned the Periodic Review to assess the organisation's challenges and to identify opportunities for future improvement. The review focusses on the operational effectiveness of the Service, evaluating its efficiency and performance against its objectives, as well as identifying future trends in financial services and how the organisation needs to adapt to meet them.
4. This remit has afforded the Periodic Review team a chance to look across the Financial Ombudsman Service at a time of unprecedented challenge. Working with groups at every level of the organisation, complemented by external meetings with industry bodies, financial service providers, parliamentarians, HMT and the FCA, the review has established an overarching view of the entire Financial Ombudsman Service. By necessity, the review has been broad and as a result its recommendations are high level in their nature. Each recommendation will require further analysis before being taken forward. This notwithstanding, extensive effort has been made to marshal the many sources of data available within the Financial Ombudsman Service to support the conclusions and to substantiate the recommendations being presented.
5. In line with the terms of reference, the findings of the Periodic Review are set out in two parts:

Part 1 – Analysis – An evaluation of the organisation's operational performance and ability to deliver its strategic objectives. Drawing on interviews, analysis of Financial Ombudsman Service data, evident trends in the marketplace and external commentary, the analysis sets out the extent to which changes in the external environment have impacted the organisation. It looks at whether the ambitions of past change programmes have been met and seeks to identify the challenges and opportunities the organisation faces. It also considers how emerging changes in consumer attitudes, financial services markets and technologies will affect the Financial Ombudsman Service in the future.

Part 2 – Recommendations – The review then sets out a series of recommendations for how the organisation should change to respond to current pressures and how it should develop to remain effective and relevant in the future. The recommendations bring particular focus to how the Financial Ombudsman Service should reconfigure its systems, processes, infrastructure and people capability. In each case the recommendations are supported by explanatory narrative and objective evidence; accompanied, where appropriate, by a 'rough order of magnitude' set of planning assumptions that form the basis of the roadmap.

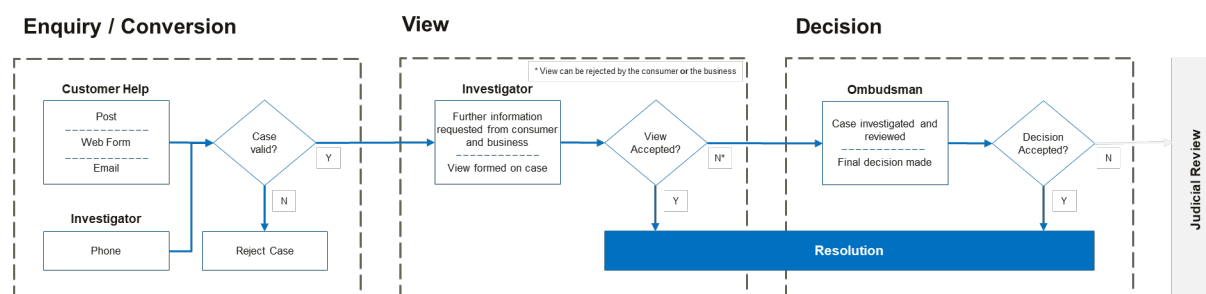


Context and Terminology

6. Throughout this review, references are made to terminology that is specific to the Financial Ombudsman Service. A glossary of terms is provided in Appendix A, but key terms are explained below:

Case Lifecycle

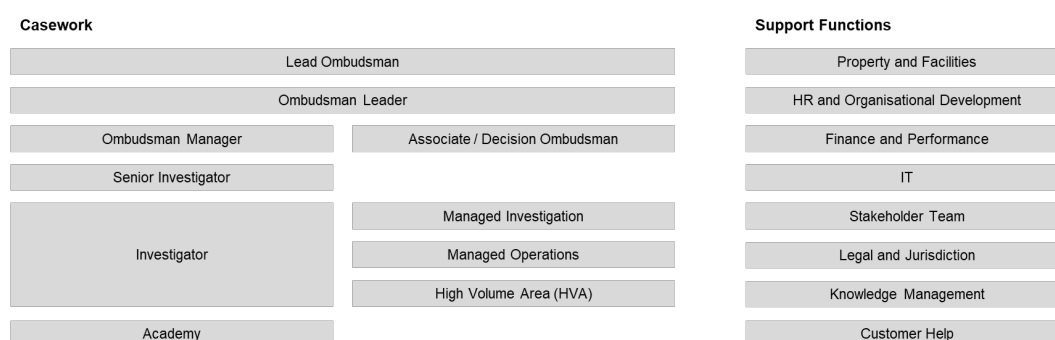
7. Cases are established and resolved at the Financial Ombudsman Service in three primary steps as illustrated in the diagram below. Valid and “within jurisdiction” complaint enquiries are first ‘converted’ into cases to be taken forward by the Financial Ombudsman Service, on which, in due course, either a view or decision is then provided. Converted cases are first afforded an initial view by an Investigator. If this view is rejected by either the consumer or respondent business, the case is referred to an Ombudsman for a final decision. The final decision is legally binding on the respondent business if it is accepted by the consumer. As a public body, Ombudsman decisions may be judicially reviewed through a legal process outside the Financial Ombudsman Service’s function.



The Financial Ombudsman Service case lifecycle diagram.

Organisational Structure

8. The structure of the Financial Ombudsman Service is comprised of leadership and casework layers, supported by cross organisation functions. An overview of the casework and support functions is provided in the diagram below and explored in more detail in subsequent sections of the review.



Core capability organisational structure of the Financial Ombudsman Service – indicative only (casework and support functions)

Investigator Model

9. In 2015, the Financial Ombudsman Service undertook a transformation of its organisation, implementing a new ‘Investigator Model’. This reworked the operating model of the Financial Ombudsman Service with the aim of better serving consumers at their point of need by connecting them directly to Investigators. The transformation was accompanied by a significant investment in resourcing and technology. To facilitate this change, the



Investigator role was created to replace the previous 'Adjudicator' role, as the primary caseworker role, with Investigators taking on phone shifts to process new consumer complaints. The new model also linked the role of Ombudsman to the new Investigator teams, which had previously been distinct and unconnected roles. In the new model, the Ombudsmen became the line managers and mentors of the Investigators.

10. A principle of this transformation was that Investigators should be able to handle "most types of cases, most of the time". This became known as the '70/30' model, where casework teams were established to handle either the 70% 'general cases' or 30% 'specialist cases'. This development was intended to deliver a flexible workforce, while improving productivity. The Investigator Model continues to evolve within the Financial Ombudsman Service.

General Casework and Mass Claims

11. The Financial Ombudsman's casework delivery is split across two types of casework: 'general casework' (GCW) and 'mass claims'. GCW covers all case types and industry sectors and all new types of complaint. Mass claims work develops when a common complaint issue is received in high volumes and is not operationally intensive to resolve. In this situation it may classify as a "mass claim", as was the case with PPI, packaged bank account (PBA) and short-term loan (STL) cases. All of these claims are directed to dedicated teams able to work through complaint volumes in a highly productive manner.

Casework Volumes and "Stock"

12. Important operational distinctions are made within the Financial Ombudsman Service between allocated and unallocated cases. Allocated cases are those which have been assigned to an Investigator or Ombudsman and are in progress, while unallocated cases are those still awaiting initial attention. To reach a consistent view of the entire challenge facing the organisation and to afford a clear definition of a 'steady state' target, the review team sought a simple view of the totality of 'work' that the organisation has before it and the time it takes to complete it. To obtain this, the review has adopted the practice used in the Finance and Performance Team of referring to cases of all types as 'stock', regardless of whether allocated or not, i.e. 'stock' encompasses all cases, from point of conversion to point of resolution.

Customers, Consumers and Respondent Businesses

13. The unique position of the Financial Ombudsman Service makes it important to be clear about the nomenclature used to describe those with whom it interacts. Customers of the Financial Ombudsman Service include both members of the general public and small and medium sized enterprises (SMEs). The term "customer" is also relevant to the financial service providers who deliver services to consumers, as they are also recipients of the services the organisation provides. For the purpose of the Periodic Review, members of the public and SME businesses who consume the services of retail financial service providers are referred to as "consumers", while those businesses who provide retail financial services, of all forms, to consumers, are referred to as "respondent businesses".

Overview

14. Over the course of the many meetings, workshops and focus groups that have comprised the Periodic Review, a set of themes emerged that were common to almost all discussions. Before addressing the themes that focused on operational performance and the need for change, it is important to acknowledge some clear strengths:
 - The Financial Ombudsman Service is widely respected and viewed as reaching



fair and impartial outcomes in the majority of cases, a balance which is difficult to strike, but emphatically achieved.

- The Financial Ombudsman Service has an impressive pool of talent. Staff are committed to the cause and keen to help the organisation improve. Throughout the review, the team were struck by the thoughtful and constructive way in which all Financial Ombudsman Service staff engaged in the process, discussed problems and contributed ideas. The Financial Ombudsman Service has some excellent people.
- There were cultural benefits from linking Ombudsmen and Investigators in the 'Investigator Model', introduced in 2015. Benefit has also been gained in the sharing of knowledge across the two levels of casework and the introduction of a clearer career pathway.
- The Financial Ombudsman Service continues to be open and inclusive to all customers. The values of openness, inclusivity and fairness were apparent at all levels. There was no suggestion of bias towards either consumers or respondent businesses.
- The Financial Ombudsman Service has made obvious progress at creating a diverse workforce. Commendable efforts have been made and the results are apparent at every level of the organisation.
- The organisation's response to the significant challenge thrown at it by the Covid-19 lockdowns has been impressive. The Financial Ombudsman Service transitioned swiftly and effectively to remote digital working, in the process achieving 96% of its general casework target by the end of the last financial year.

15. Inevitably there is a need to identify changes and improvements as well as the strengths noted above. Specific conclusions and recommendations are explored in detail in subsequent sections, but the following broad themes stand out as the primary considerations that should drive the next evolution of the Financial Ombudsman Service:

- In the time since the introduction of the Financial Ombudsman Service's generalist Investigator Model, the retail financial services market has been undergoing an unprecedented and accelerating period of change. Radical shifts are taking place in the range of products being offered to consumers and the number and variety of providers offering them. In most cases these are delivered via the internet to a far wider customer demographic than was previously associated with financial services products.
- The expansion of financial services onto the internet continues to be accompanied by an explosion of cyber-crime, targeted at online consumers. These are hard to police and are increasingly sophisticated, adding to the harm being brought to the market, with a commensurate increase in the number of cases being brought to the Financial Ombudsman Service.
- The Chairman and Board, as well as industry representatives, consumers and other stakeholders, all feel that the timeliness of the Financial Ombudsman Service must improve. It is now, on average, 5 months before a case is allocated to an Investigator and there are over 1,800 cases that are more than 3 years old in the stock of open cases. While industry and consumer representatives have been willing to accept that the Financial Ombudsman Service has faced unprecedented challenges, they are equally keen to understand how the Financial Ombudsman will address those challenges and return to resolving disputes quickly and in a cost effective manner.
- Financial Ombudsman Service staff are frustrated by the way the current



organisation is structured and operating. At Investigator, Ombudsman Manager (OM) and Ombudsman Leader (OL) levels and among support staff, the majority of people interviewed are keen to see change.

- The Investigation Model, designed for a steady state operation without queues and to service a market with a simpler range of complaints, is now strained. Substantial casework backlogs prevail and the organisation is running an operational deficit. Productivity changes are needed to improve the efficiency and cost effectiveness of the Financial Ombudsman Service to achieve a steady state operational footing. In FY20/21, GCW productivity (the number of cases resolved per caseworker per week) was 2.0 with 1249 resolutions per million spent (direct GCW and front end cost only) whereas in FY14/15, pre-investigation model, GCW productivity was 2.7 with 1860 resolutions per million spent (adjusted real terms comparison).
- In addition to pursuing productivity, the Financial Ombudsman Service should reconsider the importance of expertise to the performance of its established role as a specialist tribunal. The Investigator Model successfully created an integrated line management structure, but it brought a heavier emphasis on management as well as expertise. Ombudsman Manager productivity has dropped since its introduction, as has the availability of expert resources within the organisation. Continually developing specialist expertise in a rapidly changing financial market is critical to the Financial Ombudsman Service credibly sustaining its role. Careful thought should be given to how expertise is developed and at what level in the organisation it is housed.
- Better engagement with industry and other entities in the regulatory framework, in particular the FCA, is needed. The Financial Ombudsman Service has a long established prevention agenda and has made clear commitments to helping prevent complaints occurring. Every industry representative interviewed would welcome more insight from the Financial Ombudsman Service and a more active engagement agenda. The clear conclusion is that effective prevention is as important, and as urgently needed, as productivity improvements.

Linkage to Industry

16. All the work of the Financial Ombudsman Service is a result of financial service providers failing to resolve complaints with their customers. The Financial Ombudsman Service did well to clear the hurdles of PPI mis-selling cases, but these were followed by a continued influx of large volume complaints such as short term loans and packaged back account complaints. The rate at which these complaint cases are being received continues to exceed historic precedent, which is driving many of the changes in this review. While changes in the structure and configuration of the Financial Ombudsman Service are certainly needed to make it more efficient and productive, it feels important to reiterate the central position of the industry in the problems that the Financial Ombudsman Service is facing. Engagement with the financial services industry should be part of the Financial Ombudsman's response to the volumes of work it is receiving.

A Willingness for Change

17. The overwhelming impression from spending time in the Financial Ombudsman Service is that it is an organisation whose staff are ready for change. At Investigator, Ombudsman Manager and Ombudsman Leader levels, and among staff in the supporting functions, the sense is that change is urgently needed. Ideas for improvement develop in every discussion. Staff constantly repeat their desire for change and their firm belief that it will be to the betterment of the organisation to do so.



Approach to the Review

18. Over the course of ten weeks, the Periodic Review team have carried out a series of workshops and focus group discussions with a cross section of staff at Investigator, Ombudsman Manager and Ombudsman Leader levels. Meetings were also held with the key functional teams, e.g. IT and HR, and with the internal 'Information and Consultation Council' (ICC). Individual consultations were held with Board members, Lead Ombudsmen and with each member of the Executive and meetings were held with members of the legal team.
19. In parallel, the review team met with a broad cross section of financial service providers, representative bodies, parliamentarians, industry commentators and other actors in the regulatory landscape, including HMT, the FCA and the BBRS.

An Organisational Review

20. The review team made every effort to engage with and understand the case handling process, including listening to consumer complaint calls and walk throughs of the case management system and functional processes. The approach has focused unapologetically on the Financial Ombudsman Service as an organisation rather than looking at individual consumer complaints. Several commentators did present redacted consumer cases, which were used as indicative examples of a particular problem or behaviour, but no consideration was given to the rights or wrongs of a particular case.

Focussed Recommendations

21. In reaching recommendations, the review team have sought to be as constructive and specific as possible, eschewing general themes, seeking instead specific changes that the organisation can act on. Given the broad and over-arching nature of the review and the limited time available this was not always possible, but was the aspiration whenever achievable.

Analysis

Casework Performance

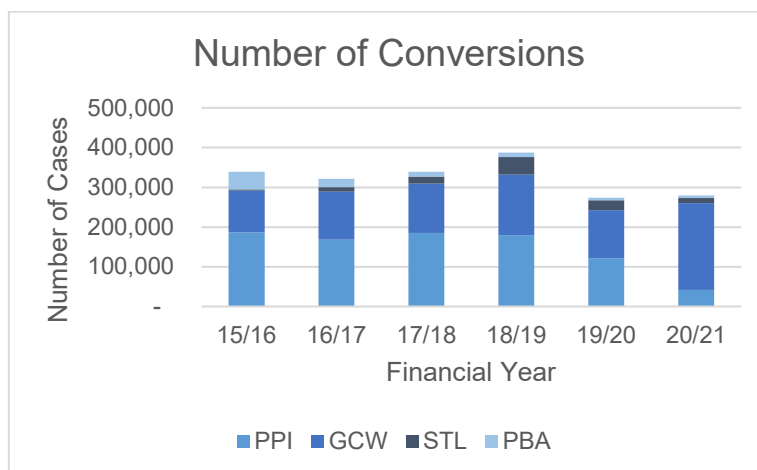
22. In general terms, it is fair to say that the Financial Ombudsman Service has performed well during the pandemic. Against budget, the Financial Ombudsman Service achieved 96% of its target in the last financial year, despite the challenges of a zero notice shift to home working. This effort saw 139,906 General Case Work (GCW) resolutions, a record for the Financial Ombudsman Service and a considerable achievement given the operational difficulties introduced by the Covid-19 lockdowns over the past two years.
23. Despite these efforts and the implementation of contingency labour augmentations in the face of the PPI and short-term loan volumes, the Financial Ombudsman Service continues to find itself in a challenging situation. As set out in the analysis below, the anticipated reduction in case conversions, in line with the decline of PPI cases, has not materialised. Instead, GCW volumes have risen and backlogs remain.

Casework Performance and Trends

24. Although the total number of case conversions has reduced over recent years, mainly due

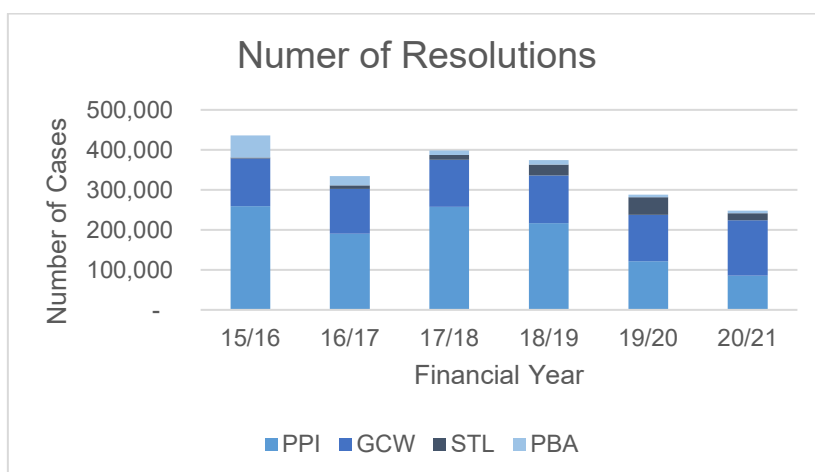


to the expected decline in PPI complaints, the number of general casework conversions has continued to rise. GCW case conversions hit a new record in FY20/21, which can partly be attributed to the pandemic, but also reflects a sizeable shift in the nature and variety of complaints which the Financial Ombudsman Service is receiving and the new industry trends that are emerging.



The total number of conversions over time (Financial Ombudsman Service Data Warehouse).

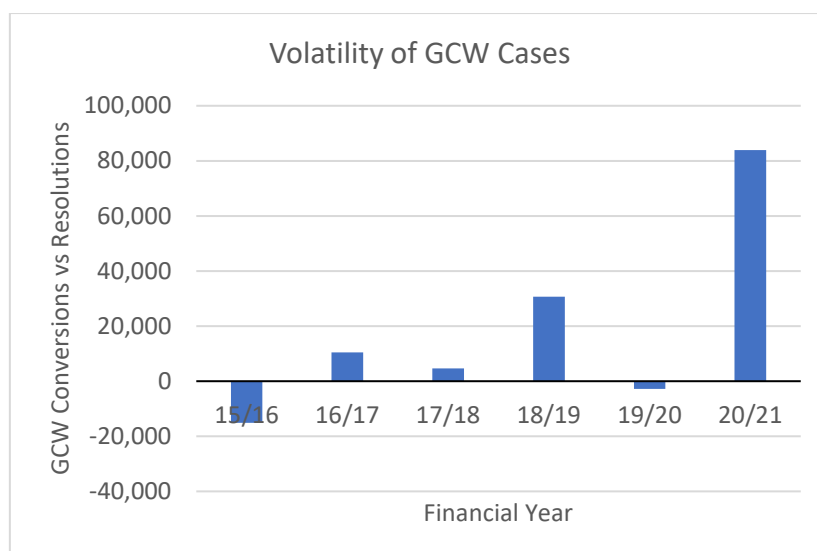
25. As expected, the overall number of resolutions has reduced steadily as the quick to clear complaints associated with PPI and short terms loans were cleared. This trend is not reflected in GCW case resolutions where the number of GCW has remained steady over time.



The total number of resolutions over time (Financial Ombudsman Service Data Warehouse).

26. The number of open GCW cases has increased over the last 5 years, with the greatest imbalance of GCW conversions vs resolutions taking place in FY 20/21 with a rise in GCW case numbers that increased the backlog by ~84,000 cases.





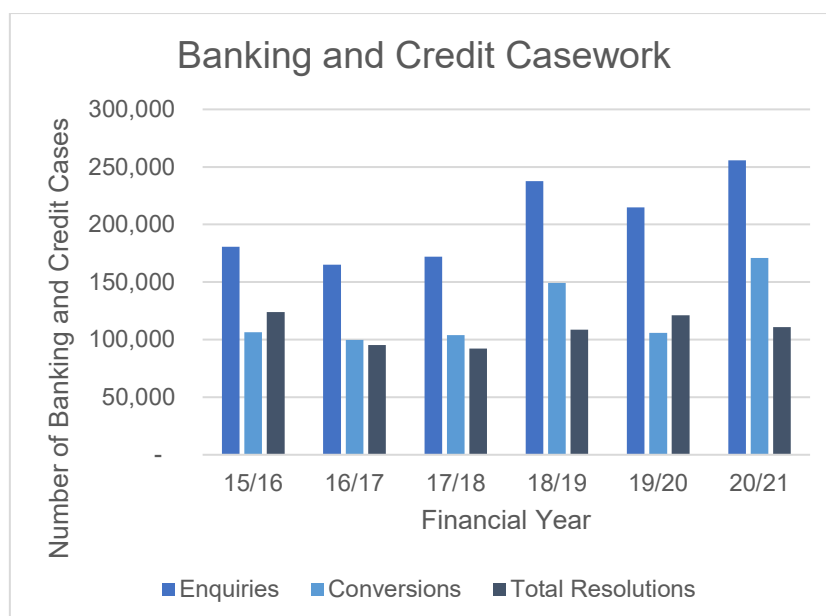
*Number of GCW case conversions vs case resolutions
at the Financial Ombudsman Service in the last 6 financial years
(Financial Ombudsman Service Data Warehouse; Anaplan).*

27. Three primary factors are understood to have contributed to this:

- **Direct Covid-19 Pandemic Complaints:** Approximately 22,000 additional complaints were received, which were directly caused by the pandemic and had not been anticipated in operational demand forecasts.
- **Mass Guarantor Loans and Home Credit Claims:** Approximately 43,000 guarantor loans and home credit claims were received which were not anticipated in operational planning and demand forecasting.
- **Backlogged Enquiries from Previous Year:** Problems arising from the roll out of the new case management tool Phoenix meant that around 20,000 enquires received in 2019/20 had not been processed. These were carried over into 2020/21.

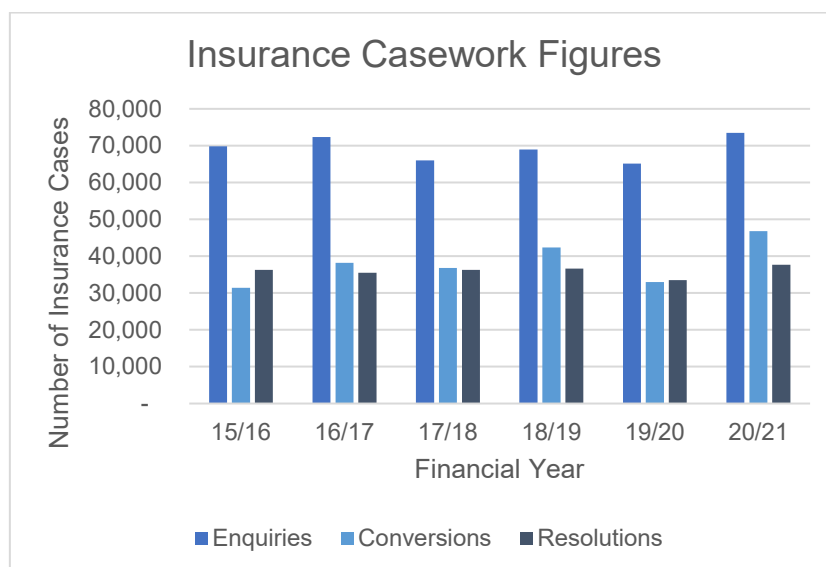
28. While the number of conversions have increased across all areas, banking and consumer credit has seen the largest increase. The number of banking and consumer credit conversions has increased by around 60% over recent years to a record of ~170,000 cases in FY20/21.





The number of enquiries, conversions and resolutions in banking and credit (Financial Ombudsman Service Data Warehouse).

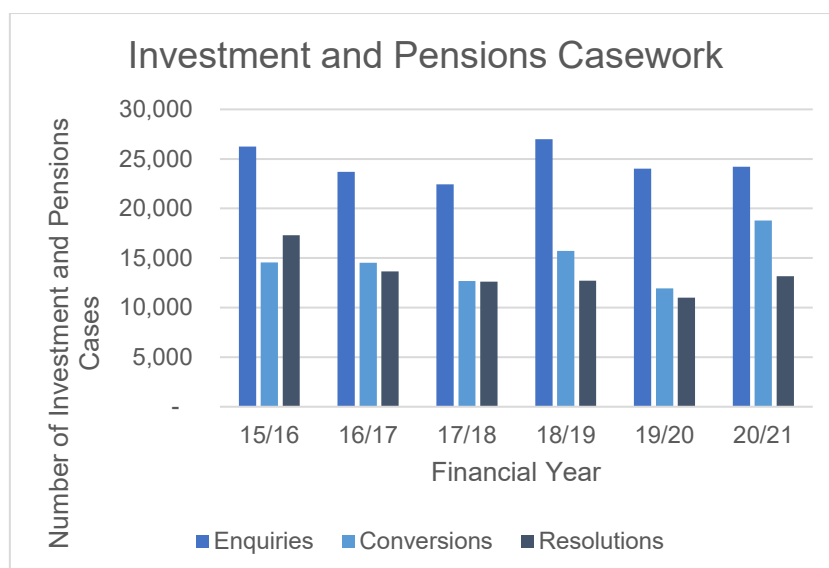
29. Insurance cases have remained the most stable with figures that reflect the wider industry trend, but in a less acute manner.



The number of enquiries, conversions and resolutions in insurance (Financial Ombudsman Service Data Warehouse).

30. The same pattern is also apparent in investments and pensions, to a greater degree than in insurance, but still far from the volumes encountered in banking and consumer credit.

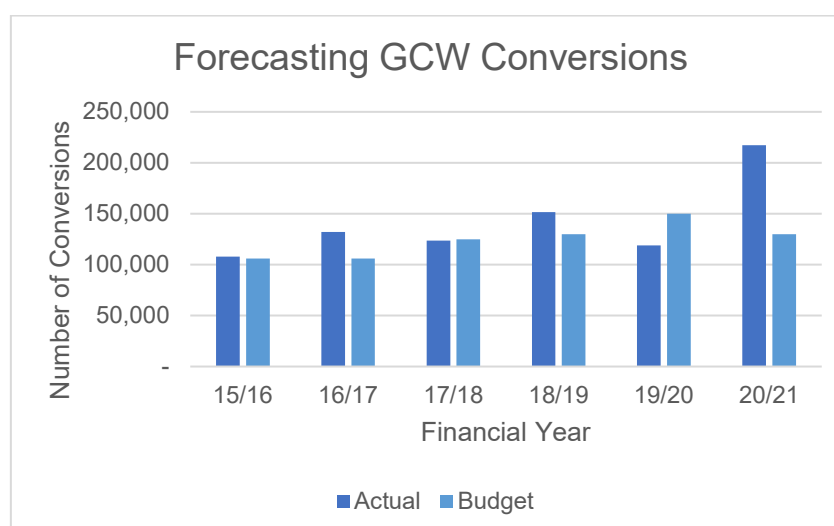




The number of enquiries, conversions and resolutions in investment and pensions (Financial Ombudsman Service Data Warehouse).

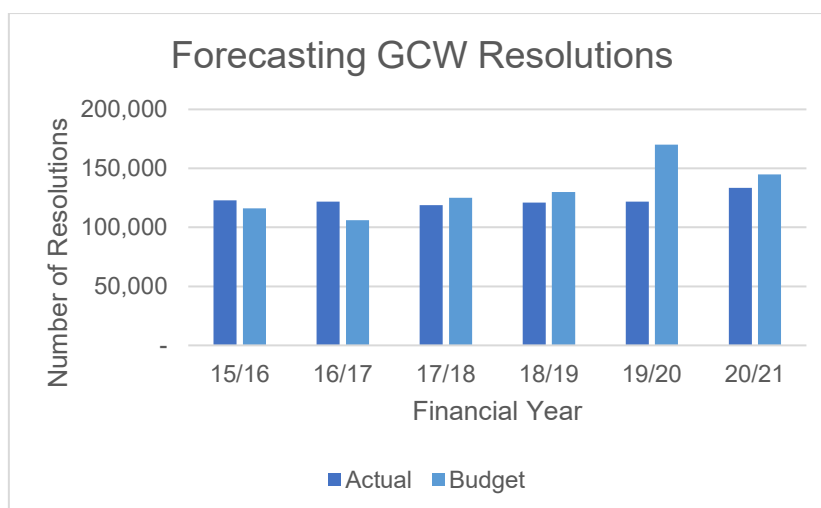
Deviation from Expected Demand

31. The Financial Ombudsman Service provides a service that sees significant volatility in the number of cases it receives. As a result, demand forecasting plays an important part in how the Financial Ombudsman Service estimates what resource levels and operational structure it will need in the short and medium term, which in turn drives its financial and resource planning. The demand forecast is derived from a yearly consultation with industry. The challenge that the Financial Ombudsman Service management faces in this process each year is predicting the unpredictable.
32. Demand forecasts in normal years have captured underlying trends well, but have proved highly susceptible to the significant and unpredicted shifts in the financial services market. This is shown in the diagrams below:



The actual and budgeted figures for GCW conversions (Financial Ombudsman Service Data Warehouse, Anaplan).



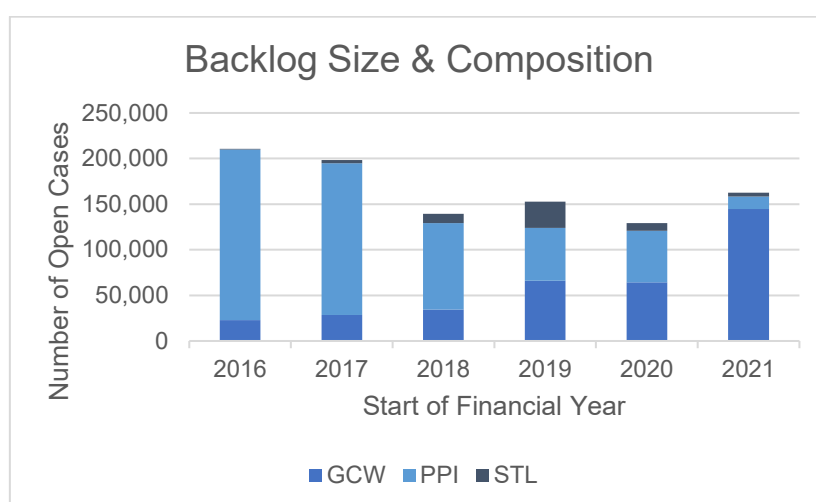


The actual and budget figures for GCW resolutions (Financial Ombudsman Service Data Warehouse, Anaplan).

33. The Financial Ombudsman's demand forecast had assumed a steady reduction in case volumes, as the PPI and STL volumes dwindled and GCW case volumes returned to historic norms. Even though GCW clearances have been at their highest levels, and contingent labour augmentation has been in place, GCW resolutions have not matched budget and conversions have exceeded forecast. As a result, the Financial Ombudsman Service has not significantly reduced the volume of open cases.

An Enduring Backlog

34. This trend of GCW conversions matching, or exceeding, resolutions in recent years has driven a change in the composition of the complaint backlog and has kept it at over 100,000 cases. At the start of 2016, ~90% of the case backlog was attributed to PPI cases. By the start of 2021, ~90% of the backlog related to GCW cases.



The number of open cases at the start of the financial year by case type (Financial Ombudsman Service Data Warehouse).

35. The continuation of the casework backlogs has a number of implications, most apparent being the increase in the time taken to resolve cases. The current average age of cases yet to be allocated to an Investigator in the Financial Ombudsman's primary case resolution process is 5 months, and for all cases that are yet to receive a view or a decision

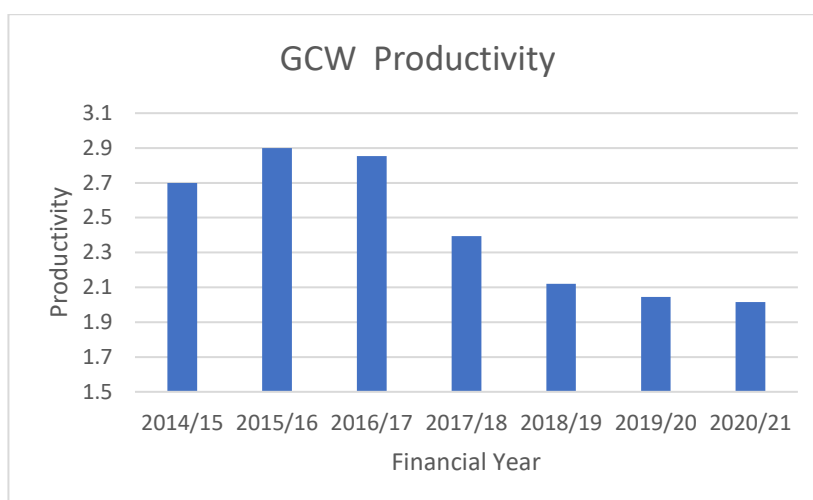


it is 6.5 months. The distinction of primary case resolution process vs all cases accommodates the difference between cases that are individually allocated to Investigators to provide a view, approximately 84% of current cases, and those cases that are processed under the Financial Ombudsman's controlled progression log (CPL). The CPL process uses a focused team to issue example assessments on macro issues that set likely approaches for a cohort of complaints. This typically concerns cases where there is likely to be a significant wider impact beyond an individual complaint. The average age of CPL cases which have yet to receive an individual view or decision is 14.5 months.

36. There are now 13,000 cases between 1 and 2 years old, 3,100 cases between 2 and 3 years and over 1,800 cases more than 3 years old, with some extending beyond the 4 year mark. Such delays are obviously detrimental to the service a consumer receives, particularly where consumers are financially vulnerable or miss the opportunity to progress a case via the courts because of the delay. It is important to note that in some of these cases, these delays will be due to external processes beyond the Financial Ombudsman Service's control e.g. a pending court judgment that will impact a significant number of the same type of case.
37. The backlog was a consistent theme of concern among respondent businesses and industry representatives during the review. Questions about the Financial Ombudsman Service's operational capabilities and technical expertise were common and were heightened by the awareness of many businesses and representative bodies that the supplementary income from PPI is dwindling, but the backlog challenge remains.
38. Within the Financial Ombudsman Service the ongoing presence of the backlog also poses risks. An adverse effect on staff morale was widely reported, in particular when taking calls from concerned consumers frustrated at the lack of progress with their complaints. This has knock on effects for staff; workshop attendees highlighted implications for the quality of work and staff attrition at Investigator level.

Declining Productivity

39. As illustrated in the graph below, productivity at the Financial Ombudsman Service, as measured by the number of cases resolved per caseworker per week has fallen in recent years, with the most notable decline apparent after the introduction of the Investigator Model in 2015. For the current financial year, the productivity level includes GCW case resolutions from the Managed Operations and Managed Investigations augmentation teams. Removing these contributions to focus on only general casework highlights a further drop in productivity.



GCW case resolution productivity over time including MO/MI (Financial Ombudsman Service Data Warehouse).



40. Several factors, like the roll out of the Phoenix system, have contributed to this trend at different times, but the most apparent and most frequently identified contributing factor is the time Investigators spend taking front line calls, compared to the previous operating model where inbound calls were handled by an inhouse customer contact team. In the current model, Investigators spend around 6 hours per week on phone call activity (~17% of time). In 2014/15, Adjudicators (the role that was replaced by the Investigator role) did not spend any time taking front line calls and spent 100% of their time on casework activity.
41. The direct GCW cost to resolve cases has increased over the same period. The cost of GCW caseworkers and front-end support functions was £64.2m¹ (2020 adjusted) in FY14/15 with 119,386 GCW cases resolved. This grew to £111.1m in FY20/21 with 139,798 GCW cases resolved. At the same time, the number of GCW resolutions per million spent has fallen from 1860 in FY14/15 to 1249 in FY20/21. Note: multiple data sets have been used to create this comparison.

Operational Planning and Performance Management

42. Operational performance management within the Financial Ombudsman Service was routinely highlighted by interviewees, both internal and external to the organisation, as not working as effectively as it needs to.
43. The understanding of how performance is set and managed is inconsistent and while all senior leaders have areas of responsibility and accountability for targets, these do not always translate into effective management of execution at OL, OM or Investigator level. Targets and budgets are agreed centrally, which means few OMs or OLs feel personally committed to the targets they receive, nor do they feel their teams are committed to deliver them. This is not by choice, all OLs and OMs interviewed stressed that they would welcome the chance to own their own budgets and targets and would feel more accountable for them if so.
44. One additional contributing factor is the current structure that has overall co-ordination of performance management within finance, but operational delivery spread across a complex structure of casework 'Pods' and 'Practice Groups'. Individual accountabilities for LOs and OLs are split across different line management chains for different parts of their role, while multiple OMs reported that they are unclear who they are accountable too, let alone what for.
45. The fragmented nature of the operational management structure and the structural disconnect between the finance and operational departments hinders the ability of the finance team to carry out their role of planning, coordinating and challenging operational performance and resource management. Operational teams, at the same time, are frustrated by their lack of ownership of budgets and decisions about resourcing and prioritisation. The finance team can see data that may indicate a performance issue, but are not privy to the operational nuances behind the data, leaving them poorly positioned to challenge performance.

Financial Performance

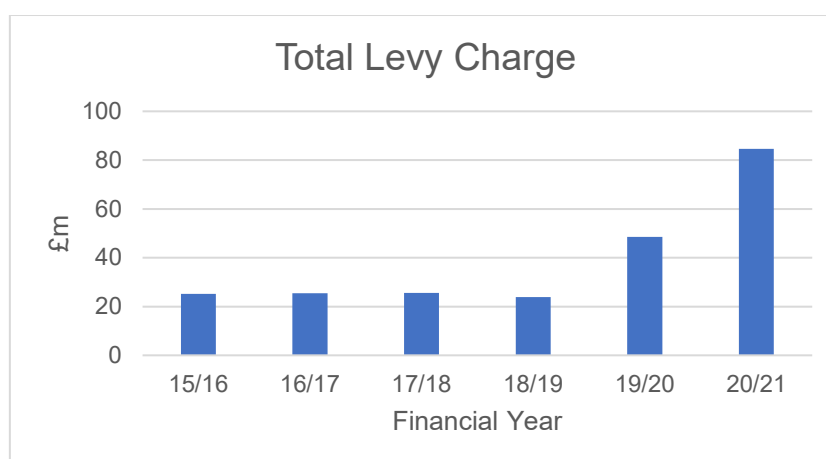
46. A central principle of the Financial Ombudsman Service is that it is free for consumers. Consumers feel confident to buy financial service products and services as they know they have recourse to protection from unfair or unreasonable practices if they are mistreated. Financial institutions recognise this and there is a broad consensus that this is the right approach to enable an active and stable market. To achieve this outcome, all organisations within the regulated market contribute to the funding of the Financial

¹ GCW costs remapped like-for-like to FY20/21 casework structure

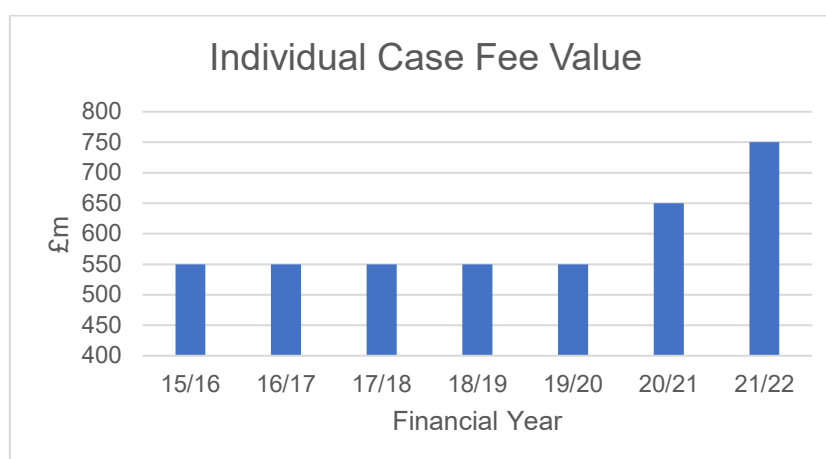


Ombudsman Service.

47. The funding model draws revenue from two sources, a general levy and a direct case fee. The levy is applied annually to all financial business under the jurisdiction of the FCA at the start of the financial year. The case fee is a direct charge to respondent businesses for each individual case they receive. Most businesses are given 25 free cases per year. Case fees are predominantly charged in arrears on case resolution, although the eight businesses that traditionally incur the most complaints pay an upfront 'group fee'. The group fee is aligned to the case fee and is retrospectively adjusted to accommodate any discrepancy between the charges based on forecasts and the actual number of complaints handled.
48. This funding model is updated annually based on consultation with businesses and the FCA. The notable trend has been a rise (in real terms) in both levy and case fee.



The total value of levies charged to businesses at the start of the financial year has increased significantly over the past two years. This graph presents a nominal comparison – adjusted for BOE inflation rates, the 2015/16 levy is £28.5m (adjusted from £25.1m) in 2020 real terms. (Source: Great Plains Accounting System).



Having not risen since 2013, the case fee has been raised twice in the last two years. This graph presents a nominal comparison – adjusted for BOE inflation rates, the 2013 case fee value is £664 (adjusted from £550) in 2021 real terms. (Source: Service Plans and Budgets).

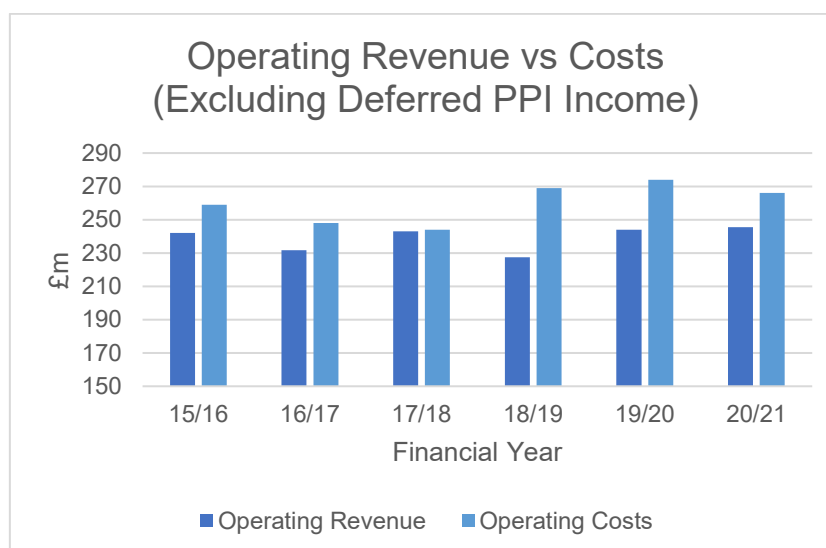
49. The influx of PPI claims across the previous decade has shaped both the financial position and funding model of the Financial Ombudsman Service today. At its height, PPI claims effectively trebled the demand placed on the Financial Ombudsman Service, which had to react quickly to scale up an entirely new function to meet the demand.



50. The upfront costs of meeting this challenge led the Financial Ombudsman Service to introduce a supplementary fee for new PPI cases in 2012/13 and 2013/14. The Financial Ombudsman Service consulted on the supplementary fee and received agreement to fund the increase in the scale of the organisation to meet the challenge and also to modernise and re-size post PPI. Once the initial challenges were overcome, the PPI response proved cost-effective and the supplement charged on the resolution of around 40% of PPI cases received allowed the Financial Ombudsman Service to build up a financial reserve. The current reserve equates to six months' of operating costs, as the Financial Ombudsman Service is currently configured.

The Financial Ombudsman's Funding Challenge

51. Since 2015, the Financial Ombudsman Service's policy has been to run an operating deficit, a budgeting decision agreed by the Board and Executive. The Financial Ombudsman Service has been able to sustain its operations by releasing deferred income generated from the PPI supplementary fee and the investment of its financial reserves. This enabled the Financial Ombudsman Service to sustain additional contingent staff augmentation in casework support units like Mass Claims and Managed Investigations.



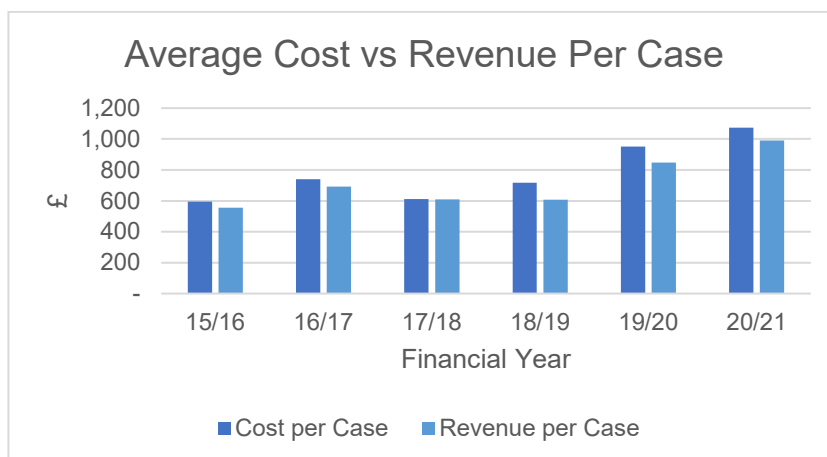
Operating revenue has exceeded operating costs for the last six years (excluding deferred PPI supplementary fee income from 11/12). It should be noted that with the deferred PPI income, a surplus was achieved in 15/16 and 17/18. (Source: Great Plains Accounting System).

52. Only 5,900 PPI cases remain in the current backlog of 115,000 cases and no further case types are anticipated of the scale that would warrant the use of a supplementary fee and generate future deferred income. This leaves the Financial Ombudsman Service with a sizable challenge. For the Financial Ombudsman Service to continue to operate it has to achieve financial sustainability before the reserve funding is exhausted. The Board has agreed to a staged reduction in the reserve, moving from a six month holding to three, a release of funds that moves the reserve value from £138m to £63m, based on the FY20/21 budget.
53. Some of the reserve funds have been earmarked for specific investment projects and some for workforce restructuring, which leaves enough reserve funds in place for the organisation to operate in its current configuration for approximately sixteen months. At that point, operational costs will take the reserve below the agreed three-month level. The Board and Executive have recognised that action must be taken to achieve financial sustainability before the three-month reserve level is reached.



54. A key metric to understand the nature of this challenge is the ratio of average cost per case and revenue per case. At the simplest level, while the cost per case remains above the revenue per case, the Financial Ombudsman Service will not achieve financial sustainability.

55.



The average cost per case compared to revenue per case highlights that costs have been consistently outpacing revenue. (Source: Great Plains Accounting System).

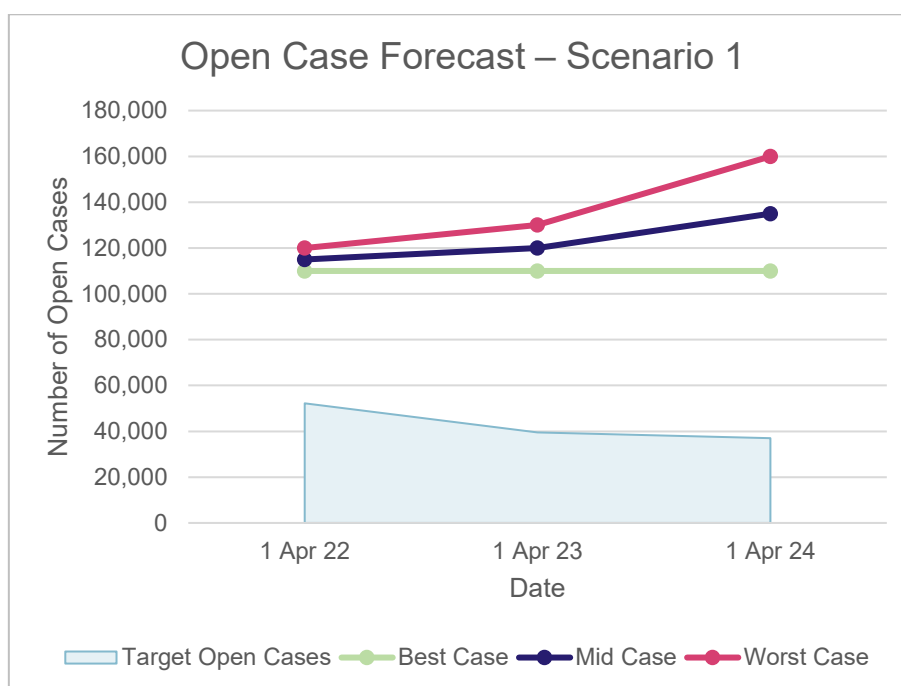
56. For the last six years, the average cost per case has been above the level of revenue generated. In recent years, the gap has been narrowed by the raising of the case fee and an increase in the industry levy. In FY20/21, the average cost per case exceeded revenue by 8%, which is down from 18% in FY18/19. Since FY18/19, the cost per case has risen by 49% to £1,073 (£355 increase), whilst the revenue per case has risen by 63% to £990 (£383 increase).
57. The primary conclusion is that productivity and prevention, not cost cutting, are the keys to unlocking future financial sustainability.

A Compounded Challenge

58. The Financial Ombudsman Service faces a further challenge beyond moving its cost per case below its revenue per case. It must also clear the case backlog and reach a steady state volume. The Financial Ombudsman Service needs to be able to clear the same number of cases it receives in one year and be operating at a cost level that is equal to, or less than, the revenue it receives.
59. This does not mean that all work must be cleared from work queues. For a large organisation like the Financial Ombudsman Service, there will always be a sizable volume of work in progress among its staff. By looking at a number of factors, with the Financial Ombudsman's finance team, the review team estimate that a 'steady state' stock level should be around 37,000 of GCW cases across the whole organisation. This calculated level for steady state is based on the expected number of complaints received in the organisation and assumptions that:
- It should take no more than three months to get to an initial Investigator view,
 - Investigators should average around 25 cases on desk to operate sustainably and effectively.
60. Over the course of the review, a great deal of work has been invested in modelling different trajectories for the organisation. All plans hinge on achieving steady state by, or before, 1 April 24. This is the primary juncture point at which it is clear that without change the Board approved level of a three-month reserve holding would have been passed.

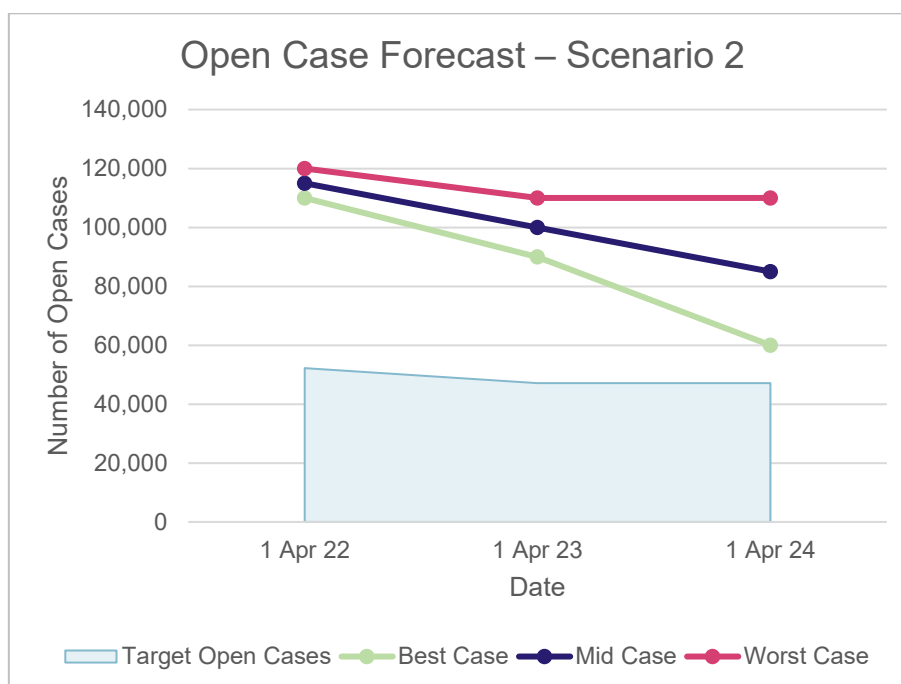


61. The current management assumption of reducing the cost of the organisation through natural attrition has a big impact on the outturn position at 1 April 24. The graph below shows the best, middle and worst case outcomes if that model is implemented and no changes are made to boost productivity. Note that by 1 April 24, the projected reserve is below the three month holding point, the threshold for which is passed in late FY22/23.
62. In this 'Scenario 1', it is clear that without a significant improvement in productivity, these cost reduction measures will not deliver a steady state outcome by 1 April 24.



Best, middle and worst outcomes for the case backlog at the Financial Ombudsman Service if managed attrition model is implemented, and no changes are made to boost productivity. (Source: review team analysis)

63. 'Scenario 2' sets out a second baseline assumption, showing the out-turn position at 1 Apr 24 if no cost reduction is taken through staff attrition.



Best, middle and worst outcomes for the case backlog at the Financial Ombudsman Service if no changes are made to boost productivity and there is no cost reduction taken through attrition. (Source: review team analysis)

64. In scenario 2, backlog volumes are significantly reduced and encouragingly, in the best-case version of the model, the backlog has moved meaningfully towards the target open case level. In the other versions of scenario 2, however, the target is not close to being achieved. The key constraint of this scenario is that even in the best case version, the organisation passes through the three-month reserve holding point sooner than scenario 1, reaching the level at the end of FY22/23, before achieving the steady state outcome.
65. Both scenarios make the situation clear – without productivity gains, the backlog will not be addressed and the financial sustainability of the Financial Ombudsman Service will not be achieved. Once again, the primary conclusion of the review is that productivity and prevention are the keys to unlocking future financial and casework sustainability. This productivity improvement needs to be found soon enough for the benefits to be realised in time to all the organisation to achieve its steady state level before the reserve funding is exhausted.

Further Case Fee Pressures

66. A modern development in the world of dispute resolution has emerged in the form of Claim Management Companies (CMC). These organisations have the ability to aggregate many similar cases into a batch in a manner that is not characteristic of individual complaints and that does not always apply the same rigour to the assessment of complaint viability.
67. Whilst providing a viable service to consumers, a side effect of this approach can be the creation of high volumes of enquiries that are within the jurisdiction of the Financial Ombudsman Service, but that are not going to be upheld. As these enquiries have met the criteria for conversion, the respondent business is subject to the full case fee for each case, regardless of its merits. This raises questions about what represents fair value for the respondent business and fair operational burden for the Financial Ombudsman Service. The concern ventured by several businesses was the current case fee, payable whether the complaint is upheld or not, affords significant advantage to CMCs who know that settling outside the Financial Ombudsman Service process is likely to be cheaper than successfully contesting the complaint.
68. It is important to note that many CMCs have extremely high uphold rates at the Financial Ombudsman Service (>70%) as well as stringent vetting processes with accompanying high rejection rates (>70%). Nonetheless, to prevent a situation where the case fee is a disincentive to pursuing a fair and reasonable outcome, consideration seems warranted for applying some form of additional charge for high volume enquiries from CMCs that hold a low uphold rate. This would introduce an incentive to reduce the effort that the Financial Ombudsman Service incurs processing non-viable claims and reduce business exposure to no-win case fee costs, promoting instead the wider adoption of the practices of the best performing CMCs.

Keeping Polluter Pays

69. Another point of concern for most financial service providers and trade representatives was avoiding any move away from the principle of “polluter pays”. The strong sense among those interviewed is that moving to a general charge from an increase in the trade levy would penalise those businesses that avoid consumer complaints coming to the Financial Ombudsman Service. When considering financial sustainability the Financial Ombudsman Service should consider carefully the need to balance financial certainty provided by a general levy and the fairness of sourcing revenue from those who are causing the work in the first place.



Digital

Digital Organisation

70. The Financial Ombudsman Service's IT function has changed significantly in the last two years. Under the direction of a new Chief Information Officer in 2019, the IT function has been restructured and has set about realising a new strategic vision. The consistent response reported on these changes has been very positive.
71. The previous IT function was noted to be successful in the provision of a resilient service, but many referred to a historic lack of digital leadership and a disconnect with business customers. The IT function was said to operate primarily as an 'order taker', which acted effectively to address surface level issues, but did not have the structures or processes in place to leverage new technologies for operational gain. As these historic factors were not observed in the review, it adds credence to the assumption that progress has made in modernising the IT function.

Digital Investment

72. The digital investment process at the Financial Ombudsman Service was found to be well governed and clearly structured. Initiatives are taken through a series of gateway reviews with an emphasis on minimising the resource commitment until there is a broad consensus on the likely benefit profile and return on investment.
73. A Change Portfolio Board (CPB) comprising senior leadership has been set up for the approval of funds and the prioritisation of delivery. Each initiative should be led by a member of the Executive, and a supporting business sponsor, who owns the realisation of the benefits declared for the change.
74. The new investment structure requires an executive and a supporting business sponsor to be appointed. Previous IT implementations have suffered from a disconnect between the business and technology teams. Business sponsors should be joint owners of digital solutions and be fully accountable for the value they deliver.

Product Ownership

75. Until recently, a project management function oversaw the maintenance and upgrades of existing systems at the Financial Ombudsman Service. As part of the IT restructure, the position of 'product owner' has been put in its place. This reflects industry best practice and is essential for maximising the value of both existing and future IT investments. Alongside this, the roles of 'Process Analyst' and 'Business Relationship Manager' have been proposed by the Financial Ombudsman Service to provide a link between the digital and operational sides of the organisation. Although these supporting roles provide process expertise to the new product owner, they are not on the operational side of the organisation and the risk of disconnect still needs to be managed.

Customer Portal

76. The Financial Ombudsman Service sought to set up a new consumer and enterprise portal in 2019, to provide a front-end system for consumers and respondent businesses to manage their cases. The portal aimed to deliver a variety of features, including case creation and validation, file transfer, and case status updates. The project was terminated when underlying technical issues could not be resolved without unreasonable investment in the product. Had the consumer portal project been a success, it would have created significant efficiencies for the Financial Ombudsman Service, which may have materially lessened the pressures it now faces. The Financial Ombudsman Service is in the process of commissioning a new portal, incorporating the lessons learned from the previous attempt.



Casework Management System

77. In 2019, the Financial Ombudsman Service implemented a new casework management system called Phoenix. It is built on an industry platform called Microsoft Dynamics, but was heavily customised. The initial transition to Phoenix was difficult and unpopular with users. Frustrations were frequently reported during the review, with particular concerns including an unintuitive case set-up and case management process and the presence of multiple ways to achieve the same outcome through windows that are not sequential.
78. The issues arising from the adoption of Phoenix have impacted productivity within the Financial Ombudsman Service, which can be seen by the variance in the GCW forecast vs actual case conversion and resolution figures for FY19/20.
79. These difficulties were aggravated by the need to continue a limited operation of the previous casework management tool 'Clipper', which has recently been fully decommissioned. Technical challenges with transferring legacy cases from Clipper to Phoenix had meant that some of the oldest and most complex cases were stored and worked on in Clipper and the ongoing presence of the old system negatively impacted user adoption of Phoenix. Positively, all Clipper cases have been migrated to Phoenix, which will support the growth in understanding and productivity of the system.

Triage

80. The Financial Ombudsman Service's case triage process works by applying data tags to identify and describe a case so that it can be routed to the right pod or practice group to take forward. The principle is that by ensuring each case has been accurately described by a set of data tags, the handling of the case can be optimised to suit its specific needs. The assignment of data tags in this process also enables the reporting and data analysis of the Financial Ombudsman Service's casework. This data is extremely valuable in supporting other Financial Ombudsman Service functions e.g. operational and financial planning.
81. In practice, the triage process has become a major operational pain point and the cause of significant delays to case resolution. Several themes were noted in the review:
 - Cases are commonly handled by several users before they are correctly tagged and allocated;
 - Cases can become 'lost' in the process;
 - In-queue 'sifting', where caseworkers attempt to better classify cases, is taking caseworker time away from work to resolve cases;
 - Cases may be moved away from the correct queue or have the correct data tags removed, incorrect tags applied and the case rerouted to the wrong team;
 - Delays occur when people with the wrong expertise or experience level are asked to drive the allocation process;
 - The range of data tags is extensive, making the process impractical and beyond what is required to route cases effectively, with unnecessary inefficiency;
 - There is no overarching function with accountability for ensuring the effective running of the case triage and allocation process, or the prevention of lost cases.



Notable Internal Changes

Investigator Model

82. The move to the investigation model in 2015 was intended to prioritise customer service and increase the flexibility of the workforce. The Financial Ombudsman Service moved away from industry verticals to a generalist casework model, as outlined above. The model was intended to allow Investigators to work on a case throughout its entire lifecycle, from taking the initial call to closing a finished resolution. This evolved into a '70/30' model, where Investigators could do 70% of all general casework and the other 30% of cases were considered specialist to be worked on by those with the appropriate level of product expertise. The shift to the Investigator Model moved all phone calls to the new Investigator role and combined the roles of Ombudsman and team leader into a single role, the Ombudsman Manager.
83. The Investigation Model has evolved over time, driven by changes in casework demands and external pressures. The prioritisation of customer service and flexibility of the original model came at a cost of productivity. As case volumes rose, by necessity the Financial Ombudsman Service has slowly moved back towards industry specialism. This is highlighted by the introduction of specialist pods, which work only on specialist cases for specific industry areas, and general case work pods, which continue to carry out a mix of generalist work.
84. The significant challenges that arose from the PPI and STL claims necessitated additional contingency measures, which meant that much of the old workforce structure was retained to boost the output of the organisation through focused clearance of specific claim types. As a result, the Financial Ombudsman Service is effectively operating two organisation models in parallel. This, along with the matrix nature of pods and practice groups has created confusion amongst employees about the roles and purposes of the different parts of the organisation's structure.
85. One significant factor that is driving lower productivity is staff attrition. In industry, a normal attrition rate for staff working in an office environment would be between 3.5 – 8%² in a normal market, and as high as 13.7%³ in a competitive market, as is currently the case. At the Financial Ombudsman Service, in two key areas, staff attrition is running considerably higher than this, generating cost and work to hire and train replacement staff. The first area is 'new to role Investigators', where attrition is touching 18%, notably among staff who have only just finished training and are being introduced to the workforce. The second is the Managed Investigations unit (contractor staff), where contractor attrition is running at around 40%. In both cases, if the Financial Ombudsman Service could reduce attrition and get more from its investment in recruiting and training staff, regardless of whether contractor or employee, output would be boosted. No single recommendation deals with this issue, rather it is a theme addressed in many of the review's recommendations, which together have the potential to improve the situation.
86. It is important to acknowledge that there were benefits from moving to the Investigator Model. Investigators have a closer working relationship with Ombudsman Managers than was previously the case with Adjudicators and Ombudsmen. It is widely agreed that this change has helped Investigators develop their skills and knowledge and to feel part of a single organisation with shared values and a conviction to serve consumers fairly. It is also the case that many of the intended benefits of the Investigator Model may have been easier to realise if case volumes had remained at, or below, the volumes expected. The significant increases in casework volumes necessitates an evolution of the model, prioritising efficiency and productivity in a way that can be delivered quickly.

² Oaklin internal benchmark

³ <https://www.e-days.com/news/employee-turnover-rates-an-industry-comparison>



Jurisdiction Changes

87. In 2019, the Financial Ombudsman Service business jurisdiction was extended from microenterprises to include the investigation of complaints from small and medium sized enterprises (SMEs) with a turnover of up to £6.5m. This change was significant for the Financial Ombudsman Service and necessitated the establishment of an SME pod to deal with these cases. Under the new rules, small businesses cannot complain about events that occurred before 1 April 2019. Initial SME case volumes were low, but are now increasing as awareness of the ability to bring complaints to the Financial Ombudsman Service spreads.
88. The SME team have attempted to prevent complaints in a variety of ways. They have worked with lenders to address their approach to compensation and interpretation of the rules, which led to one lender revising its offers to more than 400 consumers.
89. The review team met a number of external businesses and practitioners, all of whom expressed misgivings about the historic ability of the Service to address complex complaints in a manner consistent with industry expectations. In particular, swap based insurance products and assessments of consequential loss were listed as areas of concern. In response, the SME team stressed the lengths they had taken over the last 24 months to improve their capabilities and access to external advisors. The team has trebled in size and in the process, increased their expertise while preserving their independence.
90. Recent and significant progress was evident in the SME team. The concerns expressed by those external parties the review team met are still valid, but the SME team took those concerns seriously. In particular, in response to concerns about access to expertise and detailed technical knowledge, they recently established an advisory group which contains representatives from trade bodies, industry groups and business organisations, providing insight about the products involved and the challenges facing smaller businesses.

Covid-19

91. The Covid-19 pandemic has had a significant impact on consumers and retail financial service providers, which has in turn impacted the Financial Ombudsman Service in a variety of ways. Consumers have come to the Financial Ombudsman Service for help in the face of increased economic hardship, while financial institutions have had to deal with setting up new remote operations for dealing with new types of complaint. The disparity in the responses of firms to common queries, for example travel insurance, has further impacted consumers and generated an increase in complaints.
92. The Financial Ombudsman Service received a record number of GCW cases in FY20/21 and had to adapt to deal with the challenge. There was an increase in the types of issues complained about across all industry sectors. This was most visible in insurance where there has been a significant increase in cases related to wedding, travel, and business interruption insurance.
93. The pandemic also created internal challenges for the Financial Ombudsman Service. It forced a zero notice move of casework and support operations from an office to remote working setting, the first time such a change had happened at scale. Initial challenges in getting the right equipment to enable staff to work remotely were quickly overcome and most interviewees reported that the transition to remote digital working was well handled and positively received.

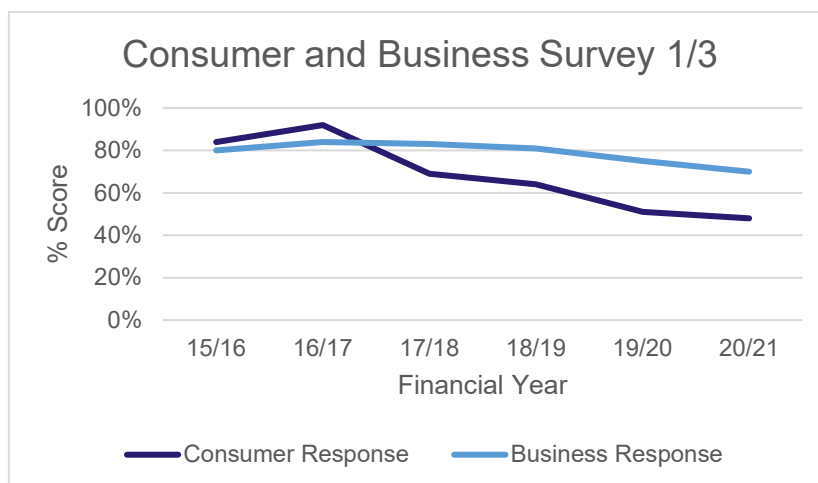


External Perspectives

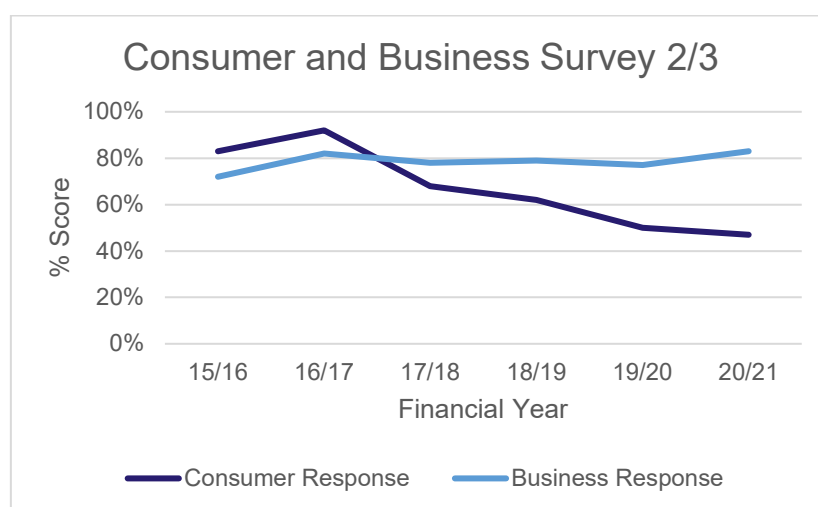
Consumer and Business Surveys

94. Consumer and business views about the Financial Ombudsman Service have changed over time. Drawing on feedback sought by the Financial Ombudsman Service at the end of each case, it is possible to provide an objective view of the feelings of those the Financial Ombudsman Service is dealing with. The questions that the Financial Ombudsman Service asks consumers and businesses to respond to, and their corresponding answers are shown below (Source: FOS “Our Commitments” scorecard).
95. On average, every metric has fallen over the last 6 years. It is important to note the direct relationship between consumer satisfaction and uphold rate. As PPI cases have declined, which have comparatively high uphold rates, there will have been some natural distortion, but this does not account for the entirety of the trends depicted.

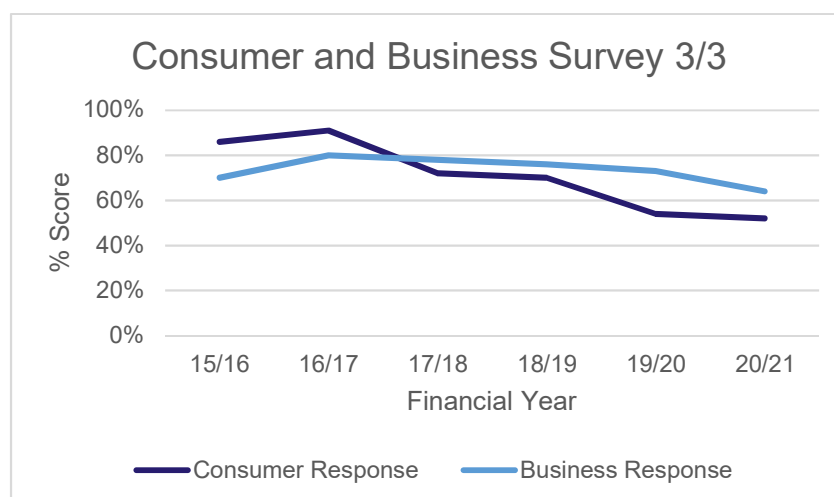
Question 1 – You gave me clear and honest answers and let me know where I stood



Question 2 – You got to grips with things and used common sense



Question 3 – You listened to me and cared about what I had to say



Financial Regulatory Bodies

96. The review team spoke to multiple FCA groups and panels. All agreed that the relationship between the FCA, Financial Ombudsman Service and FSCS works better than is perceived by the wider public.
97. With the FCA, there was recognition of recent developments in efforts to communicate, but clear acknowledgement on both sides that there is scope for improvement. Both organisations hold valuable insight on firms, issues and financial products, only a small proportion of which is routinely shared, with the risk that opportunities to identify issues that need attention are missed. A similar invitation was extended by the BBRS, who stressed that they would welcome greater transparency and collaboration.
98. FCA groups and panels recognise that the type and complexity of complaints has changed over recent years. Consumers are increasing complaining about outcomes, experiences and value and are less focused on performance. This worsened in the pandemic, with large numbers of consumers believing they were treated unfairly.
99. Another area where there have been issues is public communication. There have been occasions where the public messaging on complaints from the FCA was different to the messaging from the Financial Ombudsman Service. For example, for entirely valid reasons, the FCA have reported the number of complaints to be falling (due to PPI), while the Financial Ombudsman Service was reporting that general complaint figures were increasing (GCW). Both are correct, but industry representatives reported being confused by the apparent inconsistency.
100. Many groups indicated that they have limited visibility of how the Financial Ombudsman Service has taken forward the recommendations of previous reports, for example the Independent Assessor (IA) reports. The strong feeling was that the Financial Ombudsman Service could do more to communicate the changes it makes and the impact these have. This will provide financial regulatory bodies confidence that the Financial Ombudsman Service is acting on recommendations and they understand how the Financial Ombudsman Service is adapting to change.

Industry Representative Bodies and Firms

101. Industry representatives reiterated the importance of the Financial Ombudsman Service to the financial services industry. All presented the view that consumer confidence in financial services is built on a foundational expectation of fair treatment and simple redress. Their view was that the Financial Ombudsman Service plays a crucial role in giving consumers protection and thus ensuring confidence in the market. They believe in



the integrity and independence of the Financial Ombudsman Service and are generally happy with the quality of decisions that are made. The industry is sympathetic to the challenges that the Financial Ombudsman Service faces and acknowledged that many of these challenges are due to reasons outside of its control. There are, however, several issues that have been raised that are explored further in this section.

102. Industry representatives have communicated that further engagement with the Financial Ombudsman Service is essential in order to prevent and resolve cases. Larger financial institutions have dedicated teams that focus on complaint resolution and engagement with the Financial Ombudsman Service. These firms also have regular engagement with senior management and Ombudsmen at the Financial Ombudsman Service, which when forthcoming is productive and welcome. Smaller firms would welcome more engagement with representative bodies.
103. Communication improvements identified by firms include clearly defining the level of detail required for evidence and providing explanations of casework delays. There are also opportunities to improve the provision of feedback from industry. Firms and the industry should be providing feedback on the cases they are seeing and the issues they are dealing with in the marketplace. If improved, this would act as an early warning mechanism for the Financial Ombudsman Service and FCA, highlighting issues that are likely to arise in the future.
104. Firms voiced concerns about the interpretation of what is considered fair and reasonable, particularly if there are discrepancies in the views and decisions of cases that are similar in nature. There was also a grateful acknowledgement that the teams within the Financial Ombudsman Service do provide consistent responses to common complaints, but added that the guidance used to achieve that consistency would be useful to the firms themselves to prevent future complaints being referred in the first place.
105. Firms would benefit from a better understanding of what cases are in the Financial Ombudsman Service casework queue and how the Financial Ombudsman Service is likely to approach such cases. This would help them take preventive measures to avoid cases reaching the Financial Ombudsman Service in the first instance and encourage them to settle with the consumer earlier on.
106. Since moving to the Investigator Model in 2015, many of the representatives of financial service providers reported a view that specialist knowledge has diminished at the Financial Ombudsman Service, particularly in complex product areas such as pensions. All provided examples of scenarios where their cases had been dealt with by new or inexperienced Investigators who did not have enough knowledge or expertise to deal with the case. This led to the case being referred to an Ombudsman for decision, at which point the case investigation restarted and a more productive engagement commenced. This is not an efficient and way to deal with those cases that are already time complex and time consuming.
107. Particular concerns were raised about the ability of Financial Ombudsman Service teams to deal with the most complex cases, like those that involve elaborate provisions like swap based insurance products and the handling of consequential losses that can arise from such cases. Although it receives only a very small number of such cases, the Financial Ombudsman Service should still be well prepared to deal with them.
108. Many industry representatives were concerned by the rising cost of cases, which is not covered by the revenue received from the levy, case fees, and group fees. They were equally concerned about the planned reduction in workforce size due to the end of PPI cases and the impact that will have on the case backlog amid a record number of GCW cases. While the rationale for workforce cuts may be valid, as the PPI workforce has a different skill mix to the GCW workforce, their concern was that the Financial Ombudsman Service would slip into even larger backlogs by trying to cut costs. All expressed interest



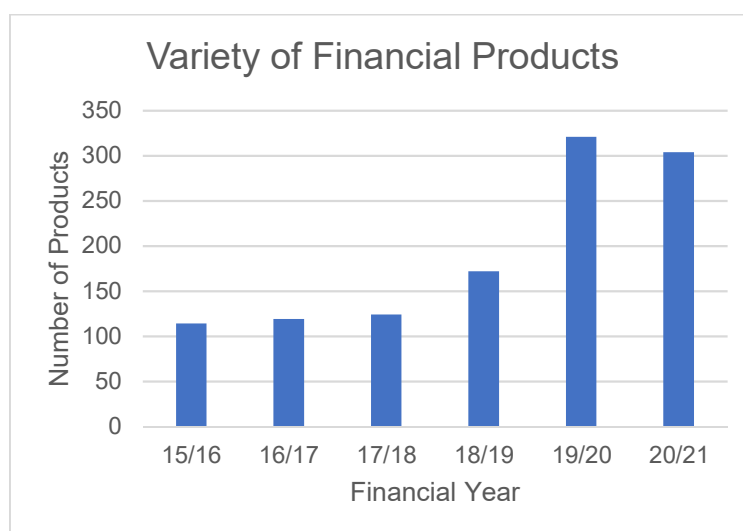
in understanding more about how the Financial Ombudsman Service is responding to industry pressures and the strategic decisions they are taking.

Future Trends

109. The retail financial services market is undergoing radical and accelerating change. These changes have three clear implications for the Financial Ombudsman Service:

- The accelerating adoption of complex financial service products, and the ease with which access to consumer credit is possible, suggests that the Financial Ombudsman Service is unlikely to see a fall in volumes of general case work in the next two years.
- Unregulated services or products that are currently ‘beyond’ FCA regulation, or are otherwise outside the Financial Ombudsman Service jurisdiction, are highly likely to be challenges for the Financial Ombudsman Service in the short to medium term. Concepts like mixed perimeter asset classes and crypto transactions are likely to generate entirely new types of complaint, in large numbers, that the Financial Ombudsman Service should be preparing for.
- The rise of aggregator platforms, which provide consumers with access to the products of other service providers, often through a complex web of merchants, agents and clearing banks, blur the notion of “who is responsible”. The Financial Ombudsman Service will need to understand how investment curators and platforms structure their offerings and how the complex trails of intermediaries are constructed, if it is to continue to “level the playing field” for consumers in the future.

110. These trends are already apparent in the Financial Ombudsman Service data. The variety of products that consumers are lodging complaints about has increased significantly over the past 6 years. This has widened the variety of topics the Financial Ombudsman Service has to deal with.



The range of products types the Financial Ombudsman Service deals with has nearly tripled over the last six years (Financial Ombudsman Service Data Warehouse).

111. The digitisation of the financial services market is set to step up again. This will be driven by a number of evident trends in the financial services industry that the Financial Ombudsman Service will have to react to, the most significant of which are set out below:



111. The digitisation of the financial services market is set to step up again in the near term. This will be driven by a number of evident trends in the financial services industry that the Financial Ombudsman Service will have to react to, the most significant of which are set out below:

Consumer Duty

112. The FCA is currently consulting on a new “consumer duty” obligation that aims to improve the standard of service that financial institutions provide to their retail customers⁴. There will be higher expectations of firms to create a higher level of consumer protection. If service standards are not met, consumers will be able to more easily challenge firms if any of the cross-cutting rules are broken. These include:
- acting in good faith;
 - taking reasonable steps to avoid foreseeable harm to consumers;
 - taking reasonable steps to enable consumers to pursue their financial objectives.
113. Any increase in the level of service offered by firms will, in theory, result in more satisfied consumers and reduce the number of complaints received by the Financial Ombudsman Service. The Consumer Duty obligations are, however, principles-based, which differs from past FCA regulation which has been rules-based. Many of the firms spoken to during the review raised concerns that principles-based regulation opens the door to greater interpretation, which will inevitably fall to the Financial Ombudsman Service to adjudicate. Without an active prevention campaign, individual assessments by firms may drive very different interpretations of what is fair, potentially generating significant numbers of additional cases for the Financial Ombudsman Service. The Financial Ombudsman Service must ensure that their policy and knowledge functions are ready for such challenges and communicate casework approaches clearly and consistently, both internally and as part of a targeted industry engagement.

Claims Management Companies (CMC) Pursuit of New Case Types

114. CMCs have industrialised the volumes of certain case types referred to the Financial Ombudsman Service in recent years, most notably in PPI and STL. With the passing of the PPI deadline and the increasing financial pressure faced by the STL market, it is understood that many CMCs are actively evaluating their future product areas. Research highlighted automated credit cards limit rises, vehicle finance and catalogues, and alternative credit lenders as areas currently being explored by CMCs.

Cryptocurrency

115. Cryptocurrencies have increased in popularity in recent years, as has the number of cryptocurrencies available in the market⁵. Cryptocurrencies are currently unregulated by the FCA, however, this distinction is likely to be difficult to sustain. The FCA and other global financial regulators are already having to rule on many aspects of cryptocurrency exchanges and providers. For example, the FCA recently banned Binance, one of the world’s largest cryptocurrency exchanges from conducting unregulated activities in the UK⁶. The increase in popularity has been fuelled partly by social media and the rise in advertisements for crypto. Many of these advertisements are potentially misleading and the Advertising Standards Authority (ASA) is taking action to clamp down on misleading marketing. Nonetheless, the attractiveness remains, as does the growing potential for harm to consumers⁷.

⁴ <https://www.fca.org.uk/publication/consultation/cp21-13.pdf>

⁵ <https://www.statista.com/statistics/863917/number-crypto-coins-tokens/>

⁶ <https://www.fca.org.uk/news/news-stories/consumer-warning-binance-markets-limited-and-binance-group>

⁷ UK advertising watchdog to crack down on misleading crypto marketing | Financial Times (ft.com)



116. Many consumers are unaware of the risks involved in investing in cryptocurrency as an unregulated product and fewer than 1 in 10 potential buyers of crypto have heard risk warnings from the FCA. The lack of understanding about the product increases the risk of detriment to retail investors, particularly those who have low levels of financial resilience. The Financial Ombudsman Service could see an increase in time consuming crypto related enquiries, regardless of whether the product is regulated and within jurisdiction, while a change in the regulatory status of cryptocurrency would immediately impact the Financial Ombudsman Service. The Financial Ombudsman Service should prepare for a scenario where cryptocurrency becomes regulated, or partially regulated by the FCA and hence added to jurisdiction of the Financial Ombudsman Service. New casework policies and approaches would need to be created to deal with cases involving crypto and staff would need to undergo the appropriate level of training. The Financial Ombudsman Service should also ensure that it is able to adapt to new crypto offerings, which are continually developing.

Consumer Credit

117. Consumer credit is a significant proportion of the retail financial services industry. There are around 11 million people in England who seek access to fair and affordable credit⁸. This includes people who are in regular debt, those who are on low but stable incomes who need credit to cover unexpected circumstances, and those who are in new unforeseen situations e.g. due to the pandemic who have limited or depleting savings. These people often have low financial resilience and turn to low-cost short-term credit market for help.
118. Many people are unable to access affordable credit as the supply of unsecured credit is changing. The cost of compensation for affordability complaints has caused some lenders to collapse or leave the market⁹ and many non-bank lenders are uneasy about the Financial Ombudsman Service's policies and procedures towards lenders¹⁰. During the review, some firms communicated that the Financial Ombudsman Service are setting precedents for loans that end up regulating lenders out of business. The supply of providers is also decreasing as new entrants struggle to secure funding and investors worry about the reputational risk associated with entering a market where there has been poor conduct.

Buy Now Pay Later (BNPL)

119. BNPL allows people to make purchases and stage the cost of repayments over a period of time. It has grown in popularity over recent years, especially among younger consumers and is currently the fastest growing online payment method in the UK. Buy now pay later (BNPL) credit deals are not regulated by the FCA, even though the use of BNPL products nearly quadrupled in 2020 and now stands at £2.7bn¹¹. The FCA, consumer rights organisations (e.g. Which?) and even leading BNPL companies are advocating for an increase in regulation of the market as a matter of urgency^{12,13}.
120. For individuals who repay on time, BNPL is seen as a cost-free way to access credit. BNPL products can, however, create significant potential for consumer detriment for those unable to repay. Most BNPL providers do not report to credit reference agencies, which means that credit providers may not have a complete view of a person's financial situation¹⁴. There is further risk of consumer detriment if a person is approved for credit that may not be suitable for them.

⁸ https://fair4allfinance.org.uk/wp-content/uploads/2020/12/Woolard-Review_Fair4All-Finance-response.pdf

⁹ <https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>

¹⁰ <http://appgalternativelending.com/wp-content/uploads/2020/07/APPG-on-AL-Lending-Post-Covid-Inquiry-Final-Report-15-07-20.pdf>

¹¹ <https://www.fca.org.uk/news/press-releases/fca-publishes-woolard-review-unsecured-credit-market>

¹² FCA calls for full regulation of 'buy now, pay later' credit | Financial Times (ft.com)

¹³ Time to tighten rules on 'buy now pay later' operators | Financial Times (ft.com)

¹⁴ <https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>



121. As with cryptocurrency, there is a high chance of BNPL firms being regulated in the near future, and the government announced plans in February 2021 that interest-free BNPL credit agreements will be regulated in the future¹⁵. This regulatory change will most likely bring many cases to the Financial Ombudsman Service which will need to have the appropriate policies, processes and training in place to handle these cases.

Fraud and Scams

122. Advances in technology have meant that the opportunities available to fraudsters and scammers have increased. The number of people impacted by these activities has grown with £2.3bn lost by consumers in 2020 from scams relating to shopping, investments and delivery-related fraud¹⁶, while UK bank fraud hit a new record of £479m in 2020¹⁷. This trend is expected to continue, and the Financial Ombudsman Service should expect to see an increase in the number of fraud and scam cases. The Financial Ombudsman Service should work with industry on cases of established fraud and scams practice in order to avoid them happening again in the future. For example, the Contingent Reimbursement Model (CRM) Code for Authorised Push Payment (APP) scams introduced by the Lending Standards Board has helped set overarching standards that firms should follow¹⁸. The Financial Ombudsman Service should also expect a rapid increase in the rate that new and increasingly sophisticated frauds are perpetrated.
123. The Financial Ombudsman Service also has the challenge of balancing gross negligence of consumers with what is considered fair and reasonable. There is consensus among firms that there is not enough emphasis on consumer responsibility in avoiding fraud and scams. The Financial Ombudsman Service will need to work with firms and industry to show that they are independently reviewing each case and its merits with impartiality.

Cyber Risks

124. The number of cyber-attacks on firms providing financial products has increased, both in the form of financial attacks and data attacks. Cyber-attacks represent a bigger risk than online espionage by hostile states¹⁹ and can create consumer detriment if they are negatively impacted due to service issues with their financial providers. For example, payments could be missed and charges applied if banking systems are down due to cyber-attacks.
125. There is also the potential for a cyber-attack on the Financial Ombudsman Service itself. A cyber-attack that temporarily shuts down the Financial Ombudsman Service's ability to work-on and resolve cases is a real risk.

Digital Ecosystems

126. Traditional financial services are being disintermediated by the increase in digital ecosystems²⁰. Technology giants across the globe are using their customer base and their vast amounts of data to enter retail financial services. Examples of this can be seen in China where the WeChat app can be used to send messages, make purchases, send money, order food and top-up mobile phone credit; and in WhatsApp, the instant messaging service, which has introduced an in-app payment system in some countries including Brazil and India. This trend is likely to continue as technology firms look to diversify their portfolio of products and create new revenue streams. Where consumers are buying through platform services of this kind, it is increasingly likely that the source of blame in any complaint is blurred between product provider and the platform it is bought

¹⁵ <https://www.gov.uk/government/news/buy-now-pay-later-products-to-be-regulated>

¹⁶ <https://www.ft.com/content/d10d8fa3-1bfb-439b-896b-429c242a1511>

¹⁷ <https://www.ft.com/content/e820cc8a-090c-4632-95f3-cb295d3d31ad>

¹⁸ <https://www.lendingstandardsboard.org.uk/wp-content/uploads/2021/04/CRM-Code-LSB-Final-April-2021.pdf>

¹⁹ <https://www.ft.com/content/aa03cbf6-0750-4bce-8c50-ccf87f3fcd18>

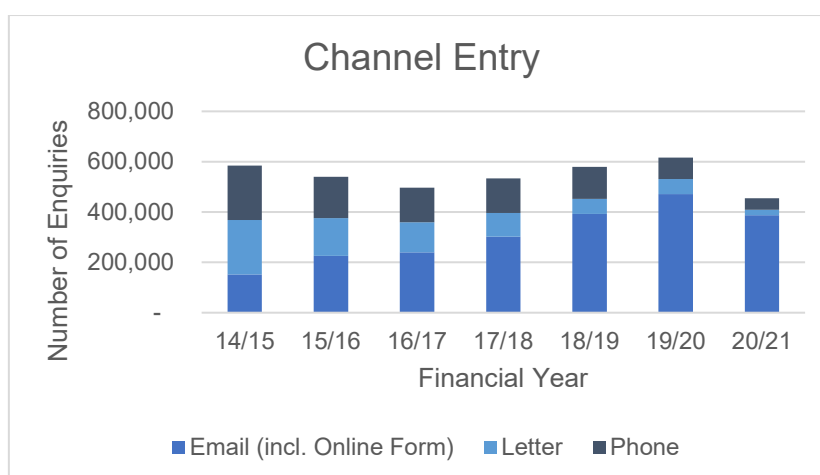
²⁰ <https://www.mckinsey.com/industries/financial-services/our-insights/ai-bank-of-the-future-can-banks-meet-the-ai-challenge>



from. The Financial Ombudsman Service is likely to be caught in trying to determine what is fair in terms of those providing products through sophisticated and easy to access and familiar digital consumer platforms.

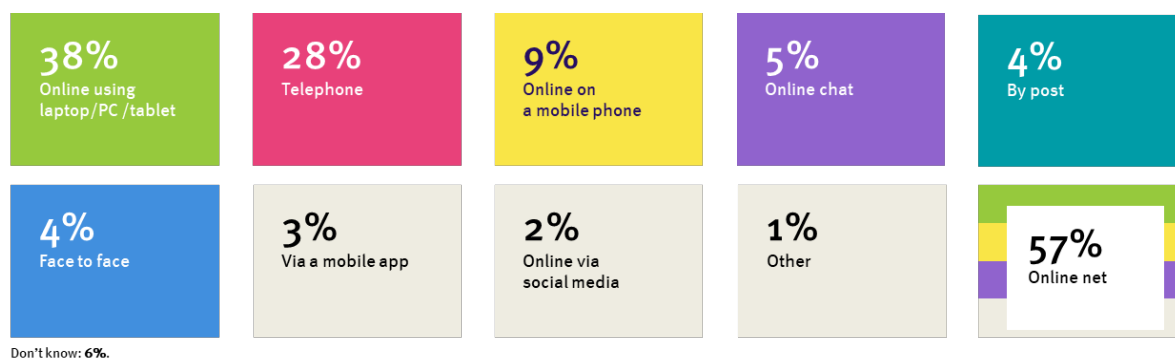
Digitisation of Consumer Experience

127. Consumer expectations around financial products have increased, especially in banking as the quality of digital services such as payment transfer times has improved. Consumers have also increased their use of digital services throughout Covid-19, for example, using online banking when bank branches have been closed. Consumers expect information, services and products to be at their fingertips and easily accessible.
128. The way in which complainants act digitally with the Financial Ombudsman Service is also changing. Complainants want to check the status of their cases online, at their convenience, and want to have the option to send and upload information quickly and securely. Another aspect of the complainant journey is the use of digital entry channels. The medium in which complainants have contacted the Financial Ombudsman Service has changed over the years and more people are choosing email and online web forms over post and phone calls. This shift should be welcomed and encouraged as it does not require an on-site staff resource to capture the case and allows flexibility when the case can be submitted. Additionally, the online web form can be structured to capture a minimum level of information from the complainant that can accelerate the triage process.



The number of enquiries by digital channels (email and online form) has increased over time.

129. This reflects a broader societal trend towards digital communication channels. Customer analysis commissioned in 2019 by the Financial Ombudsman Service found that 57% of consumers preferred online channels and 84% of consumers felt confident using technology. Digital channels are expected to grow as a proportion of total enquiries. While the statistics show a growing preference for digital channels, they do not set out the case for an immediate shift to digital only channels and the phone is clearly still an important part of customer engagement. As such, digital channel improvement should be prioritised by the Financial Ombudsman Service, but not to the detriment of the phone channel. Digital poverty remains a factor in UK society and for the Financial Ombudsman Service to remain an inclusive organisation, it needs to continue its 'omni-channel' approach to customer engagement.

Contact Channel Preference²¹Consumer Technology Confidence²¹

Changing Access to Investment Products

130. There has been a fundamental shift in the demographics of people using complex financial products for the first time. A decade ago, the cost of investing in stocks and shares was high and members of the public could only access these services if they had a significant amount of money to invest. The arrival of Robinhood in the US changed this by becoming the first platform to offer commission-free trading²².
131. Consumers in the UK now have access to their own commission-free trading platforms, such as Trading212, Freetrade and eToro. Many of these platforms now allow people to purchase shares with transaction totals as low as £1. This lowering of the barrier to entry has been accompanied by improvements in app user interfaces and experience, referred to as 'appification'. The number of retail investors has also increased during the pandemic, known as the rise of 'armchair investors'. This is attributed to a variety of factors including lockdown boredom, an increase in disposable income for some people, and more volatile financial markets which provide more opportunities for gains.
132. Risks to retail investors remain, but the association between investment and the fact that sudden crashes can cause thousands of pounds to be lost in little to no time, is not always made. Many investors tend to have a high degree of confidence and claimed knowledge, which can be erroneous. A report by BritainThinks found that 45% of investors do not view 'losing some money' as a potential risk of investing, despite disclaimer warnings from providers²³. This is even more worrying as the FCA found that 59% of people claim that a significant investment loss would have a fundamental impact on their current or future lifestyle²⁴.

Artificial Intelligence (AI)

133. An increasing number of firms are using AI to personalise and tailor financial products and services to consumers. Nearly 60% of McKinsey's financial-services sector survey

²¹ Horizons Customer Report

²² https://dvh1deh6tagwk.cloudfront.net/finder-us/wp-uploads/sites/3/2019/06/investing_in_a_coronavirus_world_paper.pdf

²³ <https://www.fca.org.uk/publication/research/understanding-self-directed-investors.pdf>

²⁴ <https://www.fca.org.uk/news/press-releases/fca-warns-younger-investors-are-taking-big-financial-risks>



respondents have embedded at least one AI capability²⁵. Banks are using AI technologies to improve customer experiences by increasing integration with nonbanking apps, introducing facial recognition to approve payments, and providing savings and investment recommendations. Financial institutions are increasingly expected to deliver hyper-personalisation in order to differentiate themselves from other firms. They do this by harnessing real-time data to generate insights by using AI to deliver products and services that are relevant to a customer's needs.

134. An area that has seen growth in recent years is automated advice. Robo-advisers and computer systems use algorithms to provide financial planning services with little or no human contact. Automated advice services have increased their assets under advice from £0.4bn in 2017 to £3.2bn in 2019²⁶, a trend that is continuing with more providers entering the market. There is a risk that automated recommendations and hyper-personalisation through AI may not always be suitable for consumers. AI and automation can be a problem when customers need to speak to support staff but are unable to. The FCA found that many consumers do not feel comfortable using a service that relies on algorithms rather than a professional²⁷.

Interest Rate Environment

135. There has been a low interest and yield environment in recent years and people have been used to an interest rate of less than 1% for the past decade²⁸. This has encouraged consumers to borrow money and has reduced the cost of mortgage interest payments. The increase in government stimulus and economic support packages due to the pandemic has led the Bank of England to expect an inflation level of around 4.0% by the end of 2021²⁹. They have also indicated that some modest tightening of monetary policy (including interest rate rises) is likely to be necessary over the next two years to combat inflation³⁰. Many borrowers have not experienced a higher interest rate environment before and may not have the financial resilience to handle a rate rise. The pandemic has exacerbated this trend and has left over a quarter of UK adults with low financial resilience³¹. An increase in interest rates could lead to detriment if consumers are unable to afford payments. The Financial Ombudsman Service should work closely with industry to assess the impact of any rate rise on consumer complaints.

Cross Perimeter Investments

136. The low yield environment has encouraged many consumers to increase their investments in alternative investments (e.g. crypto currencies), or asset classes (e.g. wine) outside what is normally considered investment grade, many of which are unregulated. A survey in 2020 by Finder found that of the people asked, 37% invested in the stock market due to poor interest rates available in savings accounts³².
137. A similar trend exists in the investment products that offer an ethical or environmental outcome as well as a financial one. The Financial Ombudsman Service should consider how it would respond to a complaint from a consumer that their investment delivered a sound financial return, but did not achieve the environmental outcome promised.

²⁵ <https://www.mckinsey.com/featured-insights/artificial-intelligence/global-ai-survey-ai-proves-its-worth-but-few-scale-impact>

²⁶ <https://www.fca.org.uk/news/press-releases/fca-publishes-evaluation-financial-advice-market>

²⁷ <https://www.fca.org.uk/publication/corporate/evaluation-of-the-impact-of-the-rdr-and-famr.pdf>

²⁸ <https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>

²⁹ <https://www.reuters.com/world/uk/bank-england-set-keep-stimulus-pumping-despite-inflation-rebound-2021-08-04/>

³⁰ <https://www.ft.com/content/80de9d5d-42c5-47f0-bc86-a46d05291691>

³¹ <https://www.fca.org.uk/news/press-releases/fca-finds-covid-19-pandemic-leaves-over-quarter-uk-adults-low-financial-resilience>

³² https://dvh1deh6tagwk.cloudfront.net/finder-us/wp-uploads/sites/3/2019/06/investing_in_a_coronavirus_world_paper.pdf



Recommendations

138. In response to the analysis above, the review team, in consultation with all who have contributed to the review, have developed 22 recommendations for change. These are recommendations that the leadership team of the Financial Ombudsman Service should consider in order to achieve the strategic challenges identified in the analysis. They have been set out with the firm intention that they should be actionable and should go beyond general aspirations for improvement, if the Board and Executive choose to adopt them.
139. Although the review team have sought to provide an indicative estimate of potential productivity improvement, this is intended to highlight merit and priority, not to be a target that the organisation should be held to deliver. In each case, additional work on the specifics of design and planning, culminating in a business case, is needed before any solid target benefit could be relied on.
140. In total, the operational productivity improvements estimates indicate the potential for up to a 36% gain in productivity if adopted. This scale of improvement is plausible, but the challenges of implementation rarely allow the best case to be realised. Instead, the review suggests that benefits of around 28% could be brought to bear in time to have a material bearing on achieving the steady state target. These build on the strengths of Financial Ombudsman's current operation, effectively offering a path back to the Financial Ombudsman's 2014/15 levels of productivity (excluding PPI, PBA and STLs), while not demanding a full scale transformation of the entire organisation. This estimate does not consider the potential impact of the non-operational recommendations, where an estimate was not appropriate, but which will also boost productivity to some degree.

Structure

Recommendation 1: Create the capacity and capability to lead process change in operations.

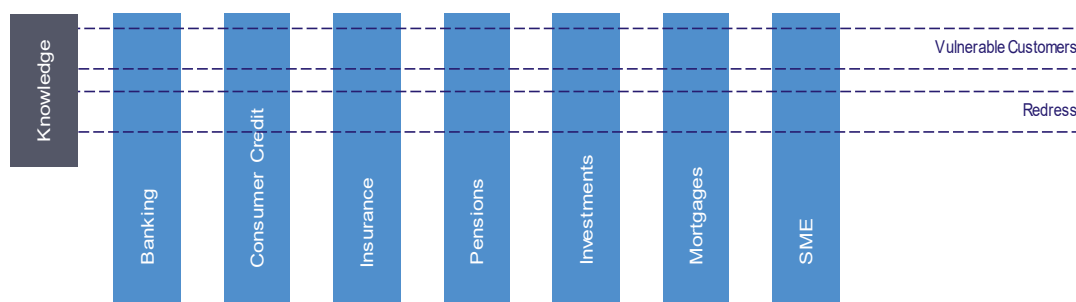
141. To be successful at taking forward complex changes, the organisation should consider investing in building the capability within operational casework teams to support business change. In particular, the capability to link change to overall ownership of the business value any end to end business processes change will deliver.
142. The IT function has made substantial progress by implementing expert digital product owners, responsible for the business outcomes their solutions provide, but as yet no corresponding ownership exists within operational casework teams. In particular, ownership of process outcomes at senior leadership levels within operational case work has not been established. Industry best practice is that IT teams deliver an appropriate solution to business problems, but the business must define their problem and what solution they need. Operational ownership by senior business leaders is critical to ensure that the operational leadership has defined what is needed from a change, how it will affect processes and confirming that planned changes will deliver the outcomes that are needed, from the budget that is available.
143. A new capability should be considered which allows senior operational staff to participate in change projects and to recommend approval and sign off changes to senior leaders with direct ownership of processes and accountability for approving resources, funding and technical details associated with a change. As one Ombudsman Leader stated, "the Financial Ombudsman Service has extensive process maps, but no operational leaders are accountable for changes to them".
144. An effective forum for the approval of change at a senior level in the organisation should also be considered to support this.



Recommendation 2: Consolidate the existing pods and practice groups into a simpler and clearer organisation structure aligned to industry verticals.

145. The organisation has started to adapt to the changing market environment, for example moving to specialist pods. The organisation should consider adopting this natural evolution, formalising and optimising it as its future structure.
146. Since the introduction of the Investigator Model, an ongoing series of refinements has seen the establishment of 100%, 30% specialist pods, within a framework of industry aligned practice groups. The recommendation is to build on this developing trend and restructure the existing model around a series of industry aligned verticals, in the process aligning the flex and other specialist pods, like fraud and scams, within the industry aligned structure.
147. The aim is to create a clear and simple structure, in which work can be identified and managed, within which operational accountability can be taken for the end to end performance of each vertical. Industry verticals will serve as the home for specialist knowledge and experience that most in the review workshops are looking for and believe would substantially simplify and improve the working processes in the organisation.
148. This move can be made without any significant loss of flexibility. At present, any re-tasking of resource between pods requires re-training for those moving onto new work. The same approach could be applied in the same way between vertical divisions.
149. The idea was consistently suggested by Ombudsman Leaders, Ombudsman Managers and Investigators and was popular with all, including staff in supporting functions. All cited the greater efficiency of moving to an optimised version of current working practice, one that is structurally more straight forward and enables direct escalation of problem cases and provides clear visibility of those in the vertical division available to provide guidance and support on complex cases. All also highlighted the attractiveness of career progression within an industry structure and the benefits to being able to become a specialist in a particular field. The exact structure and design should be the product of a careful design process, but an obvious industry vertical structure presents itself in the form of the top-level case categories in Phoenix:
 - Banking
 - Consumer Credit
 - Insurance
 - Mortgages
 - Pensions
 - Investments
 - SME
150. While the existing industry focused practice groups will be comparatively easy to fold into the vertical structure, some cross cutting thematic groups would not sit obviously in one vertical, for example, 'how to deal with vulnerable customers' would continue to be an important subject for all verticals to understand. The proposal in this recommendation is that all such cross cutting thematic groups would move to being owned directly by the existing knowledge team.
151. Example Financial Ombudsman Service vertical division structure:





Recommendation 3: Empower Lead Ombudsmen and Ombudsman Leaders to lead each sector division, including ownership of industry engagement.

152. The Financial Ombudsman Service currently operates within a highly centralised structure. While casework teams are structured into well-defined pods, which are owned by Ombudsman Leaders (OL) and Lead Ombudsman (LO), the pod distribution is not aligned to any particular structure and targets and budgets are set and managed centrally. All industry engagement is channelled through the central 'Stakeholder' team and day to day contact with respondent businesses runs through the central 'Operational Contact' team. Accountabilities are agreed at the beginning of the financial year, but targets and resourcing levels are revised and few of those spoken to at OL or OM level feel personally committed to a target they have developed and will be held to deliver. A culture of 'we all do our best' prevails. Similarly, OLs expressed frustration that their job description includes managing budgets and accountability for setting team goals, which they are not empowered to do. They were also frustrated that they are not able to engage with industry directly and that the necessity to work through the Stakeholder Team creates a bottleneck that inhibits the provision of clearer and more constructive insight.
153. The recommendation of the review is that each new industry vertical division is headed by a Lead Ombudsman, empowered to lead the division, with delegated authority to structure the teams in a way that makes sense for that division. Empowerment would include setting targets, managing and delegating budgets and driving accountability at every level of their division. OLs should feel similarly empowered to lead their teams, including delegated control of their team budget, staffing levels, hiring decisions, demand forecasting, target setting and operational performance management.
154. This change is intended to position the leaders of each industry division as a visible figure, accountable to the Principal Ombudsmen and the Chief Ombudsman for the end to end performance of their division. Of central importance is the proposal that this includes direct operational engagement with industry on provision of insight and the execution of the Financial Ombudsman Service prevention agenda within their vertical.
155. As this change is brought about, careful articulation of what industry engagement is appropriate at LO and OL level, and what should remain the preserve of the Chief and Principal Ombudsmen, will be essential. The recommendation is that both should play more active and visible roles, in particular leading engagement with industry, while constructive day to day contact is delegated and a constructive insight and prevention agenda taken forward in coordinated fashion.
156. Such a change would necessitate a series of related changes in the Financial Ombudsman Service operating model. The organisation should consider whether the Stakeholder Team could be refocused to co-ordinate cross organisation engagement and communications at the Principal Ombudsman and Chief Ombudsman level, where greater industry engagement and a more prominent role would benefit from their co-ordinating



effort. The skills of the stakeholder team can be used more productively at this level than acting as 'go between' at the operational level.

157. Day to day engagement with respondent businesses on casework is currently routed through the Operational Contact team. The design phase for the change should consider whether it is beneficial to continue the current practice, or allow Investigators to take forward casework contacts directly, with Operational Contact either becoming a guiding function, or dealing with more complex or ambiguous cases.
158. The key point behind this recommendation is that once a clearer and simpler structure is in place, it becomes much easier to delegate end to end accountability for an industry vertical division, maximising the value the Lead Ombudsman and the highly capable teams that sit beneath them, can deliver.
159. Widely reported was the number of meetings that are attended by leaders and managers across the organisation. There is every hope that with a clearer structure and more empowerment of leaders within that structure, the number of cross organisation meetings could be reduced.
160. This recommendation, in combination with the proposed changes to the organisation structure also significantly reduce the need to produce cross organisation knowledge items for the whole service. Senior Investigators spend a considerable amount of time circulating knowledge articles to help those not working in a field stay current, which could be more productively spent on casework.

Recommendation 4: Recast the Academy output to align to new entry work in the larger industry verticals.

161. The Academy was intended to train new to role Investigators in a broad range of work, allowing Academy graduates to be deployed to any pod or practice group. Increasingly the trend is for the Academy to focus trainees on specific areas, in order to better prepare them for the specific types of work they are likely to be asked to focus on.
162. The recommendation is to embrace this trend and focus the Academy output on new to role work in only the larger industry verticals of Banking, Consumer Credit and Insurance. The organisation should consider whether, as graduates pass their probation and build their experience, they might undertake rotations in other verticals, or apply for substantive positions in other verticals – depending on which model suited the organisation's needs.
163. This would help streamline the output of the Academy, conceivably making the training period shorter, reducing time to role while still keeping the probationary period the same. It may also create a sense of progression to 'win' roles in specialist areas like insurance or pensions among new Investigators.
164. This would also help to alleviate the pressure on OMs in specialist pods to contribute to Academy training, further addressing the important issue of making time for OMs to act as Ombudsmen. It would also prevent the scenario where new to role Investigators are joining pods in specialist areas like pensions or investments and struggling with complex and demanding casework in their first roles.
165. The hope is that the sense of career progression, combined with more focused support for those new to role in work that is appropriate for them to do, will bring down attrition among Investigators.



Recommendation 5: Create an operational forecasting, planning and performance management capability and process in operations.

166. Operational planning and performance management is a core part of the operations team in any organisation. The organisation should consider distinguishing operational planning and performance management from financial management, by establishing a small function within the operational line management chain as a step towards effective accountability at every level of the organisation.
167. If the recommended structure and operational regime changes are adopted, one goal for the Chief Ombudsman and Principal Ombudsman to consider could be agreeing a single set of metrics that can be reported on, to drive performance across the organisation. The Financial Ombudsman Service benefits from an impressive array of dashboards and internal portals, but no consistent set of metrics is used at CEO level to drive performance.
168. In conjunction, creating a new performance management team, to support the management of performance in operations, aligned to the new operating structure proposed, will help to drive performance at every level. The new performance management team should be responsible for coordinating the setting of operational targets, monitoring of progress, and reprioritisation of effort within each vertical division. The divisions should be fully accountable for the targets agreed and then the performance level achieved, which is monitored by the operations teams, with effective tools and the capacity required to drive this new system effectively. The team would in no way replace the existing finance team, rather they should take part in the overall planning and budgeting process run by the current finance team, which remains to manage finance for the whole of the Financial Ombudsman Service.
169. This evolution has already started with the new end to end planning process that the Finance and Performance team is developing. This is an excellent step forward and one on which this recommendation should be built. The difficulty is that there is not enough resource in operations to work effectively with the finance team, to respond to their needs and address their challenges, hence the proposal for a new operational performance management capability in operations. This does not mean that there should not be a healthy tension between operations and finance in the process of performance management. Finance should be able to hold the operations team to account for the performance that they have promised to deliver for the resources and budget that finance have agreed, and should be able to do so at all levels.
170. It is essential that forecasting and operational performance management processes in operations align with the financial planning, budgeting and reporting cycles, which retain primacy in the organisation. Operational forecasting and planning should dovetail with this wider financial planning and reporting activity, with healthy challenge being present throughout from the finance function.
171. These changes are intended to empower operational leaders to manage their team and create clear accountability for the attainment of targets. This does not mean that the strong linkages, support and challenge between the finance and operational teams should be weakened. The sharing of information and insight is crucial to the planning and performance management activities of both teams. The finance team have made significant progress in creating a data driven view of the organisation, operations now needs to replicate that progress with their own capability to support a narrow focus view of what is going on within individual teams as well as across the whole organisation.
172. Having an operational planning and management team who work closely with the finance function, to bring greater operational insight to financial understanding, would help develop greater fidelity in cost apportionment. This would enable finance to establish different cost profiles for different types of cases, rather than relying on a single proxy for an 'average case'.



Recommendation 6: Streamline the existing supporting units to create a high volume capability and a flex capability, that sit alongside the industry vertical structure.

173. To address the demands of PPI and STL, contingency measures were introduced that involved the creation of a number of “casework support” units, including the Mass Claims team, the High Volume Area, Managed Operations (contractors and Adjudicators retained pre-investigation model) and Managed Investigations (contractor staff).
174. The current interim structure presents a number of difficulties for the Financial Ombudsman Service:
 - Managed Investigations are clearing work that would otherwise be done at new to role Investigator level, leaving only more challenging work for new to role Investigators to pick up.
 - Some staff in the casework support units are Adjudicators, who have been on notice of redundancy for some time, pending the completion of their work, but have not been given a clear timeline for when that will be.
 - Contractors in Managed Investigations are often experienced individuals, but are doing new to role work, to very tight productivity targets. Attrition is currently running at 40%, which does not represent a good return on the training and onboarding effort.
175. The organisation needs the capacity that these teams provide, but needs it to function more clearly as either a high volume solution for similar cases that can follow a template approach, and / or a flex pool of contingent staff who can be brought on to meet specific challenges. If the recommended new industry vertical structure is adopted, a similar design exercise could be considered to rationalise these supporting teams and restructure them to provide the flex and high volume functions that are needed.
176. This can be done in stages. In the first instance, consideration should be given to the longer term future of the HVA, beyond the operating period of the current financial year, which was agreed by the Board. The commitment to a one year period came with the intention to review the size and longevity of the unit, based on an assessment of the type and volume of complaints received and whether there is the potential to continue to resolve cohorts of work at scale. The suggestion is that this review should be carried out alongside the wider consideration of structural changes in the organisation. Work should also look at whether the MI team can support a wider range of work and how attrition can be managed. Design effort should also look in detail at how to transition the supporting units into a holistic team to support the newly revised Financial Ombudsman Service organisation design.
177. It is possible that a new entry point into the Financial Ombudsman Service may be possible. If the current pilot proves successful and there is an argument to continue the HVA and/or Mass Claims teams, the organisation should consider the possibility that staff could be recruited at a level below Investigator to go straight into these teams. Training for this level would be focused on the work needed in a high volume team, but would offer a chance for staff recruited at this level to progress on to Investigator via the Academy if they demonstrate sufficient aptitude for more challenging work.
178. Similarly, there have been a number of contractors who have left the MI team and joined the Academy through an accelerated advancement programme. If this proves successful, it could be offered to all MI staff as an alternative to working as a contractor.



Recommendation 7: Evolve the Casework Development Pod into a policy function.

179. The Casework Development Pod was developed to support 'first of type' cases and complex cases that call for experience and specific expertise. It has proved successful and productive at doing so.
180. As the new Financial Ombudsman Service industry vertical teams are established, the aim is for the leaders of those teams to own the end to end accountability for all delivery, which includes the need to build the specialist skills and expertise they will need within their division.
181. As the new structure and expertise is established, the organisation should consider whether the Casework Development Pod could, in the first instance, evolve to support only those cross industry cases that don't sit naturally in one industry vertical. Ultimately, it could evolve further into a central policy function, supporting the experts in each of the industry vertical teams and working with the FCA on new challenges and case types.
182. The benefit of moving, over time, to a policy function is to take the development of policy and the sharing of that knowledge out of the day-to-day work of operational case work. Operational teams should be able to call on policy advice as they do on legal or other specialist experience, and new policy development should be possible, without materially interrupting efforts to close other cases.
183. This transition will need to happen gradually as adoption of new and complex casework within vertical divisions will only be possible as they develop their own organic expertise. As this takes place, the Casework Development Pod should step back to support only cross organisation cases, and then to policy leadership for the whole organisation and coordinating policy engagement with the FCA.

Capability

Recommendation 8: Create a home for specialist experience within the Financial Ombudsman Service structure.

184. The changes introduced to combine the team manager and Ombudsman roles have brought many benefits, but shifted the emphasis within the organisation away from specialist expertise and towards management. At the most senior levels this is entirely appropriate, but at OL and OM levels, many have questioned whether it is realistic and efficient to ask people to perform both functions equally.
185. It is clear that in an increasingly specialist business, the Financial Ombudsman Service needs to develop and retain specialist knowledge and to be able to efficiently carry out large numbers of specialist cases. The fact that the Financial Ombudsman Service continues to retain Associate Ombudsman to perform this role adds credence to the notion that a greater emphasis on specialist expertise is needed within the organisation. It is also apparent that while there have been other gains, productivity has dropped with the move to a generalist model.
186. Many of those interviewed have suggested it would be better to go back to having separate roles for managers and specialist Ombudsmen. Such a change would, however, demand a significant rethink of the Financial Ombudsman Service organisation, which at a time when focus and productivity are the priority, could be time consuming and unproductive to implement.
187. Instead, the recommendation of the review team is to reconfigure roles in the newly



realigned vertical divisions, creating variations among the OL and OM roles to create a home for specialist experience and increased Ombudsman decision making at senior levels. Some roles would have a heavy emphasis on management, with large teams and a focus on target setting and productivity. Others would have a greater emphasis on specialist casework and policy and training development. Both types of role would fit under the current OL and OM job descriptions and both would be part of the same line management structure. Roles with an emphasis on specialism would retain a small team. Roles with an emphasis on team leadership would still be part of the Ombudsman panel and the escalation route for complex or difficult cases.

188. Leaders of the new industry divisions should be encouraged to look at how they develop the specialism they need to carry out the full spectrum of casework their division must deliver. The review team believe that this idea, in conjunction with other recommendations to free up OM time, will help make the existing model productive enough to function effectively. This approach is preferable to any consideration of returning to a split between management and case work.

Recommendation 9: Alleviate administrative pressure at the OM level.

189. The Ombudsman Manager is a critical role for the effective operation of the Financial Ombudsman Service. Many OMs and OLs highlighted that, as currently configured, the role is not working as effectively as it needs to. Pressures to manage and mentor their Investigator teams are in conflict with the need to perform the role of expert Ombudsman, which means that both roles suffer. As outlined above, and as many have said, the ultimate solution may be to split the roles and return to having separate manager and Ombudsman roles in the organisation. This would require a rethink of the whole organisational model and many of the Ombudsman Managers reported that they enjoyed the role. With a lessening of the management burden, the aspirations for the role may be possible to realise.
190. The most significant change is the move of initial inbound calls to a “front door” customer contact team (the next recommendation). This will alleviate the need for Ombudsman Managers to organise and manage Investigator phone shifts, a substantial time saving.
191. A supporting recommendation may be for the organisation to consider developing the Senior Investigator role into a ‘team supervisor’ for each Ombudsman Manager. Having a team supervisor would enable the Ombudsman to delegate a lot of their day to day management tasks, while retaining the mentoring and overall team management responsibility.
192. This would, of course, come at some cost. Not all Senior Investigators were hired or promoted with management in mind and there are less than half the number of senior Investigators as there are Ombudsman Managers. None the less, it is an attractive idea and could be implemented quickly. It would also add to the sense of career progression for Investigators helping them to prepare them for promotion to Ombudsman Manager.

Recommendation 10: Move initial inbound calls from Investigators to a new “front door” capability.

193. By far the most popular and consistently presented idea in the review was creating a new ‘front door’ team to handle initial inbound phone calls. A significant productivity gain is achievable from establishing a dedicated team answering calls, allowing Investigators more time to focus on investigation and freeing up time at Ombudsman Manager level



from the removal of the work needed to schedule and manage Investigator phone shifts.

194. The caveat 'initial calls' relates to the fact that Investigators routinely give out their direct dial extension to consumers on whose cases they are working. Investigators would still take those calls and take forward cases on an end to end basis as they do now. Moving all the other calls to a new customer contact solution would remove from Investigators significant volumes of calls from people who are enquiring about something that the Financial Ombudsman Service cannot help them with, or that is not yet at a stage where it can be submitted. This sign posting activity consumes a great deal of time for Investigators. Conservative estimates of how much time such a change would yield indicate that a 10% improvement in productivity is not an unreasonable expectation.
195. The review team noted that the Customer Help team already process 70% of inbound initial case handling and are undertaking a pilot to add some elements of call handling to their remit. The recommendation in the first instance is to extend and enhance the current pilot. A rapid escalation of the pilot would be a useful and immediate improvement while a longer-term solution is considered.
196. Beyond the enhancement of the existing Customer Help pilot, building a new customer contact capability should be a priority for the organisation. This new capability could be delivered by the Customer Help team, or could be created via an outsourced service provider. The current Customer Help team already handle all post and digital complaint receipts and new case set up. They could employ the same approach to case set up for initial call handling as they do for the other cases they support. If outsourced, the fact that customer contact work would be a new capability, it would directly affect the existing work of the Customer Help team.
197. If adopted, bringing about the full transition to Customer Help answering all initial inbound calls would take some months to plan, staff and implement. Initial estimates suggest that it would require boosting FTE numbers in the Customer Help team over a timeline of 12 months to scale up the team and carry out a managed transition of calls.

Recommendation 11: Create a new 'triage process'.

198. Operationally intensive and prone to causing delays, the current triage process requires rethinking and simplification. To improve the situation, the organisation should consider the following suggestions:
 - A significant rationalisation of the data tags that are used to drive the triaging process in Phoenix. A designated gatekeeper and rigorous governance should be applied for changes to data tag structures in the triaging process.
 - From a case routing perspective, data tag designations should only be required to enable an appropriate team to pick the case up as well as to highlight primary consumer needs that have a definite impact on how the case should be treated.
 - From a reporting perspective, data tag designations beyond those required for case routing should have a formal business need ascribed to them.
 - The triage process should be overhauled to ensure users have the right level of experience at all stages. Whoever undertakes the investigation should have the requisite expertise to produce the view. There is little benefit in having an Investigator work on a case over a protracted period, if they do not have the experience required to move it forward.
 - New overarching management should be applied to the triage process to ensure that cases are efficiently allocated and do not get lost in the system.



199. These recommendations for a new triage process are built around a core set of process assumptions, which the organisation should consider:
- The staff member who receives the original inbound enquiry (potentially Customer Help only in line with the previous recommendation) should complete the first stage of triage through the allocation of one high level product data tag, the relevant industry vertical. In some cases, it may be possible to assign a second tag identifying product or respondent business, where clear.
 - Once allocated to an industry vertical, cases should be triaged by experienced Investigators only. These Investigators should complete the final data tag assignments and route the case to a 'triage complete' queue, specific to their industry vertical.
 - Investigators should take a view of the complexity of the case in the data tagging via the creation of 3-5 clear and universal complexity definitions or categories. Cases in a complex category should be sent to the right level in the organisation to deal with complex cases. The categorisation of case complexity should avoid assigning a case to an Investigator if that individual does not have the right experience to address the case.
 - In the event that an experienced triage Investigator is unable to complete the final data tag assignments, there should be a direct chain of upward referral with named individuals.
 - Cases within the 'triage complete' queue should be allocated to individuals by the operational management of the industry vertical. If any individual is unable to resolve their assigned case, there again should be a direct chain of upward referral with named individuals.
 - Operational management should undertake a periodic check for any misallocated within their own industry verticals, as well as a review of any cases designated as 'unclear' by Customer Help

Recommendation 12: Consolidate in Coventry, before building further regional hubs and explore alternative models for the future of work.

200. There is a strong case for regional hubs, as part of a new work force model. The experience in Coventry has shown positive responses to recruitment and improved retention of staff. As the move to an industry vertical structure takes shape, opportunities should be explored to exploit the Coventry site and maximise the return on investment of setting up that hub.
201. An alternative and shorter term solution would be for the Board to reconsider the necessity for staff to come to an office location for anything other than periodic training and familiarisation. The ongoing investment in digital technology and the shift to home working has highlighted that Financial Ombudsman Service staff could consider having staff work from home. The Financial Ombudsman Service may prove well placed to benefit from offering remote working to staff who are not able to travel to an office and to harness talent that is otherwise unable to work in an office setting.
202. It is important to note that while working remotely may suit investigation and decision making, it does not suit the design and implementation of change. Sufficient resource needs to be retained in central or hub locations for face to face collaboration for the design and implementation of change, particularly changes on the scale being recommended in the Periodic Review.
203. When considering an expansion in Friargate, or any new hub location in the United



Kingdom, a hub office needs to start with a cohort of experienced staff who can recruit, train and support new recruits and build an effective team. The recommendation is that further hub expansion should follow the model used in Coventry, where specific capability was built initially, seeded by staff from London working out of town and compensated to do so. Development of new capabilities like Customer Help phone handling or a successor to the mass claims and HVA concepts, could be ideal capabilities to build in a new hub.

204. Given the pressure the organisation is under, and the need to secure productivity improvements across the organisation, the suggestion is that hub expansion should occur later in the roadmap than measures that will generate immediate productivity improvements.
205. The prospect of sharing capability with other regulatory bodies, like the FCA was also mooted by interviewees and explored by the review team. The conclusion is that any shared service of a scale large enough to generate a cost saving that is worth the effort of transition, would challenge the independent operation of the Service. Pursuing an independent commercial outsourcing arrangement for specific functions would preserve independence, unlike efforts to establish a jointly managed shared service centre model with an organisation like the Bank of England or the FCA.

Finance

Recommendation 13: Consider revisions to the funding model to incentivise constructive behaviour from industry.

206. Throughout the review, there was strong support from all industry representatives for the concept of polluter pays. There was also a recognition that the Financial Ombudsman Service deals with a wide variety of cases, from simple to highly complex, but that all are subject to the same case fee.
207. Although the case fees and levy contributions have increased in recent years, the model has not changed. The model was carefully considered in a detailed review and external consultation in 2019. Based on consultation feedback, the decision was taken to retain the levy and case fees without changes. In a scenario, however, where the Financial Ombudsman Service is making changes to improve productivity, but the average cost per case is still higher than the revenue per case, as the steady state target draws close, other measures may have to be considered. These could include raising the levy or case fee, or the introduction of differential fees.
208. Ideas for differential case fees might include:
 - An incentive for financial service providers to respond quickly and settle at the Investigator phase of the Ombudsman process. In effect a reduced case fee for those who respond within a certain window and settle as soon as the case is presented.
 - A complex case fee; for cases that require forensic analysis or referral to the internal legal team, or indeed to specialist external resources – levied in the event that the case is found against the respondent business.
 - A repeat offender fee; where a respondent business has been given clear insight into how the Financial Ombudsman Service is minded to respond on an issue, but complaints continue to be forthcoming, a heavy, or compound penalty could be applied, providing a strong incentive to heed guidance and adapt behaviour with consumers.



Recommendation 14: Reconsider the path for reserve expenditure.

209. The freeing up of funding from the move from a six month to three month reserve holding offers a critical capability window for the Financial Ombudsman Service. As established in the financial analysis section, the Financial Ombudsman Service needs additional resource and capability to clear backlogs and get to steady state, and it needs to achieve productivity improvements to operate within its cost per case envelope as it does so. The planned run down of reserve holding does not fund the current organisation long enough to achieve those outcomes and while reduced staffing levels extends the time the organisation can run in operational deficit, this does not clear the backlog.
210. The recommendation is to look again at the planned trajectory for the expenditure of funds realised from the rundown of the reserve holding. Any such action should look again at the best path to achieve both maximum case clearance and productivity improvements, for example assessing whether accelerating investment in technology would deliver a better out-turn position by 1 April 24.

Recommendation 15: Reconsider the planned functional cost reduction measures.

211. In a similar manner, the Board and Executive should consider whether the time is right to implement the planned cuts in functional support. If the organisation is considering significant changes to drive productivity improvements targets and organisation changes, the Financial Ombudsman Service may need to lean heavily on its supporting functions.
212. The review team fully appreciate that commitments to functional cost reductions have been given, but as the theme of the review is to pursue productivity improvements over cost cutting, it would seem sensible to at least reconsider whether cuts in functional support are needed, or could be put off until later in the roadmap, once the larger changes have been completed.

Technology

Recommendation 16: Improve the Phoenix case management tool, to a defined customer process.

213. Microsoft Dynamics supports complex supply chains around the world. Correctly configured it should be able to support the Financial Ombudsman Service requirements. The recommendations about improved triage processes and moving inbound phone calls, will be greatly heightened by improvements in the Phoenix tool. Improvements will enable processes to work more smoothly and will drive productivity.
214. Improvements to Phoenix will also bring an uptick in staff morale and well-being. Phoenix is a capable, but not a popular, system. Visible efforts to improve it will be well received and benefit the organisation in more ways than simply better process productivity.
215. A key requirement is to document a detailed customer journey that is owned by the business and from which process changes and changes to the Phoenix solution can be drawn. Clear business leadership and accountability for process and digital functionality is key. Business leadership needs to own the end to end value that changes will deliver.
216. The journey to Phoenix improvement is not, however, a straight forward one. Priorities like GDPR compliant handling of data, integration of the system in wider technology improvements like e-file submission and Kofax IA need careful consideration. Ultimately, the development of a digital portal will also require integration with Phoenix, which is itself a priority and conflicting demands to realise all these ambitions need careful handling.



Recommendation 17: Build a ‘digital portal’.

217. The need for a digital portal is clear. The benefits are significant and obvious. A business case has been prepared and the process is underway. The recommendation from the review team is to reiterate the importance of this initiative and benefits involved.
218. As with most complex technology solutions, ownership of the end to end value should sit with the business, while the demands of complex procurement and solution development should sit with IT. The proposed approach has been through governance and agreed by the Board. The business should support IT’s efforts to build the technical solution and not seek to complicate or change it during this process. The business should then support adoption as aggressively as the organisation can manage.

Recommendation 18: Develop existing intelligent automation (IA) solutions, before exploring new opportunities.

219. Many interviewees and respondents speculated that there may be benefit from expanding the use of IA, which is part of the existing digital strategy, to streamline triage and case allocation. There is undoubtedly value in this technology, but in order to help the organisation get to steady state, the exploration of IA should start with the development and fine tuning of the current Kofax service, which uses IA to convert digitally submitted complaints directly into case files. There are direct productivity benefits to be won from making that solution as effective as possible, before exploring the many new possibilities offered by IA in the future.

Engagement

Recommendation 19: Ensure effective engagement with the FCA.

220. The Financial Ombudsman Service must look again at its responsibility to “prevent complaints and unfairness arising”, but the accountability is not that of the Financial Ombudsman Service alone. While operational independence, differing statutory objectives, and legal barriers to sharing information will need to be taken into account, an increasingly constructive dialogue with the FCA is an important part of ensuring an effective prevention strategy is in place across industry.

Recommendation 20: Take a more robust and interventional approach to prevention.

221. During the course of the Periodic Review, efforts to focus on operational effectiveness and productivity initially drove a very internally focused approach to the work. In part two of the review, it became increasingly clear that the volumes and variety of work that the Financial Ombudsman Service is having to deal with are a product of financial service companies facing record numbers of complaints and not resolving them with their customers. The Financial Ombudsman Service needs to evolve to be more efficient, but as well as pursuing productivity and operational effectiveness improvements, the Financial Ombudsman Service should also pursue a more robust and interventionist approach to prevention.
222. Throughout the review, industry representatives and financial service providers stressed



that they would welcome more engagement and insight from the Financial Ombudsman Service. This could be scaled up to be a more clearly defined prevention agenda and could be taken forward quickly. It will not reduce the volumes of work in the current casework queues, but it will help to reduce future volumes, in turn helping the organisation recover and reach a steady state.

223. As well as the provision of insight to industry, the Financial Ombudsman Service would benefit in turn from closer engagement; feedback about emerging trends and problems will inform demand planning and drive new policy development. To stand a chance of being effective, this process should be a direct engagement between the experts in the Financial Ombudsman Service pods and the representatives in industry. The approach should of course be carefully coordinated, and engagement boundaries agreed and made clear in advance, but once this is in place there is substantial benefit to be gained from an active prevention agenda. The natural arrangement of this approach is through the proposed industry verticals set out in recommendation 2.

Recommendation 21: Set a clear and actionable strategy.

224. A prevalent view across the Financial Ombudsman Service was a reported lack of clarity about 'what it is we are trying to be' and 'where we are going?'. The current strategy lacks commitment to any specific direction or any tangible actions to address the challenges facing the organisation. As a result, a lot of initiatives at the Financial Ombudsman Service are being executed at a tactical level without a sense of coordinated effort towards a consistent goal.
225. The organisation should consider developing a coherent and actionable strategy, that all functions and casework teams can anchor their thinking on. Such a strategy would drive cohesion and boost overall performance. Key themes that the organisation could consider should include how to:
- drive prevention with industry,
 - measure and improvement productivity and reduce the cost per case,
 - build expertise within the Financial Ombudsman Service,
 - achieve and sustain steady state operation,
 - reduce attrition and maximise the employee offer.
226. A good test for this work would be whether the strategy can be approved by the Board, with any changes in tangible actions or ownership. Such a situation would indicate that the outcome is neither actionable or specific.

Recommendation 22: Improve communication at all levels.

227. After case outcome and speed of resolution, lack of communication is the third biggest thing that users of the Financial Ombudsman Service complain about³³. At the same time, industry organisations, representative bodies and consumer organisations all stressed that they would welcome more engagement with the Financial Ombudsman Service and improved public awareness of the availability of the Financial Ombudsman Service. The widely held view was that the Financial Ombudsman Service is critical to consumer confidence and that more effort should be taken to promote the function and work of the organisation.
228. To achieve this, the Financial Ombudsman Service should consider improving its

³³ FOS Horizons Customer Report – August 2019



communications and stakeholder engagement capability. This challenge should not be under-estimated. To succeed, effective and timely communication is needed with all the various audience and stakeholder groups with which the Financial Ombudsman Service interacts, including:

- Consumers – can the Financial Ombudsman Service aspire to providing every consumer with a monthly update (even if automated)?
- Respondent businesses – Insight and guidance on Financial Ombudsman Service expectations, with openness to feedback, should be actively delivered as part of a coordinated prevention campaign.
- Internal – successful change programmes hinge on making sure everyone understands what is happening, why, under what leadership and how it affects them, even if it doesn't. There can never be too much communication.

229. It is easy to identify all the areas that would benefit from improved communication. The difficulty for every organisation is in curating quality content, that is relevant and steeped in expertise and effectively disseminated. A communications team or senior leader will be responsible for central efforts to prioritise communication, but the whole of the Financial Ombudsman Service Leadership needs to get behind efforts to communicate and actively support efforts to do better.

Appendix A: Glossary of Terms

Academy	The Academy provides training and probation support for new Investigators, which takes place over a six-month period.
Adjudicators	Adjudicators are members of staff at the Financial Ombudsman Service that handle cases outside the Investigator Model. The Investigator role was created to replace the Adjudicator role in the Investigator Model.
Associate Ombudsman	Associate ombudsmen are contractors who are ombudsmen that can be drawn upon when required.
Board	The Board of the Financial Ombudsman Service is non-executive (the Executive Team are not members of the Board). The responsibility of the Board is to ensure the Financial Ombudsman Service is properly resourced and is able to carry out its work effectively and independently.
Case Conversions	Valid and “within jurisdiction” complaint enquiries are first ‘converted’ into cases, to be taken forward by the Financial Ombudsman Service, on which, in due course, either a view or decision is then provided.
Casework Development	The Casework Development Pod is an area that handles emerging issues in casework e.g. new areas of policy.
Case Lifecycle	The process by which cases are handled by the Financial Ombudsman Service from the initial complaint enquiry to a case’s resolution.
Clipper	Clipper is the Financial Ombudsman Service’s legacy case management system for handling complaints.
CMC	Claims management companies are companies that handle complaints on behalf of consumers, typically in return for a fee or share of compensation.
Consumer	A member of the general public, or an SME business, who has received a service from a Respondent Business, about which they have referred a complaint to the Financial Ombudsman Service.
Customer Help	Front end support function that processes non-telephone based complaint enquiries in addition to various other support activities.
Final Decision	A legally binding outcome to a complaint, provided by an Ombudsman if the View is not accepted by both parties.
Financial Conduct Authority (FCA)	A UK financial regulatory body that regulates financial firms providing services to consumers and maintains the integrity of the financial markets in the UK. Complaints about businesses regulated by the FCA may be taken to the Financial Ombudsman Service.



Financial Services Compensation Scheme (FSCS)	The UK's statutory insurance and compensation scheme for customers of authorised financial services firms. This means that FSCS can pay compensation if a firm is unable, or likely to be unable, to pay claims against it.
General Casework (GCW)	GCW covers all case types and industry sectors and all new types of complaint that have not been classified as mass claims (see below).
High Volume Area (HVA)	A casework function that provides views on cases that is usually focused on mass claims.
Information and Consultation Council (ICC)	The ICC is a body elected to represent members of staff at the Financial Ombudsman Service and to hold regular discussions with senior management.
Investigators	Investigators are the primary case-handlers within the Financial Ombudsman Service. They take calls directly from consumers and issue the initial views on complaints.
Investigator Model	The current casework operating model implemented by the Financial Ombudsman Service in 2015.
Lead Ombudsman	Lead Ombudsmen are the Financial Ombudsman's most senior staff who sit under the Principal Ombudsman.
Managed Investigations	A casework function that provides views on cases that comprises contractor staff only.
Managed Operations	A casework function that provides views on cases that comprises contractors and Adjudicators retained from before the Investigation Model was introduced.
Mass Claims	Mass claims work develops when a common complaint issue is received in high volumes, and is not operationally intensive to resolve. In this situation the Service may classify it as a "mass claim", as was the case with PPI and short-term lending cases.
Ombudsman	An Ombudsman makes final decisions on cases, which are legally binding if accepted by a consumer.
Ombudsman Leaders	A senior Ombudsman position in the Financial Ombudsman Service between Ombudsman Manager and Lead Ombudsman level. A Lead Ombudsman typically oversees the management of casework pods.
Ombudsman Managers	Ombudsmen working as managers to a group of Investigators.
Packaged Bank Accounts (PBA)	A current account that includes a "package" of extra features e.g. travel insurance or mobile phone deals.
Phoenix	Phoenix is the Financial Ombudsman Service's digital case management system for handling complaints.
Pod	A single team of Investigators, reporting to an Ombudsman Manager.



PPI	Payment Protection Insurance was a product sold to cover repayments in circumstances where they couldn't otherwise be met, such as due to an accident, illness, disability or death. There may have been as many as 64 million policies in total going back decades, and it was widely mis-sold.
Practice Group	Practice groups consist of Financial Ombudsman Service employees with particular knowledge of and responsibility for a product area or other specialism (such as jurisdiction), which provide guidance to staff more widely. This is a secondary role that is not directly aligned to the organisation's structure for casework delivery.
Reject/non-uphold	A reject or non-uphold is where the Financial Ombudsman Service's view or decision does not require the business to do anything further in response to a complaint (i.e. – there is a no change in outcome from the position the business took on the complaint).
Respondent Business	A provider of FCA regulated retail financial service products or services, about which a complaint has been referred to the Financial Ombudsman Service.
Short Term Lending (STL)	Short term lending mainly refers to payday loans and instalment loans, but also other kinds of credit that are generally for a relatively small amount intended to run for no more than 12 months.
SME	A category of eligible complainants for the Financial Ombudsman Service from "small to medium enterprises". SMEs are defined as businesses with fewer than 50 employees, annual turnover of under £6.5m and an annual balance sheet total of under £5m.
Stakeholder Team	Financial Ombudsman Service team which provides both internal and external communication and engagement services.
Stock	A measure of the number of open cases at the Financial Ombudsman Service that encompasses all cases from the point of conversion to the point of resolution.
Triage	The operational process by which casework is routed through the organisation between different teams and work queues.
Uphold	Where the Financial Ombudsman Service's view or decision requires a business to take steps to put things right for a consumer (i.e. there is a change in outcome from the position the business took on the complaint).
View	A proposed settlement of a complaint case, provided by an Investigator in the first part of the FOS process.



Appendix B: Stakeholders Engaged

Internal interviews:

- Academy Representatives
- Casework Operations
- Customer Help Leadership
- Finance and Performance Team
- Financial Ombudsman Service Board
- Financial Ombudsman Service Executive
- Horizons Programme Team
- HR Team
- ICC
- Investigators
- IT Team
- Lead Ombudsman
- Legal Team
- Ombudsman Leaders
- Ombudsman Managers
- Stakeholder Team
- Strategy and Engagement Team

External interviews:

- Allegiant Finance Services
- Association of British Insurers
- Barclays
- British Banking Resolution Service
- Chip Financial Ltd
- Compass Wealth Management Consultants
- Consumer Credit Trade Association
- Consumer Redress Association
- Finance and Leasing Association
- Financial Conduct Authority
- Home in One Insurance
- Lloyds Bank
- Meetings with Parliamentarians
- Mutual Clothing & Supply Company
- Ombudsman Association
- Personal Investment Management & Financial Advice Association
- Pragmaticum
- Quanta Law
- StepChange
- Talking Wills
- UK Finance
- Western Provident Association
- Which?
- Wybract



Appendix C: Terms of Reference

Independent review commissioned by the board of the Financial Ombudsman Service

Terms of reference

About the Financial Ombudsman Service

The Financial Ombudsman Service was created under the Financial Services and Markets Act 2000, which provides for an Ombudsman scheme under which certain disputes may be resolved quickly and with minimum formality. Last year the Financial Ombudsman Service resolved almost 300,000 individual complaints about a wide range of financial products and services.

The Ombudsman scheme is administered by a “scheme operator”, the Board of the Financial Ombudsman Service. The scheme operator is responsible for appointing a panel of people, with appropriate qualifications and experience, to act as ombudsmen for the purposes of the scheme, on such terms as it considers to be consistent with the independence of those appointed.

Periodically, the Board commissions an individual or an organisation to review an element of the service or consider other evidence, research or information in order to inform strategic decision-making and/or the Board’s assurance role.

Background

Following public consultation, in 2020 the Financial Ombudsman Service published its strategic priorities:

- **Enhancing our service**

We'll set the standard for modern, efficient, accessible alternative dispute resolution.

We'll recognise and respond to the needs and expectations of the people and organisations that rely on us.

- **Preventing complaints and unfairness arising**

Working collaboratively with others, we'll find new and better ways of harnessing and using our insight to achieve fairer outcomes. Sharing our insight from the work we do, we'll help underpin trust and confidence.

- **Building an organisation with the capabilities it needs for the future**

Using our strength as a diverse, values-based organisation - a place where people want to work - we'll develop the capabilities we'll need in the future.

In order to facilitate progress with the delivery of these strategic priorities, the Board wishes to commission an independent review to inform a better understanding of how the external environment is changing, particularly as the world emerges from the Covid-19 pandemic, and what that will mean for the service. The service will use the output of the review to inform decisions about the way in which it shapes a service which continues to be fit for the future.

Scope of the review



The review will be split into two distinct parts.

Part 1

The first part will be an evaluation of the organisation's current ability to deliver on its strategic objectives. In 2015 the Ombudsman service embarked on a major change programme with the aim of delivering a service that was financially sustainable and continued to be relevant to its customers. This included fundamental changes to the service delivery model, culture and funding arrangements. The change programme is largely completed. During the course of the last six years there have been some significant changes to the external environment – notably the end of the PPI mis-selling scandal, significant increases in complaint volumes in areas such as short-term, high cost credit and during the last year the Covid-19 pandemic.

The Board would therefore like to understand the extent to which changes in the external environment have had an impact on the extent to which the ambitions of the change programme have been met, or whether there are lessons to be learned from the execution of the change programme. Part 1 will need to identify the challenges and opportunities which face the organisation, now and in the future.

It is likely that in answering these questions, a review would need to consider, among other things:

- The customer journey
- The underpinning IT infrastructure
- The capability and performance of the organisation
- Data management and management information.

Part 2

While Part 1 will not make recommendations for future design, Part 2 of the review will take this forward look. With a focus on developing a road map for the future, the review will consider the “art of the possible” in order to make recommendations, if appropriate, in respect of three key areas for the service:

- **Systems/processes** – the systems and processes which are required to support the service's future delivery model.
- **Infrastructure** – the size, shape and location of the organisation in the future.
- **People** – the skills, experience and attributes of the organisation's workforce of the future.

Part 2 is likely to include consideration of emerging trends in consumer attitudes, financial services market changes (both structural and behavioural), workforce trends, the wider dispute resolution landscape or changing technology. These are issues which were considered by the organisation in developing its future strategy, but it will be important to understand how they have evolved more recently, not least as a result of the pandemic. Recommendations must be linked to the strategic priority to prevent complaints and unfairness arising. This is regarded as of importance, since prevention is widely regarded as a more efficient “whole system” approach, particularly when working in collaboration with other organisations.

Recommendations will need to be consistent with the Ombudsman service's statutory remit and responsibilities, reflect the organisation's strongly-held values and be particularly



sensitive to the need to secure value for money for funds which are wholly provided by the financial services industry.

The scope of Part 2 will be reviewed further, once Part 1 has been completed.

Output of the review

Based on an analysis of the way in which the external operating environment is changing – and using the output of Part 1 as a baseline – part 2 will make recommendations for the way in which the service should respond both in terms of the service it might provide in the future, and whether (and if so how) the Ombudsman needs to be reconfigure its systems/processes, infrastructure, and people capability.

Recommendations will be expected to cover near-term and longer-term opportunities, each of which will then be considered by the organisation as to its suitability for a detailed analysis of the costs and benefits, before a decision is taken about implementation.

Delivery of the review

Each part of the review will be conducted by a separate independent person/organisation who will report their findings to the Board. The reviewers will be provided with all reasonable information necessary to complete the review.

Part 1 of the review will be completed within the following timescales:

January 2021 Board agree terms of reference

Timetable to be discussed.

Appointment of a reviewer

The Board will appoint an independent reviewer following an open competition in line with procurement best practice. However, the Board appreciates that there may be different methods of conducting the review, particularly part 2, and is therefore open to hearing different approaches which may include proposals for stakeholder engagement, research, benchmarking etc.

The Board also recognises that, given the breadth of the terms of reference, potential reviewers may only be able to deliver some elements of the review and is prepared to consider proposals for all or specific parts of the review.

29 January 2021

