

## Minutes – Insurance Industry Steering Group

11 January 2023, Hybrid meeting

Financial Ombudsman Service attendees	Industry attendees
<p>Abby Thomas, Chief Executive &amp; Chief Ombudsman (Chair of Insurance Industry Steering Group)</p> <p>James Dipple-Johnstone, Deputy Chief Ombudsman</p> <p>Chandra Hirani, Head of Strategic Finance</p> <p>Rachel Lam, Ombudsman Director, Insurance</p> <p>Tim Archer, Ombudsman Director, Investments, Pensions and Mortgages</p> <p>Jenny Simmonds, Chief Finance and Risk Officer</p> <p>Suzette Browne, Policy and Communications Manager</p>	<p>Tim Bailey, UK CEO, <b>Zurich</b></p> <p>Doug Brown, CEO, UK &amp; Ireland Life, <b>Aviva</b></p> <p>Charlotte Clarke, Director of Regulation, <b>ABI</b></p> <p>Ant Middle, UK CEO, <b>Ageas UK</b></p> <p>Ken Norgrove, CEO, UK &amp; International, <b>RSA</b></p> <p>Jim Parry, Chief Risk Officer, <b>Admiral</b></p> <p>Nimol Rajkumar, Chief Risk Officer, Retail Division, <b>Legal and General</b></p> <p>Mark Summerfield, CEO, <b>Co-op Insurance</b></p> <p>Craig Thornton, General Insurance, Protection and Investments Director, <b>Lloyds Banking Group</b></p> <p>Steve Treloar, CEO, <b>Allianz Personal</b></p> <p>Nick Turner, Group CEO, <b>NFU Mutual</b></p> <p>Adam Winslow, CEO UK &amp; Ireland, General Insurance, <b>Aviva</b></p>

<b>Apologies</b>	<p>Andy Curran, CEO, Savings and Retirement, <b>Pheonix Group</b>, Claudio Gienal, CEO, <b>AXA UK &amp; Ireland</b>, Bernie Hickman, CEO, <b>Legal &amp; General</b>, Colm Holmes, CEO, <b>Allianz</b>, Penny James, CEO, <b>Direct Line Group</b>, Antonio Lorenzo, CEO, Scottish Widows and Group Director, Insurance and Wealth, <b>Lloyds Banking Group</b>, Cristina Nestares, UK CEO, <b>Admiral</b>, Andrea Rossi, CEO, <b>M&amp;G</b></p>
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Item	Agenda
1.	<b>Welcome, introductions and key updates from the Financial Ombudsman</b>
2.	<b>Consumer Duty</b>
3.	<b>Plans and Budget 2023/24</b>
4.	<b>Insurance, investments, and pensions complaints insights</b>
5.	<b>Closing remarks and AOB</b>

## **1. Welcome, introductions and key updates from the Financial Ombudsman Service**

- 1.1 The Chair welcomed attendees to the meeting, reiterating the importance the Financial Ombudsman places on having a good working relationship with the attendees.
- 1.2 The Chair introduced the Deputy Chief Ombudsman, and new Chief Finance and Risk Officer, Ombudsman Director for insurance and Ombudsman Director for investments, pensions and mortgages to the group.
- 1.3 Following the introductions, the Chair outlined her priorities including to support consumers and financial services to get fair, timely and effective resolutions to complaints, and the ongoing work on the Financial Ombudsman Service's operating model and digital transformation.

## **2. Consumer Duty**

- 2.1 James updated the group on our plans in relation to the Consumer Duty.
- 2.2 A member of the group highlighted that the provision of case studies would be important as firms grapple with the Consumer Duty.
- 2.3 The group were keen to understand how we are preparing operationally. We reassured the group, providing an update on the verticals we are putting in place which will help ensure we are operationally ready, with a contingency to bring in additional resource if needed.
- 2.4 Abby reminded the group about the FCA's expectations that complaint volumes will start to reduce once the Consumer Duty has been implemented although there may be an increase in the short term.
- 2.5 The group were keen for us to work on consumer understanding. In particular, our interpretation of what consumer understanding means. A suggestion was made that we could pick out areas where we could see potential challenges and use Ombudsman News to talk about this and clarify our understanding.
- 2.6 Abby agreed this was a good idea. We could look at the themes that sit below the Consumer Duty (such as consumer understanding, consumer harm, retrospective application, etc).
- 2.7 The group asked how we see current cases playing into the theory of case law in the new Consumer Duty world, and if we expect this to change. We reminded the group that we will consider each case as it is presented.
- 2.8 We discussed with the group the fact that fair value assessments may throw up questions around Consumer Duty, and that we appreciated there was a lot of work to do around consumer understanding. For example, a low uphold rate of 20% means 80% of the consumers that complained had an expectation their complaint was valid and therefore did not have a clear understanding of the position.
- 2.9 The group agreed this highlighted some of the challenges associated with the Consumer Duty and that there will be teething problems that will need to be addressed, although with fair value assessments firms are already in a good position in some areas.

## **3. Plans and budget 2023/24**

- 3.1 Chandra thanked the group for their feedback on our future funding consultation paper and updated them on our funding proposals including areas we will not be moving forward with at all. This included pursuing the legislative changes needed to enable us to charge CMCs, charging businesses for delays due to non-compliance, discounts for bulk closures and charging case fees based on case complexity.
- 3.2 The group were interested in if we thought we would change our stance on CMCs at some point in the future. We were clear that if at all this would be no earlier than 2024/25, and we also acknowledged that CMCs perform a useful service although we appreciate the issues

and stressed that we are improving our website and other channels to make it clearer to consumers that our service is free.

- 3.3 The group asked if there was a point at which we anticipated exceeding predicted volumes. For example, due to supply chain issues which might drive complaints or the Consumer Duty which may increase the volatility of complaint volumes. We pointed out that any forecasts firms can share with us helps us to better predict our complaint volumes and plan accordingly.
- 3.4 We explained that in our plans and budget we have allowed for a range of 150,000 to 220,000 possible cases that may come to us, but that it is still unclear what the impact of the cost-of-living crisis will be, so we need firms' insights. We have started discussing this with some of our larger stakeholders to ensure we are aligned on what we are seeing and can prepare for this.
- 3.5 We confirmed the following proposals outlined in our Plans and Budget:
- 3.6 We are proposing to freeze our levy and case fees at the same level, recognising the significant current pressures on firms and consumers, and that we will pay for this by offsetting inflationary pressures with cost and efficiency savings. We reinforced the point that we are a demand lead organisation, but we do want to see our income and costs reduce through our efficiency programme.
- 3.7 We are consulting on the Compulsory Jurisdiction (CJ) and Voluntary Jurisdiction (VJ) levies to cover our fixed costs. Although the new approach to levy calculation generates a higher value, we are proposing to hold the CJ levy at £106m.
- 3.8 We are proposing to offer three free cases for all businesses outside of our group account fee arrangements and remove free cases for businesses inside those arrangements. In addition, we will reduce the level at which we would charge or credit group account firms from 15% to 5%, which aligns our income better to our costs.
- 3.9 We will also take forward proposals to consult on reducing the time limit to raise a dispute on case fees to 12 months and will review the options for publishing additional data as per feedback received.
- 3.10 We need to do more work on the question of charging differential fees by case stage and/or product type and charging initial case fees at conversion. We will undertake modelling work and improve our processes to make this feasible, with a view to consulting on changes in next year's plans and budget consultation.

#### **4. Insurance, investments and pensions complaints insights**

- 4.1 Rachel updated the group on what we are seeing in insurance in relation to volumes and types of complaints.
- 4.2 The group shared that one of the main changes they are seeing is an increase in pricing complaints in the motor, home and pet sectors but that it is difficult to understand the underlying reasons for this.
- 4.3 We explained that we don't see a lot of complaints on pricing but are seeing a broader range of questions from consumers such as not expecting their premium to increase and not understanding why.
- 4.4 It was suggested that some complaints are driven by poor journalism and if we speak to those journalists – to enhance their understanding of the sector – that would improve how they report and thereby improve things for consumers.
- 4.5 It was suggested that claim delays are not going away and that firms might start to see complaints relating to things not being covered that consumers thought would be.

- 4.6 In relation to motor insurance, firms are also seeing delays around repairs which is impacting customer expectations and seeing an increase in customers' propensity to complain which is difficult to quantify.
- 4.7 There was a general consensus amongst the group that they are not yet seeing an impact due to the cost-of-living crisis.
- 4.8 Tim updated the group on what we are seeing in relation to investments and pension complaints including that we have started to see more complaints about "life-styling" strategies, possibly driven by falling gilt prices. Complainants have been surprised to see big fluctuations in the value of funds heavily invested in gilts and often don't understand that falling fund values might be offset by cheaper annuities.
- 4.9 Members of the group were not surprised by the life-styling issues we're seeing. They see bonds and equities moving this way every 50 years or so and recognise the need to manage consumer perceptions of what is going on in the life-styling area, and an offer was made to engage with us on this more.
- 4.10 Abby asked the group if it would be useful to have a sub-group covering pensions, investments and life insurance and there was general agreement that this would be a good idea.

## **5. Closing remarks and AOB**

- 5.1 The Chair reminded the group that we are very interested to hear their thoughts, concerns and feedback on any topics, and closed the meeting.