Our 2022/23 Plans and Budget

Financial Ombudsman Service
for small businesses

Claims Management Ombudsman
a Financial Ombudsman service

Financial Ombudsman Service

Contents

About us

We were set up by Parliament under the Financial Services and Markets Act 2000 to resolve individual complaints between financial businesses and their customers – fairly and reasonably, quickly, and with minimal formality.

If a business and its customer cannot resolve a problem themselves, we can step in. We are independent and unbiased and will get to the heart of what has happened, and reach an answer that helps both sides move forward. And if someone has been treated unfairly, we will use our powers to make sure things are put right, which could mean telling the business to apologise, to take action, or to pay compensation in a way that reflects the circumstances.

The amount we can award depends on both when the event happened and when the complaint is brought to us. The Financial Conduct Authority (FCA) sets our award limit and it is reviewed each year. For complaints referred to us on or after 1 April 2022, about events that occurred before 1 April 2019, the highest amount we can tell a business to pay is £170,000. For complaints referred to us on or after 1 April 2022 about events on or after 1 April 2019, the highest amount is £375,000. Our website explains the types of compensation we can award and the limits that apply. Last year, most awards were below £25,000; about 1,300 were higher; and around 20 were higher than £200,000.

In resolving hundreds of thousands of complaints every year, we see the impact on people from all sorts of backgrounds and livelihoods. We are committed to sharing our insight and experience to encourage fairness and confidence in the different sectors we cover.

Chairman's introduction

The financial year 2022/23 will herald a new chapter for the Financial Ombudsman Service. With the end of payment protection insurance (PPI), and as we emerge from two years of operating in a pandemic, now is the time to lay the right foundations for the kind of organisation we want and need to be.

Our vision is for a forward-looking organisation, one that is high-performing and able to provide an efficient, meaningful and responsive service to our customers – financial firms, small businesses and consumers. In valuing our people, we want to be a modern employer, able to attract a truly diverse mix of skilled talent, and utilising innovative and flexible ways of working.

We want to harness technology to enhance our accessibility and ensure efficient processes and systems. And we want to continue to be a values-led organisation, where our people are committed to our purpose and to providing a first-rate service.

Bringing down customer waiting times and our backlogs, and ensuring cost-effectiveness are at the forefront of the Financial Ombudsman Service's plans for this year, and my Board and I have been clear in setting out our expectations for what success looks like.

The recent Board-commissioned independent review addressed the organisation's ability to meet its strategic objectives and assessed the future environment in which we will be operating. It considered what this means for our customers, our stakeholders, our people, our technology and the evolution of our casework operating model. We need to transform our service, and our published Action Plan will help us to make the step change that is needed to ensure we are a modern service, fit for the future and one that delivers value for money.

As we look to achieve our ambitions and deliver transformational change for the future, we must at the same time drive significant operational performance improvements and greater cost-efficiencies now. Our productivity and timeliness are not where we need them to be and our customers deserve better.

This was the context in which we consulted on our 2022/23 plans and budget in December 2021. I am very thankful to the consultation respondents who shared their valuable thoughts with us and for their support for the investments we want and need to make, in order to improve and change.

My Board and I have been clear that this investment must realise clear and tangible benefits for all those who come to us for help, and they should be able to expect quicker and more streamlined services. We are rightly accountable to our stakeholders for our performance and for the delivery of these benefits.

We have an ambitious programme of change and an Action Plan which we must now deliver. By implementing the proposals we set out in the consultation, I believe we will be on the right track for the future. There is much work to do.

Finally, I would like to thank all the staff at the Financial Ombudsman Service for their contribution and commitment over the last two years. The backdrop of the pandemic has meant we have been working through the most extraordinary of times, and have achieved a great deal. Our people have continued to provide a good service for our customers, while having their own personal challenges to overcome, and they have done so with great courage and fortitude. The talent and dedication of staff from across the Financial Ombudsman Service means we can be confident in our ability to achieve operational excellence, significant performance and efficiency improvements, and deliver an ambitious change agenda.

Z. Manzoor

The Baroness Zahida Manzoor CBE
Chairman
March 2022

Chief Executive and Chief Ombudsman's foreword

At a time of great change and improvement for the Financial Ombudsman Service, it is my pleasure to introduce our plans and budget for the financial year 2022/23.

Thank you to all who responded to the proposals we consulted on in December 2021. We received 50 responses (up from 38 last year), from various stakeholders. We pay close attention to what all respondents are telling us to help inform our plans for the coming year and beyond.

Many gave their input on the types and volumes of complaints we can expect to see in 2022/23, and of those, there was broad agreement with our projections. I was encouraged that stakeholders supported our plans to improve the service, as set out in our Action Plan.

A budget to enable transformation

In 2021/22, we have taken significant steps to put the Financial Ombudsman Service on a better path for the future. We published our independent review and accompanying Action Plan on 2 December 2021, and have been driving down our backlog of unallocated cases. We are pleased with this achievement, but our focus now is on turnaround times and reducing the backlog further so that customers get speedier resolutions.

The year 2022/23 will be about investing to make a step change in the performance of the Financial Ombudsman Service, implementing our Action Plan, and continuing to shorten our queues.

The changes we will make in 2022/23 will enable the organisation to deliver a better service for our customers. Our key initiatives will encompass our strategy, our people, our technology, our communications, and our financial stability.

> The year 2022/23 will be about investing to make a step change in the performance of the Financial Ombudsman Service, implementing our Action Plan, and continuing to shorten our queues.

Our new operating model and the technology sitting behind it will enable the change we want to achieve. These changes will also help to drive the shift in culture we need to see – clear leadership, accountability and empowerment to drive greater productivity and measurement. A change in culture is perhaps the biggest challenge, but one we will meet.

By 1 April 2024, we aim to make significant productivity gains in our general casework (compared to the 2021/22 average). We are grateful to our people for their enthusiasm and the hard work that is already underway towards making our goals a reality.

Budget consultation and outcome

In our plans and budget consultation of 15 December 2021, we set out our ambitions to change and improve the Financial Ombudsman Service, and put forward a budget that would generate the £243m of income that we would need in order to implement these changes, to run our service, and bring our queues down, including by:

- Increasing our compulsory jurisdiction (CJ) levy by £10m to £106m.
- Raising an estimated £11m by:
  - Reducing free cases to pre-PPI levels from 25 to 3; and
  - Reducing free cases for group firms from 50 to 15.

We received a range of feedback on our proposals, and carefully considered all of it. Taking into account the feedback, the scale of the changes set out in our Action Plan, and the investment required to deliver on that, we have decided we will implement the proposals we consulted on. These changes will take effect from 1 April 2022.

The minimum CJ levy is frozen for the ninth year in a row. The levy is allocated according to the size of the business, which, along with case fees, supports the 'polluter pays' model, which many respondents to our consultation supported as a fair and clear approach. While we understand the impact that reducing the number of free cases has on small businesses, 69% of firms will still not pay a case fee, and based on 2021 data, only an additional 860 firms will start paying for their fourth and subsequent cases as a result. Of these 860 firms, around one-third would have paid for fewer than two cases, which equates to £1,500, and a further one-third would pay for fewer than seven cases, or approximately £5,000.

Based on feedback, we believe demand and complaint volumes will continue to be high. We expect to receive around 177,000 new complaints and resolve 220,500 in 2022/23 (this is including cases relating to Amigo Loans, which have been deferred from 2021/22 and cannot be closed yet – see page 11). We know that the composition of cases is changing significantly: historically, complaints about the mis-selling of PPI accounted for 80% of our casework. It is now just 4%. The complaints we are receiving are generally more diverse, cannot benefit from the same economies of scale as PPI complaints did, and require more agile skills from our case-handlers.

> Overall, our transformation will be seen as successful if we have improved our productivity and customer satisfaction, reduced customer waiting times, and created a financially sustainable organisation that is able to adapt to demand and emerging issues in a sustainable way.

In the longer term, we need to consider how we incentivise constructive behaviour from the whole industry, as well as claims management companies (CMCs) and consumers, and achieve financial sustainability for the Financial Ombudsman Service. So, in the first quarter of 2022/23, we will publish a consultation on our future funding model. Respondents replied to our plans and budget consultation with helpful and interesting ideas, and we will consider the replies to the funding consultation alongside the feedback we have already received from this plan and budget consultation process.

Breakdown of benefits

We expect the changes to deliver significant results. These include:

- Improved productivity and service standards, so complainants will get answers much sooner.
- Becoming more cost-effective by improving our systems and processes.
- An even more skilled and expert workforce, able to meet future challenges.
- Improving prevention, by working with the industry, consumer bodies and the UK regulators.

Respondents to our consultation understood and welcomed our ambitions. Overall, our transformation will be seen as successful if we have improved our productivity and customer satisfaction, reduced customer waiting times, and created a financially sustainable organisation that is able to adapt to demand and emerging issues in a sustainable way.

Work already underway

We have already begun work in implementing the recommendations as set out in our Action Plan. So far, we have:

- relaunched the Wider Implications framework;
- designed the blueprint of our target operating model;
- reviewed our strategic measures; and
- delivered the functional and technical design of our digital portal.

Our plans include not only delivering on the Action Plan, but also how we can improve our everyday activities. We have been looking at how we can resolve cases more quickly, and have significantly exceeded our original plans to reduce the backlog of unallocated cases from 90,000 in May 2021. This currently stands at around 38,000 cases.

To do this, we introduced changes to the way we work, such as moving some phone calls to another unit, streamlining our responses, and improving case allocation. We also introduced temporary changes to encourage businesses to review cases with us and proactively settle them on a fair and reasonable basis. At the time of writing, through that initiative, we have received over 6,000 offers proactively, totalling almost £15m in redress for consumers since 1 November 2021.

In implementing our Action Plan, we are acting at pace, but also with care, assessing first the costs, and benefits of each proposal.

I would like to thank those who have already shared their initial thoughts on our Action Plan, those who responded to our consultation, and those with whom we will be working to bring our plans to life. I would also like to thank our staff, who are deeply committed to delivering a Financial Ombudsman Service fit for the future.

Nausicaa Delfas
Interim Chief Executive and Chief Ombudsman
March 2022

Our 2022/23 Plans and Budget: overview

Our plans

We expect to receive approximately
177,000 complaints
including:

115,400 in banking
43,500 in insurance (including PPI)
17,400 in investments and pensions
1,300 from SMEs
500 about CMCs
200 about funeral plan providers

We expect to resolve approximately
220,500 complaints
including:

150,200 in banking
45,700 in insurance (including PPI)
23,800 in investments and pensions
1,300 from SMEs
700 about CMCs
100 about funeral plan providers

We will invest in a change programme and additional resource to reduce waiting times, and handle increasing demand.

We will invest in digital technology to make it easier for consumers and businesses to contact us and make our processes more efficient. We will step up our productivity and prevention work.

Our budget will enable us to change and improve, deliver a better service and provide financial justice.

Our budget

Our expected cost base will be
£291.7m
(2021/22: £245.7m)

Our compulsory jurisdiction levy will increase by £10m to
£106m
(2021/22: £96m)

Our voluntary jurisdiction levy will raise
£700k
(2021/22: £760k)

Our individual case fee will remain
£750

Businesses outside our group-account fee arrangement will get
3
free cases (reduced from 25)

Businesses in our group-account fee arrangement will get
15
free cases (reduced from 50)

We will use the additional income to invest in resource to help reduce our queue, invest in our digital programme, and implement our Action Plan.

1

Our plans for 2022/23

This chapter sets out our plans for the coming year, backed by our strategy and underpinned by our Action Plan. We also share the feedback we received in response to our consultation, and the trends we anticipate will influence demand and complaints volumes. Other than the expected increase in case resolutions, we have not factored in the benefits of these changes. We will communicate more about these as soon as we can.

Our strategic priorities and plans

At the time we published our consultation, we had also just published our Board-commissioned Independent review, its recommendations, and our Action Plan, which set out our plans to change and improve. In the consultation, we asked stakeholders for their thoughts on our plan, as well as how they would like to work with us.

Productivity and prevention

In our consultation, we said we needed to increase our productivity by 25% by 1 April 2024 to remain sustainable. Stakeholders welcomed this and are keen to be updated on our progress. As part of our transformation work, we will set ourselves ambitious goals and share updates in our external communications about our progress.

To help with our prevention work, and to ensure we proactively share our insight, in 2022/23 we will be stepping up our engagement. But this depends on our being able to speed up our resolution times. The faster we can resolve complaints, the faster we can share timely insights into the issues behind them. Stakeholders shared this ambition and many across the regulatory family and industry are eager to collaborate.

Improving our productivity and prevention are important goals in themselves, but for us they are also indicators of successful transformation. Outcomes such as shorter queues, better timeliness, and being able to drive the right complaints to us should be signs that our internal productivity measures are working, and our external prevention initiatives are also proving successful.

Resourcing and delivering our service effectively and efficiently

Updating our strategy

Our transformation work will build on our Action Plan to reinforce and refocus areas of our strategy, as well as our operating model and ways of working. This will help us meet our overarching strategic priorities of reducing queues and waiting times throughout the customer journey and ensuring quality and consistency in decision-making.

We published our five year strategy in June 2020 and started reporting progress from April 2021 onwards, against the three strategic priorities that take us to 2025:

- **Enhancing our service** – We will set the standard for modern, efficient, accessible alternative dispute resolution. We will 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 will find new and better ways of harnessing and using our insight to achieve fairer outcomes.
- **Building an organisation with the capabilities it needs for the future** – Using our strength as a diverse, values-based organisation, as well as strengthening our infrastructure and IT capabilities – ensuring we remain a place where people want to work.

These strategic priorities will remain in place but as we stated in our Action Plan, we will make them clearer and more actionable, to address how to drive prevention with industry; measure and improve productivity and reduce the cost per case; continue to build expertise across the organisation; achieve and sustain steady state operation; and attract and retain the best talent.

We are reviewing our strategy with these in mind, to ensure we have a clear vision of where are heading, with robust plans and metrics to support and demonstrate progress. We have already started this work by improving our approach to customer service, and in our prevention work, we are improving how we detect trends and insights from timely complaints handling, and targeted intervention.

Casework leaders will be accountable for their units' operational effectiveness and the quality of the decisions they are making. There was much support for this in the consultation responses we received.

We will publish our updated strategy on our website in the first quarter of 2022/23.

Our technology and improvements to waiting times

We received many positive comments on our plans to improve our technology, especially plans for developing our online portal – which stakeholders said would bring benefits to us and to customers, and make us more efficient.

For waiting times, our priorities are to:

- Get cases onto an investigator's desk more quickly (currently this takes an average of four months).
- Improve turnaround times by caseworkers as part of improvements across the whole customer journey.

We believe this will reduce the overall time it takes to resolve a case. The current average time is eight months, and our budget will help us raise the funds we need to be able to speed this up through better processes and technology.

We are already resolving more complaints, more quickly, and expect to end 2021/22 in a strong position to continue that focus in 2022/23.

Over 2022/23, our technology changes mean we will be able to:

a) Transition our support services for our case-handling system to a new supplier, resulting in reduced operating costs, which contributes to our efficiency targets.

b) Deliver the initial scope of our digital portal – and establish the infrastructure and support services for ongoing development. The introduction of a new channel for our customers should reduce some administrative contacts with customers and enable our people to be more productive.

c) Implement additional intelligent automation capability, reducing some administrative processes and allowing our people to be more productive.

Improving our efficiency and sustainability

Respondents were keen to work with us on our efficiency, and this encompasses being efficient and cost-effective in our ways of working, systems, processes, people, and property.

Our operating model

We will move to a simpler, more empowered and accountable casework operating model, improving the way in which we handle complaints from entry point to case resolution. In particular, we will consider how we can: consolidate existing teams, empower our casework leaders, improve triaging and case-routing, free up time in our casework teams, reshape how casework operations are managed and how performance is reported, and establish a model to ensure we are able to meet fluctuations in future demand.

Environmental sustainability

We remain committed to our five-year aim to reduce our carbon footprint by 45% by the end of 2022, in line with the plan we developed with the Carbon Trust. As we move to a hybrid working model, we will look to sustain our reduced electricity consumption, and continue to realise other carbon reductions. As a demand-led organisation, we build cost-efficiency and flexibility into our property strategy. We plan to exit one floor of our office in Coventry, and with our move to a hybrid working model, will have more opportunities to make further property savings.

Over the next six to 12 months, we plan to:

- Improve our productivity and turnaround times.
- Implement and embed our new operating model.
- Commence the build of our customer portal.
- Step up our work to use intelligent automation and technology.
- Publish a consultation on our future funding model.
- Renew our emphasis on communications, policy and engagement, both through the refreshed Wider Implications framework and through our prevention strategy.

Complaints volumes and trends

In our consultation, we set out our complaints forecasts, our thoughts on what may be driving them, and the budget we would need to meet the goals set out in our Action Plan. Read more specific feedback from page 19, and our response on page 23.

We asked for people's views on trends we may see in our casework, and future complaint volumes we are expecting to receive across the different sectors of financial services, including from small and medium-sized enterprises (SMEs) and about claims management companies (CMCs), and projections for complaints about funeral plan providers, which will come under our jurisdiction from July 2022.

We also asked for perspectives relating to broader trends, such as the impact of the end of government support schemes related to Covid-19, and the rising cost of living.

Most respondents believed our complaints forecasting was sensible and reasonable, and highlighted trends that might point to fluctuations in particular areas. They generally agreed we are likely to continue to see reducing PPI complaints, while casework volumes stabilise, albeit at a high level.

In our consultation, we said we expected to receive 177,000 complaints (of which 175,000 are non-PPI) and resolve 210,500 complaints in 2022/23. From analysing feedback as well as our own modelling, we now still expect to receive approximately the same number of complaints, but resolve 220,500. A delay in a court case relating to Amigo Loans means that we have deferred the resolution of 16,000 complaints from 2021/22 to 2022/23, resulting in this increase in total budget resolutions. Following a court hearing on 8 March, it is clear that cases relating to Amigo Loans cannot be closed until after the sanction hearing in late May 2022.

Here is a summary of the main trends that respondents said are likely to generate complaints in 2022/23. There is more detail on page 20.

Banking and credit

Most major banks, as well as some industry bodies and consumer groups, said they expected banking and credit complaints to remain high, with increasing sophistication in fraud and scams being a significant concern. They also pointed to the emergence of cryptocurrency scams. The risk of consumer vulnerability has been heightened by the effects of Covid-19 (see 'Covid-19' section on page 13).

Investments and pensions

We have forecast an increase in complaints about investments and pensions, although these account for a relatively small share of our overall caseload. Some said younger people may be more likely to complain as awareness of investment opportunities grows through social media. As we noted in the consultation, the extent to which cryptocurrencies are brought into regulation is likely to affect the number of complaints we are able to look at.

British Steel pension scheme cases

After we launched our plans and budget consultation in December 2021, the FCA announced that, subject to Board approval, it expects to consult in March 2022 on a s404 redress scheme for former members of the British Steel pension scheme, who transferred their pension.

We are working with FCA to determine the impact of this on our service and our budget for the remainder of this financial year and potentially as part of our 2023/24 plan and budget, which we will consult on at the end of this calendar year. We continue our regular dialogue about the cases we are seeing in this area and what a scheme could look like, and will continue to work closely with the FCA as it develops its plans so that we can respond to any changes which might be needed to our plan and budget within the year.

Insurance

We noted in our consultation that we are receiving fewer complaints in insurance directly related to Covid-19, particularly in travel, events and health insurance, and responding insurance firms agreed. Respondents said that changes to insurance pricing rules could lead to more complaints this year if consumers believe their policies were unfairly priced.

We are expecting only a very small number of PPI complaints in 2022/23.

SMEs

Small and medium-sized enterprises are especially susceptible to wider economic pressures. Repayments on government-backed business loans may push some SMEs into financial difficulties, noted by some respondent major banks and SMEs.

CMCs

Although we are predicting to see few complaints about CMCs' regulated activities, which have continued to decline in line with PPI, respondents said we may be more likely to see complaints brought by CMCs in other sectors, as they look to replace the business they have lost as a result of PPI. Some financial services firms and trade bodies urged that CMCs contribute to the cost of the Financial Ombudsman Service, or have stronger incentives to refer complaints proportionately and responsibly. A number of trade bodies and firms mentioned an increase in the so-called 'weaponisation' of our case fees, where CMCs use them as leverage to pressure firms into paying redress on complaints to avoid them being referred to us.

Complaints related to and resulting from Covid-19

Respondents across all sectors agreed with our assessment that, while complaints directly resulting from Covid-19 are likely to continue ebbing away, the end of government support schemes for businesses and consumers, coupled with wider economic pressures, could drive new kinds of complaints. Heightened consumer vulnerability from the effects of the pandemic, combined with the rising cost of living, has led respondents to highlight the increased risk of consumer harm from financial difficulties and unaffordable lending.

Regulatory change

Many respondents commented on the FCA's new Consumer Duty, which the FCA has consulted on, and what it will mean for them and for complaints to the Financial Ombudsman Service. A broad set of firms and trade and consumer bodies said we should be prepared for an increase in complaints in the short term. They were keen to learn more about our engagement with the FCA on how we will consider relevant complaints. Firms, including investment firms, insurers and banks wanted to understand how we will interpret a greater focus on the Consumer Duty in outcomes and said this needs to take account of consumers' own appetite for risk and the losses that can result.

New complaints in 2022/23

Complaint type	2022/23 consultation budget	2022/23 final budget	Change since consultation
Banking	124,200	115,400	-7%
Insurance (excluding PPI)[1]	34,500	43,500	26%
Investments and pensions	17,600	17,400	-1%
Funeral plan providers[2]	200	200	-
Complaints about CMCs	500	500	0%
Total	**177,000**	**177,000**	**0%**
Complaints from SMEs[3]	*1,300*	*1,300*	*0%*

1 We are now counting PPI complaints as part of our general insurance complaints.

2 We will be handling complaints about pre-paid funeral plans from July 2022.

3 Complaints from SMEs (additional to our micro enterprise casework) are included within the general casework figures for banking and credit, insurance, and investments and pensions.

Resolved complaints in 2022/23

Complaint type	2022/23 consultation budget	2022/23 final budget	Change since consultation
Banking	141,400	150,200	6%
Insurance (excluding PPI)[1]	48,600	45,700	-6%
Investments and pensions	19,700	23,800	21%
Funeral plan providers[2]	200	100	-50%
Complaints about CMCs	600	700	17%
Total	**210,500**	**220,500**	**5%**
Complaints from SMEs[3]	*1,300*	*1,300*	*0%*

1 We are now counting PPI complaints as part of our general insurance complaints.

2 We will be handling complaints about pre-paid funeral plans from July 2022.

3 Complaints from SMEs (additional to our micro enterprise casework) are included within the general casework figures for banking and credit, insurance, and investments and pensions.

New complaints – In our consultation, we included complaints about packaged bank accounts and short-term lending within our 'banking' category, to account for additional new cases from consumers in financial difficulties. Since our consultation, and with feedback from stakeholders, we have revised this so that the increase is now split between banking and insurance, where the FCA's revisions to its insurance pricing rules is expected to drive complaints.

Resolved complaints – Figures for insurance complaints have reduced since our consultation to reflect fewer PPI complaints. Numbers of expected resolutions in banking and investments and pensions have risen, as we look to drive down our queues in these areas.

PPI – As PPI complaints no longer form a significant part of our work, from 2022/23 we will no longer report PPI separately, but incorporate them in our insurance category.

2

Our budget for 2022/23

We have ambitious plans for transforming the Financial Ombudsman Service in 2022/23, and will make a success of them. To ensure we are financially fit for the future, we need to generate the appropriate funding to support these changes in this financial year. We will consult on our longer-term plans for our future funding in the first quarter of 2022/23.

We are working through the detailed timing and benefits of the Action Plan. As a result, although this budget includes the cost of delivering the changes, the cost savings and efficiency gains are based on business-as-usual, before the implementation of the changes. We will publish regular updates on progress when we can.

Summary of proposals and background

As we set out in our consultation document, this is an enabling budget for transformation of the Financial Ombudsman Service, and continued queue reduction. While we continue with our existing strategy of productivity improvement and cost-efficiencies, there are multiple challenges that this budget addresses to ensure we end the year on a more stable footing. These are:

- Continuing to reduce waiting times for our customers.
- Handling increasing demand without allowing queues to grow.
- Investing in a change programme based on our Action Plan.
- Retaining our focus on efficiency and cost-effectiveness throughout the organisation.

Unlike last year's consultation, in our consultation for 2022/23, we did not set out various scenarios for stakeholders to assess. Instead, we put forward proposals to allow us to deliver on our Action Plan, by generating an additional £21m of income through:

- Increasing the CJ levy by £10m, to £106m, delivering additional income to help fund the change programme.
- Decreasing the number of free cases from 25 to 3, and reducing the number of free cases for group firms from 50 to 15.

In addition, we said we planned to reduce our reserves from six to three months' operating cost and proposed to remove the PPI special case fee provisions in our FEES instrument, so that all cases are subject to the standard casework case fee provisions.

We asked stakeholders whether they thought our draft budget seemed reasonable, given the changes required, whether they had any views on our reserves plans, and what they would like us to include in our future funding consultation.

Our 2022/23 funding

We received 50 responses to our consultation and considered the feedback from all who responded, as well as what we have been hearing from our stakeholders as part of our wider engagement.

Delivering on our commitments to transform the organisation and reduce our queues requires additional funding, and we need to raise this before we are in a position to be able to deliver the changes needed, so we do not become financially unsustainable by 2024/25.

We have carefully considered the wide range of responses we received to our proposals, and while much of the feedback did not support the changes to our free cases and levy, many appreciated the challenges we are facing.

Respondents made constructive suggestions for how we can improve efficiencies, and reduce potential complaints (for example, changes to tackle CMC behaviour). We will take these into account and consider their impact as we draft our funding consultation. In considering responses, we balance the feedback we receive against our desire to keep the costs for industry down and our plans to bring down our queues. We also need to balance any larger changes that would require wider changes in legislation against their potential impact, and whether any costs would be passed on to consumers as a result.

The feedback that respondents shared on our funding will be considered as part of our future funding consultation and longer-term thinking.

But in the meantime, we cannot continue recovering less than our expenditure, and in order to enable the investment we need to make the change, we plan to implement all the proposals we consulted on. Although there was little support for the changes to free cases, there were no viable alternatives identified. Without this additional funding, we would not be able to invest in 2022/23 to bring our queues down and in the change programme without depleting our reserves even further. We believe the changes represent the best way we can both improve the service over the course of this year, and simultaneously deliver the improvements we need in order to set us up for the future.

We will increase the CJ levy by £10m, to £106m, and decrease the number of free cases to 3 from 25, and for group firms from 50 to 15. The changes reflect where we would have been pre-PPI and put our income on a more stable footing. The minimum levy remains frozen for the ninth year in a row.

We recognise and understand that raising fees is never popular. But without the additional income, we cannot afford not to make these changes, and they will allow us to progress to a sustainable future by 2024/25.

We are very mindful of the impact on small businesses of implementing these proposals. We have undertaken analysis that shows that with these changes, around 7 in 10 firms will continue not paying any case fees. We expect that around 860 additional firms will be charged a case fee as a result. We anticipate an additional £11m of income associated with that change. The FCA, which allocates the levy, will also consider the distribution of the revised levy, typically in April.

To be financially sustainable into 2023/24, we will use the additional income raised to fund our transformation work and invest in our case-handlers to continue to drive down our queues, and set ourselves up for the future. As we set out in our consultation, we plan to invest in:

- **Productivity in casework:** As part of this budget, we will see a 7% improvement in underlying productivity year-on-year. We hope the changes from the Action Plan will increase this further. We are giving greater accountability to leaders, investing an additional £14m in case-handlers to continue to drive our queues down, and will continue to look for opportunities to resolve cases more quickly.
- **Our contingent workforce:** We are continuing to use our contingent workforce, in line with current plans. Our £14m budget includes allowance for additional resource to continue to tackle our queues.

- **Investment in digital and technology:** We are continuing our investment in digital and technology in line with the IT strategy – with a focus on completing the existing portfolio of change and delivering on our digital strategy. With increasing technological capability comes increased IT and digital costs, as we have more tools and services to maintain. We will see depreciation costs from capital investments, and some dual running costs during project transitions. Replacement systems (such as our new HR and finance system Workday) are paid for via an annual subscription and will have an ongoing annual cost.
- **Bad debt provision:** In line with budget assumptions, we have included a provision of £3m for bad debts and £4m for contingency costs, which is at the same level as our 2021/22 budget, but lower than the amount held in previous years.
- **Restructuring costs:** We deferred £12m of the £14m 2021/22 budget into 2022/23 and provided for an additional £6m to invest in proposed changes arising from our Action Plan.

Our property costs reflect that we have released a café in our Tower Hamlets headquarters, which generates a £0.3m saving. In 2022/23, we plan to exit one floor of our office in Coventry but otherwise there are no other lease break options available until October 2022, when we will review our strategy and plans.

Our budget includes the cost of making those changes, but we heard clearly from respondents to our consultation that they would like to understand more about the benefits of these changes, and be kept updated on progress. We will be open and transparent about our plans and our progress, so stakeholders can clearly see the results and impact of this investment. We are finalising our plans for delivery by the end of this financial year and will publish more information when we have done so.

We will also publish our future funding consultation in the first quarter of 2022/23, and invite stakeholders' input on developing our funding model for the future. We thank those who have already taken the time to share their thoughts with us. The consultation will be an opportunity to consider more closely the issues raised in the feedback to our plans and budget with our longer-term planning in mind.

Our 2022/23 budget

	2021/22 budget £m	2021/22 latest forecast £m	2022/23 consultation budget £m	2022/23 final budget £m
Income				
Case fees	64.4	63.3	85.9	74.5
Group fees	52.9	53.0	50.3	60.9
Levies (both compulsory and voluntary jurisdiction) and other income	97.4	97.4	107.4	107.4
Total income	**214.8**	**213.7**	**243.5**	**242.8**
Expenditure				
Staff and staff-related costs	158.1	155.2	161.1	162.0
Contractor staff	34.1	36.5	51.6	46.9
IT costs	15.2	14.8	18.8	20.1
Premises and facilities	11.2	10.2	11.2	11.3
Depreciation	10.0	11.4	11.1	11.2
Other costs	10.6	13.3	15.0	15.2
Bad debt write-off	3.0	1.3	3.0	3.0
Contingencies	4.0	1.0	4.0	4.0
Total expenditure	**246.2**	**243.7**	**275.8**	**273.7**
Restructuring costs	14.0	2.0	18.0	18.0
Financial surplus/(deficit)	**(45.4)**	**(32.0)**	**(50.2)**	**(48.9)**
Reserves and deferred income	88.7	102.2	51.8	53.3
Closing FTE	**2,927**	**2,984**	**3,193**	**3,252**
Total new cases	**170,000**	**170,000**	**177,000**	**177,000**
Total case resolutions	**220,000**	**214,500**	**210,500**	**220,500**
Underlying cost per case resolution*	£1,105	£1,130	£1,296	£1,228

* Provident's Scheme of Arrangement became effective in August 2021 and we have now closed complaints against it which are covered by the Scheme. Our planning assumptions include closing all Amigo cases in 2022/23. This has affected 17,800 case resolutions in 2021/22 and 16,000 cases in 2022/23. Because they will be resolved using a different process, and given their scale, the impact on our cost per case is significant. Without the impact of Provident in 2021/22, our cost per case would have been £1,232. Similarly, without the impact of Amigo Loans in 2022/23, our cost per case would be £1,324.

Volume forecasts and complaint issues

Most respondents believed our complaints forecasting was sensible and reasonable, and highlighted trends that might point to fluctuations in particular areas. See pages 13 and 14 for our projections for received and resolved complaints.

- Of the major banks, only a handful thought our forecasts were too high – one had seen complaint volumes stabilise and suggested we would see 160,000 in 2022/23. Another said that although complaints related to financial hardship might increase, it had measures in place to prevent them escalating to us. It also said that insurance, investments and pensions complaints should fall.
- Although complaints directly related to the pandemic are falling away, we are likely to see a rise in those relating to the financial hardship and increased consumer vulnerability that Covid-19 has created. Respondents across all sectors noted that this risk of vulnerability is now heightened by the increased cost of living, inflation, and high energy prices. Increased potential consumer harm from unaffordable lending may be one result.
- We asked respondents for any issues or trends that they thought we should take into account for planning for 2022/23, and many mentioned the introduction of the FCA Consumer Duty. Banks, industry bodies and consumer groups said we should be prepared for increased demand in the near term and one industry body said it would like to see us discuss its application and effects with the FCA, as it expects to receive related complaints too. Some wanted more information from us about how we will handle them, and engage with industry.
- An insurance company and insurance trade body both said we may see an increase in complaints relating to insurance pricing following the FCA's revisions to its insurance pricing rules.
- A consumer body said it was concerned that SMEs are struggling to access professional indemnity insurance, while some banks agreed there may be more complaints from SMEs on government-backed business loan repayments.
- Major banks along with a consumer group and an insurer said fraud and scams complaints were likely to increase, particularly in the context of Covid-19, and the emergence of cryptocurrency scams. (Only one bank said it did not think fraud and scams would increase).
- Trade bodies pointed to CMC behaviour as an area of concern and potential cause of complaints. They gave strong feedback that we should look at how CMCs might contribute to the cost of our service as they 'use the pandemic to harvest complaints', and 'become savvier and attract consumers via social media', to 'replace the volume of complaints lost through the end of PPI'.

Our plan to change and improve – questions 4 - 5:

4. Do you have any suggestions for how we can further improve our efficiency, and how you could work with us on this?
5. How can we improve sharing insight to prevent complaints and unfairness arising?

Approximately one-fifth of respondents specifically mentioned our change programme, Action Plan and strategy. They welcomed them and felt they were focused on the right areas, and that the proposals regarding our reserves would help us reach our goals. Banks and trade bodies in particular welcomed our commitments to reduce our backlog, and plans for more specialist case-handlers.

- Our plans to invest in reducing our queues and our digital programme were viewed positively, with many trade bodies commenting enthusiastically on our portal, saying they thought it would bring benefits to us and to customers.
- Some felt they wanted more clarity on how the income raised through the budget would increase efficiency and cost-effectiveness, and some of the larger firms would have liked more detail of the rationale and costs involved in investing in process change, people and technology. These tended to be those who felt more favourable towards our case fee and levy proposals, and wanted to see a clearer link between how increased costs would lead to better outcomes in the long term.

- Respondents were keen to work with us on efficiency and prevention, with many looking forward to opportunities provided by technology and data. They spoke positively about wanting to be involved in our insight-sharing, and clearly saw its value in understanding common complaints in order to prevent them. Some said our work sharing insights had been very beneficial and were keen to continue engaging, and how important their reciprocal insight-sharing relationship was.
- Many would like us to be more transparent by publishing information on how we are progressing against our strategy, and clarifying our resolution process – what we look at in order to make decisions. Several respondents (banks, credit firms, and trade bodies) said they would appreciate more insight from us on our website about our process, timescales, data, and approach. They had recommendations for how we can improve the functionality of our decisions database on our website, to make it easier to see how cases are decided. A consumer body said it would like us to publish more firm-specific data on issues such as fraud, to help firms improve their case-handling.
- Respondents continued to say they wanted to engage with us more frequently through a variety of different channels, with positive comments reflecting greater stakeholder appetite for collaboration, whether through webinars, working groups or roadshows, for example. They were keen to explore any way for people to learn more, share good practice, and help firms improve their own processes and as part of Wider Implications.
- Several said they would like to be more closely engaged at an earlier stage, but were aware that this wouldn't always be possible – one bank said that it was difficult to keep insight timely, to help firms change their approach, but was aware of the lag time between issues creating complaints and our being able to resolve them.

Our budget for 2022/23

Our proposals – questions 6 - 8:

6. Do you think our draft budget for 2022/23 seems reasonable, given the changes required at the Financial Ombudsman Service?
7. Do you have any views on our plans to reduce our reserves from six to three months' operating cost?
8. What would you like us to include in the 2023/24 funding consultation we are planning to publish in the first quarter of 2022/23?

Reduction in free cases

- We received the most feedback on our proposals to reduce the number of free cases. Of the 33 that commented directly on it, only two (an insurer and a consumer group) explicitly supported the proposal. Some felt they needed more information behind this decision, and to justify such a major change and increase in funding. 20 firms commented on the proposals, with 19 expressing concern. The large banks (apart from one) did not comment, but the majority of all other responses were concerned about its implications, especially to the cost burden and pressure on smaller firms, community development financial institutions (CDFIs), and on those who generate the fewest cases.
- Of the 13 trade bodies that commented on it, all expressed concern at the financial impact on smaller firms. This broadly reflects stakeholder discussion at the Trade Body Industry Steering Group meeting at the end of November 2021. Smaller businesses, particularly consumer credit providers, were particularly opposed to the reduction.
- Respondents not in favour felt the reduction was not proportionate, and some said it would add up to an extra £16,500 to the cost base of each business (22 cases x £750 case fee = £16,500).
- A number of trade bodies and firms said that the reduction would lead to an increase in CMCs and consumers using it as leverage to pressure firms into paying redress on complaints to avoid them being referred to our service, which in turn would increase the risk of vexatious, bogus or malicious claims. The consumer credit sector, where we have

historically seen higher volumes of complaints, was also concerned about changes to the case fee.

- Other trade bodies and firms said it could disincentivise new entrants to the market, affecting growth and hurting competitiveness and innovation.
- Alternative suggestions included: maintaining the number of free cases at 25 for firms with a turnover of under £6.5 million, exempting credit unions from the reduction, a staggered reduction in free cases, or differential fees based on complaints received proportional to a firm's size, or higher fees for firms with repeated delays, a phased introduction or only upheld complaints being deducted from a firm's free cases – which was also suggested in other engagement with the sector.
- Many felt the 'polluter pays' model was better understood and more accepted as a fairer approach, that would continue to drive industry improvements and prevention in a way that our other proposals would not.
- While not directly commenting on the reduction in free cases, some trade bodies took the opportunity to reiterate that they did not think it fair that we should charge cases fees for complaints that we conclude are outside our jurisdiction.

Levy increase

- Fewer respondents commented specifically on the proposed levy increase, but of those that did, the majority were not in favour. This spanned stakeholder types.
- Of the 16 respondents that commented directly on the levy increase, ten were industry bodies. Although sentiment was generally negative, few respondents were outright opposed to the increase, as many recognised the need to invest in our change programme. This was generally consistent with the feedback we received prior to our formal consultation.
- Of the banks, only two did not question the increase itself but noted they felt it would further tip the balance of the funding structure more towards the levy, and away from the 'polluter pays' model. An industry body also commented on this move. One bank wondered whether a levy increase at the same time as a free case reduction was reasonable, and asked for assurances that there would be no further increases next year.
- Some felt this was ahead of inflation and were unclear about the rationale behind it. Others said the increase in levy should be a one-off to help us change and reduce our backlog. Some respondents wanted more information about whether it would create stability and prevent further cost increases. Two industry bodies referred to our commitment in last year's plans and budget that there would be no further increases in the levy or to case fees for three years, and another asked for the levy increase to be reversed once the transformation programme is complete.
- Some pointed out that these proposals are contributing to the overall increasing costs of regulation.

Our voluntary jurisdiction (VJ) – questions 9 - 10:

9. What are your views on our proposal to raise funds through the VJ levy and to leave the tariff rate for each industry block unchanged?
10. Do you have any comments on our proposal above in relation to the VJ levy for funeral plan providers and intermediaries who apply to become VJ participants?

We received comments from a VJ participant which have caused us to review our projections for the number of complaints we expect to receive under the VJ during 2022/23, and our overall anticipated budget requirements for the VJ (particularly in relation to one VJ industry block). We intend to proceed with the proposal we consulted on.

Funeral plan providers – question 11:

11. Do you have any comments specifically about our proposal to apply the same case fee rules to funeral plan providers and intermediaries that will become subject to the compulsory jurisdiction (CJ) and/or VJ from July 2022?

A handful of respondents commented on our proposal to apply the same case fee rules to funeral plan providers and intermediaries. One industry body said it was fair and proportionate that the same case fee be applicable to all. Another commented that income from firms in the CJ should not be used to fund operating costs of the VJ.

Our response

We are grateful to those who have engaged with our 2022/23 funding proposals, and carefully noted the feedback they shared with us, discussing and considering specific concerns.

The proposals we consulted on remain unchanged – we will increase the CJ levy by £10m, and reduce the number of free cases to three (and from 50 to 15 for the group-account firms). The income this generates will enable us to transform our operations and reduce our queues. We believe this is the only way we can improve our service.

We are mindful of the impact of our changes on the businesses that fund us, especially smaller ones. As one of our funding principles, the aim that our arrangement be broadly proportionate (that is, costs for users should relate to the workload they generate for our service) is often referred to as the 'polluter pays' principle. Stakeholders recognised that this is a fair and clear approach, but some said the combination of fewer free cases and the increased levy may also have a negative impact on smaller firms.

However, according to our modelling, the drop from 25 to 3 free cases means that around 860 more firms will be brought into the charging regime in comparison to 2020/21. 69% of firms would still not pay a case fee, based on 2020/21 data and the vast majority of firms will continue to pay no case fee at all. We will closely monitor and analyse the effects as the year unfolds and in due course will dig further into, and publish more information on, how we are realising the benefits, and the overall improvements to the Financial Ombudsman Service that our budget has helped create.

We have analysed the potential behavioural consequences of our proposals. We know there may be CMCs who use the case fee as leverage to pressure firms into paying redress on complaints to avoid them being referred to us, and heard from many stakeholders with similar concerns as part of the consultation feedback. We analysed risks such as these when putting our proposals together, and will be monitoring the behaviour of CMCs as the proposals take effect, especially as some sectors may be more impacted by CMC activity than others, such as consumer credit.

Many respondents pointed to the FCA's new Consumer Duty as being a likely complaint topic. To prepare for this, we have set up a Consumer Duty working group, and have met the FCA at both senior and working levels to learn from feedback to its consultation. We have also committed to preparing case studies where we think the Duty will or may have made a difference to the outcome we reached. We will share insight on these when we can.

In our consultation, we asked for suggestions on ways to fund our service in the longer term. Respondents had suggestions for mechanisms such as a sliding scale for case fees depending on the cases' complexity. We are thankful for such suggestions, and took them all into account when developing our final plans, and will continue to consider them as we develop our next consultation, where we will focus on our longer-term plans for our future funding. We encourage stakeholders concerned about the impact of our changes to contribute to that consultation, which we will be publishing in the first quarter of 2022/23. In the meantime, we believe that our plans and budget will help us meet our productivity and prevention objectives, and will enable us to deliver on our ambitions in the most cost-effective way.

Voluntary jurisdiction

As noted in our consultation, we anticipate that the FCA's Temporary Permissions Regime (TPR), which came into force at 11.00pm on 31 December 2020, will likely lead to us dealing with fewer complaints under the voluntary jurisdiction (VJ) in 2022/23 and lead to us raising a lower overall VJ levy in 2022/23.

In our consultation (and in our draft VJ rules relating to the VJ levy), we nevertheless anticipated keeping the tariff rates the same as last year, based on anticipated VJ participant data numbers for each industry block and estimated tariff data. We noted, however, that we would keep this data under review and that the final tariff rates for 2022/23 could vary from those consulted on above.

Following our consultation, we now anticipate a further significant reduction in the number of complaints relating to VJ industry block 12V (electronic money issuers) that will be dealt with under the VJ in 2022/23. We anticipate this will lead to a further reduction in the amount of income expected to arise from this industry block.

Statement of difference under para 22, Schedule 17 to FSMA

We have therefore decided to amend the current tariff basis and tariff rate for VJ industry block 12V so that VJ participants whose activities fall under this block will pay a VJ levy of £75 only for 2022/23. Under para 22, Schedule 17 to FSMA, we are publishing this statement of difference between the proposed VJ rules we consulted upon and the final rules we have made, to highlight this change.

The impact of the above also means we now anticipate the overall income from the VJ to be lower than we projected in our consultation (£950k), at £700k.

Where appropriate, we will talk to stakeholders about other specific areas of feedback they have shared.

Organisations responding to our consultation

We received 50 responses to our consultation. These are the responding organisations that were happy to have their names published.

Association of British Credit Unions Limited
Association of British Insurers
Association of Financial Mutuals
Association of Mortgage Intermediaries
Amplified Global
APFIN LTD
Aviva
Barclays Bank UK PLC
British Insurance Brokers' Association
Building Societies Association
Consumer Credit Trade Association
Coalition for a Digital Economy
Credit Services Association
Digital Moneybox Limited
Fair Finance
Fair4all Finance
Finance and Leasing Association
Financial Services Consumer Panel
HSBC UK
International Underwriting Association of London
Lloyds Banking Group
Medicash Health Benefits Ltd
Morses Club PLC
National Pawnbrokers Association
Nationwide Building Society
Phoenix Group
Responsible Finance
Santander UK
Staysure
UK Finance
Westfield Contributory Health Scheme Limited
Which?

Financial Ombudsman Service

Financial Ombudsman Service
Exchange Tower
London
E14 9SR

stakeholder.enquiries@financial-ombudsman.org.uk

Financial Ombudsman Service
for small businesses

Claims Management Ombudsman
a Financial Ombudsman service