

Financial Ombudsman Service Limited

Minutes

Minutes of the meeting of the directors, held on 19 October 2021 at 10.15am

Present

Baroness Zahida Manzoor CBE	Chair of the board
Bill Castell	Director
Sarah Lee	Director
Ruth Leak	Director
Jacob Abboud	Director
Nigel Fretwell	Director

Apologies:

Shrinivas Honap	Director
Rae Stewart	Interim Director of Communications

In attendance

Nausicaa Delfas	Chief executive & chief ombudsman
Julia Cavanagh	Chief financial officer
Caroline Nugent	Director of HR&OD
Garry Wilkinson	Principal ombudsman & director of investigation
Nicola Wadham	Chief information officer
Simone Ferreira	Chief of Staff
Yvette Banister	General Counsel
Chandra Hirani	Head of Strategic Finance (for item 5)
Caroline Wood	Head of Strategic Delivery (for item 6)
Paul Mills	Head of Risk and Governance (for item 7)
Alison Hoyland	Board secretary
Megan Webster	Policy and Communication Manager

1-2/2110 Board and committee meetings:

The Board formally welcomed Nigel Fretwell and Shrinivas Honap following their appointment to the Board on 30 September 2021.

The Board agreed the minutes of the Board meeting on 27 September subject to one small amendment being made to reflect that the Audit, Risk and Compliance Terms of Reference item should be updated to reflect the ToR were agreed - subject to one or two amendments being made which the Board noted had now been done.

The Board noted the oral update of the Nomination Committee on 13 October. Following that meeting, the Chairman had set out proposals for Board sub-committee membership including the position of Chair for each of the committees. In addition to the new Quality Committee agreed by the Board in June, the Chairman proposed to introduce a new sub-committee – The Transformation Committee – to help the Board oversee the implementation of the Periodic Review recommendations. The Chairman proposed that both the Quality and Transformation sub-committees would be time limited for an initial period of up to two years. Their ongoing need would be kept under review by the Board.

The Nomination Committee was meeting immediately after the Board to consider the proposals. [*Following the Board meeting, the Nomination Committee approved the*

Chairman's proposals including for sub-committee membership and Chair positions, effective from 1 November 2021].

Matters arising

There were no matters arising.

03/2110 Interim Chief Executive & Chief Ombudsman's report fos/21/10/02

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

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

The structure and content of Board reporting was being refined in light of Board feedback and the Chief of Staff planned to meet individual Board members to get further feedback.

Under the update on key initiatives that were underway to help reduce waiting times, the Board noted that the consultation on a temporary change in outcome code to incentivise business to settle cases in a timely manner had now closed. There had been a range of responses to the consultation and the early initial analysis showed that stakeholders were broadly positive about the proposals. The Board noted that subject to there being no changes required in the light of a detailed analysis of the responses, the Financial Ombudsman Service anticipated proceeding with the temporary change from 1 November 2021.

Actions:

- Board and Board sub-committee forward agenda to be shared at the November Board meeting [Complete]
- Board members to provide feedback on the Board papers including the CEO report for November [Complete]
- A paper on key strategic issues to be shared at a future Board meeting, to include an analysis of case categorisation/complexity in the context of workforce planning [Open]

04/2110 Mid-year performance and year end forecast fos/21/10/03

Operational and financial performance

At the half year point, performance against the Financial Ombudsman Service's strategic measures was within tolerance of the targets which had been set.

The Financial Ombudsman Service had resolved almost 5,000 more cases than expected at the half year point. 2,000 fewer cases had been received than expected, driven by lower than forecast PPI cases. In non-PPI, cases were tracking ahead of forecast by approximately 5,000. The socio-economic environment – which included the end of furlough and business support schemes, higher energy prices and increasing inflation was likely to result in increased financial hardship for many – which in turn may mean higher new case volumes in non-PPI areas than originally anticipated at the start of the year.

Based on existing plans agreed with the Board, performance was expected to continue to track well for the remainder of the year – helping to reduce casework queues and the number of people waiting for their case to be allocated for investigation. In addition to increased productivity, the Financial Ombudsman Service had also committed to finding efficiencies and savings through a range of other measures including by reducing support costs and through its flexible property strategy. The Board noted that plans were on track to deliver against the support savings targets and £0.5m had been generated ahead of target through property savings.

The Board noted that good progress had been made to resolve some of the organisation's oldest cases – with 81% being resolved against a target of 65% at the half year point. However, closing some of the oldest cases had impacted on the median resolution time which was running at 6.3 months against a target of 4.2 months. Consumer satisfaction scores also remained under pressure due to waiting times, although business satisfaction was tracking ahead of target at 82%. After introducing a new quality framework earlier in the year, quality scores were broadly in line with expectations and were expected to improve as case handlers got more familiar with the framework.

Overtime costs were forecast to exceed budget by £1.2m however, the cost would be met by the additional revenue that the associated case resolutions would generate. The Board confirmed that, any cost overspend that drove income in excess of that cost was a valid overspend and therefore did not require formal budget re-forecast approval. Although a helpful lever in helping to reduce the casework queue, the Board agreed it would be important to keep the use of overtime incentives under review to avoid the risk of staff burn out.

The Board noted the Financial Ombudsman Service's financial performance for the year reflected the operational picture, with revenue ahead of plan, driven by increased resolutions. The Board agreed the reforecast position for the year end that the Financial Ombudsman Service would:

- Receive 172,000 new cases up from 170,000 (165,000 non-PPI and 7,000 PPI).
- Resolve 226,960 cases up from 220,000 (210,390 non-PPI cases and 16,570 PPI cases).

People

The Board noted that, in relation to attraction and retention activities, the employment market had started to open up following the pandemic and recruitment plans were tracking slightly behind at the half year point, but should get back on track over the rest of the year. The Board noted an update provided in relation to non-employed resource and how the Financial Ombudsman Service was actively managing and mitigating any legal risk. The Board agreed it would be important to keep the use of non-employed resource versus employed resource under review and to consider it in the round against any wider workforce planning.

Technology

The Board noted the update on four focus technology projects involving the decommissioning of the Financial Ombudsman Service's legacy casework system, data archiving, data retention in the new casework system and the introduction of a new HR and finance system, Workday. In relation to the Workday programme, the go live date was now scheduled for November from October. As the programme had entered the testing phase a technical problem had been identified and had since been resolved.

Supporting strategies

The Board noted the progress against each of the Financial Ombudsman Service's supporting strategies at the mid-year point: service delivery, finance, people, digital technology and data services and prevention.

Actions:

- Where relevant, Board papers to set out the predicted year end position. [Open].

05/2110 2022/23 Budget

fos/21/10/04

Discussions at this point of the budget cycle helped shape and test the parameters and assumptions to create a high-level budget envelope which would be subject to public consultation in December. The initial assumptions would provide the basis for early talks with the industry and other stakeholders, including the Financial Conduct Authority (FCA) at the upcoming Oversight Committee in November.

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

The Board noted that any operational or financial impacts from implementing recommendations from the Periodic Review had not at this stage been overlaid on the 2022/23 draft budget as the detailed work to establish the costs and benefits had only just begun.

As a demand-led organisation, considering future workloads was a key starting point for the budget preparation. The Board considered two new case volume scenarios – a base case scenario which saw volumes remaining steady (157,000 incoming cases) and a scenario which saw the higher volumes continuing (177,000 incoming cases). The Board agreed that the scale and speed of evolution in financial services products together with the impact of a world emerging from a pandemic and the current socio-economic environment (the end of furlough and business support schemes together with higher energy prices and increasing inflation) was likely to result in increased financial hardship for many. The picture remained uncertain both in relation to volumes and the range and complexity of cases the Financial Ombudsman Service might see over the coming 12 months and beyond. The Board therefore agreed the Financial Ombudsman Service should consult on the higher volume scenario which it anticipated being largely driven by non-PPI cases.

The Board discussed the high-level operating and financial assumptions. In relation to funding, income and reserves, in the 2021/22 plans and budget the Financial Ombudsman Service had anticipated being able to maintain price stability for the next three years based on the assumptions at that time – setting a levy of £96m and a case fee of £750.

The Board agreed that if the Financial Ombudsman Service no longer anticipated being able to maintain those funding levels against a changing operating context, for example, to meet higher case volume demand and to fund a change programme, it would need to be able to clearly set out the reasons why and what benefits any increased costs would bring. The Board agreed that, as well as looking at the levy and case fee, the Financial Ombudsman Service should look to review the number of free cases provided to firms, suggesting it might be timely to now return to pre-PPI levels. More substantive changes to the organisation's funding model would be considered as part of a funding consultation planned for early 2023/24.

Actions:

- Updated budget assumptions to come to the November Board [Complete]

At the Board's strategic away day in September, Oaklin Consulting had presented their findings and recommendations from the Periodic Review which aimed to improve operational efficiency and cost effectiveness, drive complaints prevention and ensure financial sustainability. The recommendations related to organisational structure, productivity, sustaining improvements, finance/funding and technology including how the Financial Ombudsman Service could reconfigure its systems, processes, infrastructure and people capability.

The various recommendations had been categorised into those that could be done in the near, medium and longer term. The Board had accepted the recommendations in principle and given the Executive team the mandate to proceed to work through the recommendations in more detail including detailed cost/benefit analysis for how the recommendations could be best taken forward.

The Board noted the proposed governance structure for the change programme which ultimately would report to the Board via the new Board Transformation sub-committee and Executive Committee.

The Financial Ombudsman Service had structured its response to the Periodic Review around three key pillars of change: strategy and communications, casework and technology and digital. Some of the recommendations were already in train or would start shortly. The Board noted the Financial Ombudsman Service envisaged that the full portfolio of change would take place over a period of up to two years, to ensure change was successfully embedded and benefits realised in line with any supporting business cases.

The Board noted the initial estimate of the resources needed to support the change portfolio and a more detailed proposed budget envelope for programme support would be presented in November for consideration. In the meantime, the Board noted there was a requirement for some consultancy support work to help develop some design work arising from some of the recommendations. Oaklin had been approached to provide the support given their existing knowledge. The Board approved an expenditure of up to £120,000 for up to three months' consultancy support.

The Board noted the plans for communicating the outcome of the Periodic Review internally and externally. The Board agreed that the Financial Ombudsman Service should seek to publish the report and its management response shortly following the November Board.

07/2110 Q2 risk report and risk appetite statements

fos/21/10/06

Q2 risk report

At the mid-year point the Financial Ombudsman Service's overall risk profile was relatively stable which reflected that the organisation was in a period of transition. Externally driven challenges remained significant, with plans to address them in progress. There had been two key risk rating movements which had gone up in the quarter - *financial sustainability* and *data protection and information rights*. The Board noted that the organisation's risk ratings had not yet been re-assessed to take into account any of the plans arising from the Periodic Review recommendations or risk mitigation strategies.

Top risk analysis and risk reporting to the Board

The Financial Ombudsman Service was developing its approach to presenting the top risks for the organisation with the Audit, Risk and Compliance Committee. In the meantime, the Board noted an illustrative top risk dashboard had been shared. The

Board agreed for the next iteration it would be helpful to see risk owners and mitigating actions included in the top risk analysis.

The Board noted that, in addition to the top risk analysis, work was also underway to refresh the way in which risk reporting was presented to the Board more widely to reduce the volume of information provided and help draw out the key areas of risk the Board needed to focus on and how that related to the Board's risk appetite. The Head of Risk and Governance planned to implement the new look report from Q3.

Risk appetite

The Board had agreed earlier in the year to develop risk appetite statements to provide clearer direction from the Board on the level of risk the Financial Ombudsman Service should be aiming for across key areas.

The Executive team had agreed nine areas and reached a consensus on the proposed level of risk appetite to recommend to the Board. Five levels of risk appetite had been adopted to choose from, aligned with the Financial Ombudsman Service's current risk framework approach and with HM Treasury guidance.

The Board agreed that good progress had been made to develop the risk appetite statements and agreed with the emerging analysis. The Board noted that the exercise had not yet taken into account any of the findings or recommendations from the Periodic Review, but the outcomes would likely still be well aligned. The Board agreed that the risk appetite statements should also be linked to the strategic objectives and key performance indicators being developed for 2022/23.

Actions:

- The Head of Risk and Governance to consider adding risk owners and mitigating actions to the top risk analysis [Open].
- The Head of Risk and Governance to consider how best to articulate risk appetite in relation to reputational risk [Open].
- The Head of Risk and Governance to develop the risk appetite statements alongside the strategic objectives and key performance indicators for 2021/22 to ensure alignment [Open].

08/2110 Digital Technology and Data Services strategy

fos/21/10/07

The Board noted a paper on the Digital Technology and Data Services strategy which had been developed in July 2020 and which had been updated to reflect relevant recommendations in the Periodic Review.

The Board noted that the Financial Ombudsman Service would continue to explore whether the development of a digital portal and other digital advancements could be accelerated as work to progress the strategy continued.

AOB

The Board noted that, following the Board meeting a sub-committee of the Board comprising the Chairman and Audit, Risk and Compliance Committee members would meet to officially approve and sign off the 2020/21 annual report and accounts ahead of it being sent to the Comptroller and Auditor General at the NAO and then laid in Parliament.

For the last two years the NAO had completed its audit work post the summer Parliamentary recess which had meant a later laying date. The Board agreed the Financial Ombudsman Service should seek to get commitment from the NAO to revert to a pre-summer recess laying date for the 2021/22 report and accounts.

[Following the sub-committee meeting at which the 2020/21 annual report was approved the accounts were laid in Parliament on 28 October 2021]

Action:

- The Financial Ombudsman Service to confirm the timetable for the 2021/22 report and accounts audit work with the NAO [*Underway - following the Board meeting the NAO updated the Audit, Risk and Compliance Committee at its meeting on 15 November. The NAO confirmed it was checking it had the resources available to complete its audit work before the summer Parliamentary recess which would allow a July laying date for the 2021/22 annual report and accounts, in line with the pre-pandemic timetable.*]