

Approved budget and consultation feedback 2014/2015

27 March 2014

Overview

Each year in January and February the Financial Ombudsman Service consults its stakeholders on its plans and budget for the coming financial year.

The consultation paper we published in January 2014 explained our proposed plans for the 2014/2015 financial year, against the background of what had happened in the first nine months of the financial year 2013/2014.

We invited comments from stakeholders on these plans. We summarise here the feedback our stakeholders gave us on each of the themes we set out in our consultation paper. We also explain how we have decided to proceed in the light of this feedback.

Funding proposals

We asked stakeholders about our proposals to:

- freeze the levy for the compulsory jurisdiction at £23.3m;
- freeze the amount of the standard case fee at £550;
- no longer collect the PPI supplementary case fee;
- retain the number of “free” cases at 25 for each business; *and*
- extend the group-account fee to a further four financial business groups.

All stakeholders - except claims-management companies - supported these proposals. The claims-management companies argued that it was too soon to cut back on income, and that we should instead retain the PPI supplementary case fee in order to invest more heavily in dealing with the stock of PPI cases.

A number of stakeholders also commented on the level of our reserves. Although none thought that we ought to return any reserves to the industry in 2014/2015, they did recognise the possibility that - at a later date, when PPI cases significantly decreased - we might have excess unspent reserves.

A majority of stakeholders thought that, if that happened, the excess should be re-invested in developing the service further. The others thought that the excess should be re-distributed in a fair way among financial businesses.

In the light of this feedback, we have gone ahead with our funding proposals. We agree that, depending on how our PPI caseload develops, it is possible we will end up with reserves higher than we need. In that case, we will discuss with the FCA and with financial businesses how best to deal with this.

Volumes of new cases

We asked our stakeholders what volumes of new cases they expected us to receive, and what they thought about the assumptions we had made about the numbers of new cases.

Those stakeholders who responded believed our assumptions for *non*-PPI cases were reasonable - and suggested some areas where they thought changes in caseload might happen. A number of larger businesses also helpfully shared their own detailed caseload assumptions with us.

On the basis of this feedback, we have continued to use the caseload assumptions we originally made for *non*-PPI cases - for 120,000 new cases in 2014/2015. But we will keep these assumptions under review as the year progresses. And we will continue to engage with financial businesses in particular, to ensure that our plans (and theirs) remain up-to-date.

We also asked our stakeholders specifically about the number of complaints about PPI they believed we would receive - and whether our plans for dealing with these were realistic.

Many stakeholders thought that we may have under-estimated the number of new PPI cases we were likely to receive in 2014/2015 - and thought our plans needed to reflect this. They pointed in particular to the significant uncertainties there were around PPI - for example, about the level and nature of the activities of claims-managements companies and about whether a "time bar" might be introduced for these complaints.

On the basis of this feedback - and taking into account the change in the profile of PPI cases we have received since we consulted in January and February 2014 - we have revised our estimate of the number of new PPI cases we are likely to receive in 2014/2015 from 150,000 to 200,000. We agree that there is considerable uncertainty about this forecast, and our plans reflect this.

Our approved budget for 2014/2015

Taking into account the feedback we have received from those who responded to our consultation paper, we have set - with the approval of the Financial Conduct Authority (FCA) - an operational income budget for 2014/2015 of £251.7 million.

This budget will be funded by a combination of levies and case fees. As we originally proposed, the overall levy for the “compulsory jurisdiction” has been frozen at £23.3 million.

The levy for the “voluntary jurisdiction” has been set at £0.4 million. We also expect around £0.7 million in case fees in relation to the “voluntary jurisdiction”.

The FCA will be consulting separately on the allocation of the levy for the “compulsory jurisdiction”.

As proposed, the standard case fee will remain at £550, and the PPI supplementary case fee will no longer be charged.

The number of “free” cases, where no case fee is payable, will remain at 25. And we have - as proposed - extended the group-account fee to a further four financial business groups.

Our approved budget for 2014/2015

Income	£ million
Compulsory jurisdiction levy	23.3
Voluntary jurisdiction levy, release of deferred consumer credit levy and other income	1.8
Group fees	163.4
Case fees	63.3
Total operating income	251.7
Deferred income	0.0
Deferred income release	67.4
Total	319.2

Expenditure	£ million
Staff and staff-related costs	219.9
Professional fees	11.7
It costs	7.4
Premises and facilities	26.0
Other costs	1.9
Depreciation	9.7
Bad debt write-off	0.8
Total operating costs	277.4
Financing costs	0
Total operating surplus/deficit	(25.7)

Estimated number of new cases	320,000
Estimated number of resolved cases	440,000
Unit cost (£)	629

In the light of the feedback we have received (see above), we are now planning on the basis that we will receive around 200,000 cases about PPI during 2014/2015, rather than the 150,000 we assumed when we consulted - although there is considerable uncertainty about this.

As a result of this, our budget now assumes higher expenditure to deal with this caseload, primarily on staff and related costs.

Our overall aims

We invited comments from stakeholders on our priorities for the coming year. Stakeholders generally supported our plans, and highlighted four priorities in particular:

- **Case-processing times**
Stakeholders want to see a reduction in the time taken to deal with cases and a reduction in the levels of stock that have built up, especially in PPI.
- **E-enablement**
Stakeholders support our plans for more and better electronic handling of cases, and want us to go further on this.
- **New case-handling model**
Many stakeholders support quicker and more informal handling of cases - in particular more use of phone-based resolution.
- **Decisions database**
Many stakeholders - financial businesses in particular - welcomed the publication of ombudsman decisions online. Many want the current online database of decisions to be developed further and to be more searchable.

We welcome this feedback and have considered these points in developing our plans for the year ahead. This includes commitments to:

- Reduce the time it takes us to resolve cases wherever possible, recognising the challenges of managing an existing PPI workload of some 400,000 cases.
- E-enabling our service, to deliver service improvements and lower transaction costs for users.
- Working with businesses to make our “end-to-end” processes as efficient as possible.
- Develop the use of online portals and electronic communication for our larger users.
- Share more with stakeholders about what we do and what we see, to help prevent future complaints.
- Add over 30,000 more ombudsman decisions to our searchable online database.

List of respondents

The following organisations responded to our consultation paper. A further five organisations, who are not listed, also provided responses but requested that these be kept confidential for commercial reasons.

- Association of British Insurers
- Association of Mortgage Intermediaries
- Association of Professional Financial Advisers
- AXA UK
- Barclays Bank PLC
- British Bankers' Association
- British Retail Consortium
- Consumer Council of Northern Ireland
- Consumer Liaison Group
- Council of Mortgage Lenders
- Direct Line Group
- EMCAS
- Finance and Leasing Association
- Financial Services Consumer Panel
- GE Money Home Lending
- Gladstone Brookes
- Lloyds Market Association
- MBNA
- Professional Financial Claims Association
- Society of Lloyd's
- UK Cards Association