The Financial Ombudsman Service response to Financial Conduct Authority MS26/2: Claims management services: market study terms of reference

June 2026

About us

The Financial Ombudsman Service (Financial Ombudsman) was 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.

The Claims Management Ombudsman became responsible for resolving complaints about claims management companies (CMCs) on 1 April 2019. It is part of the Financial Ombudsman Service but looks at complaints about CMCs separately. The Claims Management Ombudsman covers CMCs that are regulated by the Financial Conduct Authority (FCA).

Introduction

The Financial Ombudsman is pleased to respond to the terms of reference for the FCA's market study on claims management services. We support the FCA's direction to review the claims management market and welcome the opportunity to share our insights and engage further on this subject and to discuss this market study and its potential impacts, as well as other areas of shared interest.

Drawing on our role within the financial services redress system and the wider ombudsman landscape, this response reflects insights from complaints eligible to come to the Financial Ombudsman and Claims Management Ombudsman, our experience of resolving them efficiently and effectively, and our engagement with consumers, professional representatives and regulatory bodies.

The Financial Ombudsman regularly shares intelligence with the Solicitors Regulation Authority (SRA) and FCA on regulatory issues relating to legal firms and CMCs respectively. This includes instances of poor conduct by regulated firms, and evidence of non-compliance with respective rules.

Our response

Our response focuses on the two key aspects of the market study:

1. The scope of the market study
2. The proposed key themes:
    a. Consumer journey
    b. Pricing-related harms
    c. Business model incentives
    d. Risks created by low financial and operational resilience
    e. Incentives created by the regulatory landscape

The scope of the market study

The Financial Ombudsman supports the FCA's proposed scope to focus on claims management activity relating to both financial services and products and housing disrepair claims, to build a holistic understanding of how the wider claims management market is operating.

The Financial Ombudsman's role within the redress landscape for financial services provides us with a unique vantage point on how the customer journey, business models and behaviours play out across different financial services products. Cases from professional representatives made up 18% of our caseload in 2025/26, with 38,600 cases referred to the Financial Ombudsman. From our casework, we are well positioned to identify patterns and provide insights on activity from CMCs and other professional representatives, including law firms, within the claims management market, especially where systemic or recurring issues are revealed.

The Claims Management Ombudsman resolves disputes between consumers and CMCs fairly, impartially and free of charge to consumers, across a range of claim types. Through this role, we can share insights to inform the FCA's market study on both financial services claims and housing disrepair.

Professional representatives can have a role to play for those who make an informed decision to use them, with consumers knowing their right to use ombudsman schemes, such as ours, free of charge and without the need for professional representation.

We support the approach to review both FCA-regulated CMCs and legal firms regulated by the SRA, the Bar Standards Board, CILEx Regulation and the Law Society of Scotland, as well as FCA-regulated lead generator firms. We believe that close alignment and cooperation between the FCA and the other regulators is key in ensuring consistent standards and expectations across the sector.

Overall, we consider that the FCA's proposed scope, drawing on different sectors and regulatory contexts, will help to build a clearer picture of the root causes of poor practices, the incentives driving firm behaviour and the impact on effectiveness of the wider redress framework. Our view is that it will also support the identification of proportionate and evidence-based interventions where needed.

The proposed key themes

Consumer journey

We note the FCA's focus on the end-to-end customer journey in the claims management sector. The Financial Ombudsman is an important part in the consumer journey for individuals who have a complaint about their financial services provider or Claims Management Company. From our position we are aware of areas of concern regarding some professional representatives that we would encourage the FCA to review as part of the market study.

We acknowledge the FCA's proposal to draw insights from and expand on the work conducted by the joint regulatory taskforce to explore what controls professional representatives have in place to ensure that consumers have not already engaged another representative in relation to the same matter. In our experience, multiple representation can contribute to delays, duplication and consumer confusion. We see this as an opportunity also for the FCA to test whether onboarding, verification and conflict checks are operating effectively in practice.

It is important to understand how professional representatives satisfy themselves that leads obtained from third parties have been sourced appropriately and lawfully. This includes the due diligence undertaken on lead generators, how firms assure themselves that valid consumer consent has been obtained and how frequently those checks are refreshed. In particular, the FCA may wish to assess whether claims management firms are declining to use leads where they are not satisfied that regulatory and data protection requirements have been met.

Historically, in our casework we have seen examples of claims management firms making misleading statements regarding preferential access to ombudsman schemes or the likely success of complaints. Based on this, we believe there would be value in the FCA examining whether some claims management firms are continuing to use misleading or unclear statements during the marketing and sign-up processes.

We encourage the market study to review not only whether required disclosures are present, but whether consumers understand that they can access services such as the Financial Ombudsman free of charge; and that using a representative does not provide preferential access to, or influence over, the outcome of a complaint. Understanding how consumers interpret these messages in practice will be important in assessing whether harm is arising at this stage of the journey.

The FCA may also wish to examine how firms act in their clients' best interests once representation has begun, particularly in relation to gathering and presenting evidence, assessing the merits of complaints and interpreting and applying relevant ombudsman approaches and previous decisions. The existing rules provide a clear framework in this area and the market study provides an opportunity to assess how those requirements are being applied in practice.

We also consider it important to understand how far professional representative firms are learning from ombudsman decisions and published insight, and whether this is being used to improve the quality of service provided to consumers over time.

The Claims Management Ombudsman performs an important role to resolve complaints between consumers and CMCs. Through our engagement with other complaint handling bodies, we are aware of indicators of consumer dissatisfaction in parts of the claims management market, including complaints made to other bodies. However, this does not always translate into complaints reaching ombudsman schemes, such as the Claims Management Ombudsman. The FCA may wish to explore how clearly the right to take a complaint to the relevant ombudsman scheme is signposted to consumers, whether existing referral routes are sufficiently accessible and well understood, and whether there is scope to make it easier for consumers to bring complaints where concerns arise. We are keen to work with the FCA to support consumer understanding in this area where appropriate. We also regularly engage with the Legal Ombudsman and are keen to continue this dialogue to help improve consumer understanding of the Ombudsman role in the redress landscape.

We consider that the market study should assess not only formal compliance at each stage of the customer journey, but whether the journey as a whole supports informed consumer choice, fair value and effective access to free redress mechanisms.

Pricing-related harms

We support the FCA's focus on identifying and addressing price-related harms in the claims management market.

The FCA may wish to explore whether aspects of the current framework create incentives that influence behaviour in the customer journey - in particular, whether there is evidence that our case fees for professional representatives are being used strategically in interactions with firms, for example to encourage early settlement in circumstances where this may not be aligned with the merits of the case; and exploring whether this fee is being passed on to consumers.

Business model incentives

We note the FCA's focus on business model incentives and the extent to which these drive firm behaviour and consumer outcomes.

From our regular engagement activities, we are aware of concerns about volumes of speculative claims raised by claims management firms. There is value in examining whether current models incentivise claim volume over claim quality, including whether commercial pressures influence how claims are identified, assessed and progressed. In particular, the FCA may wish to explore whether incentives within the system risk encouraging the pursuit of weak or speculative claims and shaping how firms engage with respondent businesses and their customers during complaint handling. There is also value in examining whether firms with weaker financial positions are more likely to adopt business models that prioritise claim volume over quality, or to take on higher-risk cases with limited regard to merit.

We consider there to be value in the FCA's proposal to examine the role of AI and other technological developments within professional representative business models. In our casework, we are increasingly seeing the use of AI by professional representatives across the customer journey to generate complaint narratives and support submissions and responses. We understand the efficiency benefits this may offer professional representatives; however, we would encourage the FCA to understand whether any efficiency gains are being passed through to consumers, including through improved service quality or reduced costs.

We have seen examples of submissions from professional representatives that can run to approximately 200 pages in response to an ombudsman's six-to-eight-page provisional decision, and which contain multiple inaccuracies. This raises questions about the accuracy, consistency and evidential value of information being provided, the use of AI and whether the professional representative's approach reflects the individual circumstances of the consumer.

We think there may also be merit in considering whether the increased use of AI could amplify existing incentive risks, for example by enabling higher volumes of claims to be generated or progressed with reduced scrutiny. This makes it particularly important to ensure that firms' governance, oversight and quality assurance frameworks are keeping pace with technological change.

Overall, we consider the market study provides an opportunity to assess whether business models, including the adoption of AI, are delivering fair value and good consumer outcomes, or whether further intervention may be required to address emerging risks.

Risks created by low financial operational resilience

We acknowledge the FCA's focus on whether low financial resilience within the sector may drive behaviours that lead to poor consumer outcomes.

Our data offers some insight into how professional representatives bringing complaints to the Financial Ombudsman are operating. Between 1 April 2025 and 31 March 2026, 43 professional representatives exceeded their free case allowance and were charged, while a further 443 professional representatives submitted complaints but remained within that allowance. This suggests the majority of professional representatives are operating at relatively low volumes, alongside a smaller cohort generating more significant case volumes. The FCA may wish to explore how far this distribution reflects differing levels of financial resilience across the market, and whether this has implications for conduct.

Incentives created by the regulatory landscape

The Financial Ombudsman believes that close alignment and cooperation between the FCA and the other regulators in the claims management market is important to ensure consistent standards and expectations across the sector, both within their frameworks as well as enforcement.

Under the current regulatory framework, we are aware there may be shadow or unauthorised representatives operating outside the regulatory perimeter. This can limit regulators' ability to attribute accountability, apply conduct standards and take timely enforcement action. We have also seen professional representative firms jumping between regulatory bodies, which may create consumer detriment if professional representatives are doing this with the aim to leverage regulatory gaps and inconsistencies. We encourage the market study to fully review this concern

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and assess the size and impact of this activity where possible. We would welcome the opportunity to engage further on this issue and build on the insights that we regularly share with the FCA and SRA, where appropriate.

Conclusion

Overall, we support the FCA's market study and consider it a good opportunity to examine how the claims management market is operating in practice across the consumer journey, the different incentives involved in this market, the use of AI and the wider regulatory framework. We encourage the review to focus not only on formal compliance, but on whether current business models, marketing practices and regulatory arrangements are delivering fair value, informed consumer choice and effective access to redress. The market study also provides an opportunity to support the production of good practice examples across the sector to help drive up standards across the board. We welcome continued engagement with the FCA and the opportunity to share further insight from our casework and wider role within the redress landscape to support the market study.