

Financial Ombudsman Service Limited

Minutes

Minutes of the meeting of the directors, held on 11.15am on 30 November 2021.

Present

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

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 |
| Deborah Oliver | Interim Director of Communications |
| Nicola Wadham | Chief Information Officer |
| Simone Ferreira | Interim Chief of Staff |
| Yvette Banister | General Counsel |
| Alison Hoyland | Board Secretary |
| Megan Webster | Policy and Communication Manager |

1-2/2111 Board and committee meetings:

The Board agreed the minutes of the Board meeting on 19 October and noted the minutes of the Audit, Risk and Compliance Committee (ARCC) on 15 September. The Board noted the oral update from the Chair of ARCC of the meeting on 15 November including that two exemptions to the previously agreed delegated authorities had been approved. The Board was also updated on the recent Pension Act legislation which had been introduced and the implications for their responsibilities as non-executive directors including potential criminal sanctions.

Actions:

- For a copy of the full delegated authorities including a more detailed matrix of spend for people costs to be shared with the Remuneration Committee at its next meeting [Open]
- For clarity to be provided on what spend was approved by the Board and at what point it would be escalated for approval under the delegated authority arrangements [Open]

Matters arising

Any matters arising were picked up in the substantive business before the Board.

The Interim Chief Executive and Chief Ombudsman (CEO/CO) 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.

Since the Board had last met the Financial Ombudsman Service had published its feedback statement to the '*temporary changes to reporting the outcomes of proactively settled complaints*' consultation. The majority of those participating in the consultation supported the central proposal, and so a time-limited change to the way in which outcome data was published in certain circumstances would now be implemented. Following the consultation, there had been a modification made to the proposed approach so that the Financial Ombudsman Service would review the fairness and reasonableness of any offer communicated through the process. A number of settlement offers had been received already and the cases resolved as a result of the initiative.

More widely, the Board noted that operational performance continued to track well and to date the Financial Ombudsman Service had settled the volume of cases it had estimated as part of the 2020/21 plan and budget with 4 months left of the year. A number of cases could not be progressed due to issues outside the Financial Ombudsman Service's control which was also putting pressure on resolving some of the very oldest cases. The Financial Ombudsman Service continued to look for initiatives and casework efficiencies to help resolve as many cases as possible by the year end and reduce the casework backlog.

In the 2021/22 Budget, the Board had agreed to invest in a high-volume area, which would be staffed from colleagues transferring from mass claims teams, to help tackle the significant volumes of cases received during the Covid-19 pandemic. The current budget assumption for 2022/23 provided for the high-volume area to be retained to contribute towards reducing case queues and waiting times. The high-volume area was on track to achieve its target for the year, however the Board agreed one of the key successes for the area was to identify appropriate cases with established approaches for them to work in order to achieve optimal productivity.

The Board noted that the recruitment for new Investigators who could resolve cases had commenced as planned. Attrition in Managed Investigation (contractor resource) was currently running higher than planned. Work was underway to fully analyse the reasons why and identify any mitigating actions. The Board noted however that the job market was very buoyant more generally, and people were making different work/life choices in response to the pandemic, in particular; it was likely that recruitment and retention would remain under pressure during the year. Sickness rates, including some increased instances of Covid-19 cases, had begun to rise in the winter months in line with the national picture.

The Financial Ombudsman Service's phased return to office-based working was underway and had been going well – all staff would work in the office at least twice a month ahead of a fuller phased return from January, where staff would be in at least four days across a fortnight. The Board noted the return to office plans would be kept under review in light of any Government guidelines.

The Board congratulated the Financial Ombudsman Service on the successful rollout of a new HR and Finance system, Microsoft Workday on 15 November. The National Audit Office (as the Financial Ombudsman Service's external auditors) would do an opening balance audit to ensure all the relevant data had been transferred correctly from the existing finance and HR systems.

Future Executive reporting

The CEO/CO report and associated business area performance reports from the Executive team continued to be refined in the light of Board feedback. The Chief of Staff had met with all Non-executive Directors to gather feedback which would inform a refreshed report that would be implemented from January 2022. Updated key performance indicators would also be developed alongside a strategy refresh which was being taken forward as part of the Periodic Review recommendations and as the Plan and Budget for 2022/23 was finalised. The Board was supportive of reporting being against one set of key performance indicators which were clearly linked to the relevant supporting strategies.

Actions:

- For consideration to be given to reporting a more nuanced measure to reflect run rate rather than an average productivity measure [Open].
- The Chief of Staff to consider replacing the 'median' age of case measure with a 'mean' age for the 2022/23 strategic measures [Open].

04/2111 2022/23 Budget

fos/21/11/03

Since the Board discussion in October, the Financial Ombudsman Service had continued to test the high-level assumptions underpinning its draft 2022/23 plans and budget with key stakeholders to inform the basis of its consultation in December.

The Financial Ombudsman Service had been clear for some time that a pivotal point for the organisation would be the end of PPI. Following the deadline to complain about PPI, new incoming case volumes had continued to decline, and the organisation was finally transitioning towards the "world beyond PPI". Not only did that mark a key turning point in the Financial Ombudsman Service's operational approach but also had a significant impact on the financials that had underpinned the Service since 2014. At the same time, there had been a significant increase in new non PPI cases volumes over the past two years – with incoming volumes around 95,000 more than expected over the period, resulting in queues building and waiting times increasing.

The Financial Ombudsman Service would shortly be publishing the outcome of the latest Board commissioned periodic review which concluded that, without significant organisational change and additional funding for investment, the Financial Ombudsman Service would be unable to deliver financial sustainability. The 2022/23 budget would therefore seek additional funding not only to further invest in queue reduction but also to support the delivery of a transformational change agenda. The Board agreed that, in anticipation of the transformation programme and additional work associated with it, the planned savings in support areas which had been agreed before the periodic review, should be paused.

As part of its routine engagement, the Financial Ombudsman Service had attended the FCA oversight committee (OSC) on 16 November to discuss the volume assumptions, budget envelope and funding options. The committee understood the need to further reduce queues and waiting times for customers and to invest in change, however it was keen to understand more fully the expected benefits from the implementation of the recommendations from the periodic review. Additional information had been provided to

illustrate some of the expected benefits, though it was recognised that, at this early stage, a full cost/benefit analysis had yet to be undertaken of all the recommendations and much would depend on final decisions on key aspects of change in relation to the operating model. The OSC would meet with the Financial Ombudsman Service again in early December, once it had reflected further on some areas of consideration.

Subject to the OSC being in agreement, the Board agreed that the Financial Ombudsman Service should consult on the following central assumptions:

- An expected cost base of £293.8m
- 177,000 incoming case volumes
- 210,500 case resolutions
- A compulsory jurisdiction levy of £106m
- Three free cases (reduced from 25) for businesses outside the group-account fee arrangement and 15 free cases (reduced from 50) for businesses inside the group-account fee arrangement

[Following the Board meeting and subsequent FCA OSC meeting, the plan and budget consultation was approved and published on 15 December 2021].

05/2111 Periodic review and transformation programme

fos/21/11/04

The Financial Ombudsman Service anticipated publishing the Board commissioned periodic review and its response to it on 2 December. The review set out a number of recommendations to help improve the level of service and ensure the financial stability of the organisation and the response set out an action plan for taking forward the recommendations. The Board noted the internal and external communication plan for engaging with key stakeholders, including staff. A transformation programme was already underway to start considering the recommendations and any associated cost/benefits in detail.

The Board considered a budget proposal to cover the estimated resources and costs which would be required to help deliver the transformation programme, this included extending Oaklin's support for a short period in the current financial year to complete the design work in relation to proposals for a new Target Operating Model (TOM). The costs would be refined further as the programme developed but initially the Board noted the high level cost estimates for the programme resources was £1.9m in 2021/22 and £9.3m in 2022/23. The Board was asked to approve some immediate budget expenses already identified to cover the cost of backfilling 10-13 FTE in support areas, hiring some new resource, carrying out consumer research and an increased budget for Oaklin's consulting support costs in the current financial year. The Board approved the budget for the immediate costs identified of approximately £1.9m.

The transformation team had already started working on a plan for taking forward the recommendations from the periodic review, including in relation to the design for a future TOM. The Board noted an update would be provided in January with a view to sharing the completed design work and cost/benefit analysis with the Board for approval in March.

An initial risk analysis of the transformation programme had been carried out and shared with the Board. A range of recommendations had been made to the transformation team to consider going forward to appropriately mitigate any risks identified as the programme developed. A separate analysis of the potential impact of the periodic review recommendations on the current Board agreed risk appetite levels, did not suggest any significant change to those levels was required at this point.

The Board noted that work had commenced to refresh the strategy for the Financial Ombudsman Service in line with recommendations in the periodic review. The Board confirmed it shared the Executive Team's vision and ambition in relation to what type of

organisation the Financial Ombudsman Service should strive to be and how it should operate as an alternative dispute resolution mechanism. It was supportive too of the next steps to finalise a refreshed strategy and associated strategic measures of success for the start of the next financial year – which would include the engagement of staff to ensure organisation-wide buy-in.

Actions:

- For the transformation team to consider whether any new roles should be permanent or fixed term contracts [Open]
- For any mitigating actions to be added to the risk assessment for the next iteration [Open]
- For any dependencies between each of the recommendations to be drawn out more clearly for future updates [Open]

06/2111 Staff Engagement

fos/21/11/05

The Financial Ombudsman Service's annual staff engagement survey had recently been carried out. 44% of staff had responded. The Board noted the results which showed an overall engagement score of 79% which continued the upward trajectory seen since 2018. There was also a high score for people who welcomed change (83%) from those who had responded, significantly higher than the previous year. The Board noted that the Financial Ombudsman Service had now brought surveying in-house and would be using the Microsoft Customer Voice tool to host all surveys going forward. As well as an annual survey, the Financial Ombudsman Service would also continue to survey staff regularly throughout the year on key topics to gather feedback and insights and inform key decision-making.

AOB

After 24 years at the Financial Ombudsman Service, the Principal Ombudsman and Director of Investigation, Garry Wilkinson was stepping down. During his time at the Financial Ombudsman Service Garry had performed a number of roles, from front line case handler, leading on the creation and running of a dedicated PPI operation and leading general casework investigation from its inception. More recently Garry had led the Financial Ombudsman Service's response to the Covid-19 pandemic, ensuring that its people were supported and able to provide an essential service to customers. The Board thanked Garry for his commitment and dedication to the Service over the years and wished him well in his future endeavours.