

Our plans for the year ahead 2009/2010

30 March 2009

The Financial Ombudsman Service published its proposed budget for the 2009/10 financial year on 15 January 2009 - and invited comments from stakeholders and users of the service by 23 February 2009. Meetings to discuss the budget proposals in detail were held with 14 trade associations and with the statutory panels set up under the Financial Services and Markets Act.

Feedback on the budget has been generally supportive of the workload forecasts. There has been broad agreement that the volume of complaints to the ombudsman service is likely to rise significantly during the year - as a result of the recent turmoil in the financial markets and the worsening economic climate.

The ombudsman is planning to deal with 150,000 new complaints in the 2009/10 financial year - and to resolve a record 165,000 cases (a 44% year-on-year increase).

This significantly increased workload will involve a rise in the ombudsman service's operating costs from £62.7m (in 2008/09) to £92.5m (in 2009/10) - with 21% of income to be raised by the statutory levy on financial services businesses and 79% from case-fees. A case fee of £500 will be paid by businesses for the *fourth* (and any subsequent) dispute referred to the ombudsman service during the year.

The ombudsman service's unit cost - its average costs of handling a case, taking all overheads into account - is expected to rise by 2.8% to £559 in 2009/10.

These budget and funding arrangements have been approved by the boards of the Financial Services Authority (FSA) and the Financial Ombudsman Service - in line with statutory requirements - and are summarised in the table below.

Budget for 2009/10 (as approved by the FSA)

| Income | £ million |
|----------------------------------|-------------|
| Levy | 19.5 |
| Case fees | 73.4 |
| Other income | 0.4 |
| Provision for bad/doubtful debts | (0.5) |
| Total | 92.8 |

| Expenditure | £ million |
|-------------------------------|-------------|
| Staff and staff-related costs | 77.5 |
| Professional fees | 1.6 |
| It costs | 1.6 |
| Premises and facilities | 6.5 |
| Other costs | 3.0 |
| Depreciation | 2.1 |
| Operating costs | 92.3 |
| Financing costs | 0.2 |
| Total costs | 92.5 |

| | |
|----------------|--------------|
| Surplus | £0.3 million |
| Cases resolved | 165,000 |
| Unit cost | £559 |

Number of new cases expected in 2010/11

| Banking | |
|------------------|--------|
| Credit cards | 16,000 |
| Current accounts | 18,000 |
| Mortgages | 16,000 |
| Other | 15,000 |

| Insurance | |
|--------------------------|--------|
| Payment protection (PPI) | 25,000 |
| Car/motor | 8,000 |
| Other | 17,000 |

| Investment | |
|--------------------------------|--------|
| Endowments linked to mortgages | 6,000 |
| Pensions | 8,000 |
| Other | 16,000 |

| | |
|-----------------|----------------|
| Consumer credit | 5,000 |
| Total | 150,000 |

As part of the consultation on the ombudsman service's corporate plan and budget for 2009/10, several themes emerged for discussion:

“the 8% interest-rate on ombudsman awards should be reviewed, to reflect the current financial situation”

The 8% interest-rate reflects the fact that:

- o the rate is *gross* before tax is deducted;
- o it applies to *historic* losses at times when different base-rates applied;
- o it takes account of *current* interest rates being charged on overdrafts and loans - which have not reduced in line with the base-rate.

The courts have not changed the equivalent interest-rates that they apply. So there does not appear to be a case for changing this rate at present.

“the new case fee of £500 could lead to firms settling unjustified cases”

This was the amount of the case fee charged by our predecessor scheme, the PIA Ombudsman Bureau, over ten years ago.

A case fee of £500 was one of a range of options presented to the Industry Funding Forum - the stakeholder liaison-group, comprising industry practitioners and representatives from trade associations, that discusses our budget and funding. The industry forum favoured this option over other options which would have resulted in a lower case fee but *higher* levies.

The £500 case fee also reflects a general consensus across the financial services industry that a greater proportion of the ombudsman service's funding should be raised from case fees. The review of the ombudsman service's funding arrangements carried out in 2006 identified a general concern that some firms were "dumping" cases on the ombudsman - because ombudsman case-fees were cheaper than the cost to some firms of handling complaints properly themselves.

However, if businesses now believe that £500 is at the top of the acceptable range for case fees, this will influence thinking for the budget arrangements for 2010/11.

In the meantime, businesses continue to pay *no* case fees for the first *three* complaints against them each year. This arrangement means that around three-quarters of businesses with complaints referred to the ombudsman service pay *no* case fees.

“the case fee should be charged at the rate that applied when the case was first received”

This issue was considered as part of the review of the ombudsman service's funding arrangements carried out in 2006. The conclusion was that case fees should continue to be charged at the rate that applies at the time the case is resolved and closed. Charging case fees at the rate that applied when the ombudsman service first *received* the case would be likely to result in a material increase in the levy.

As it cannot be predicted when exactly individual cases will be closed, charging different case fees for different cases would also present difficulties in budgeting - unless the fee was paid *upfront* (rather than when the case has been closed). This was the arrangement that caused considerable administrative difficulty for our predecessor scheme, the PIA Ombudsman Bureau.

“what about productivity levels?”

It had been expected that the ombudsman service's productivity would be adversely affected, by its having to recruit and train significant numbers of new adjudicators to deal with the rising volumes of new complaints - and by the increase in cases involving hard-fought arguments, as businesses increasingly take a legalistic approach and consumers become more demanding.

However, despite these operational pressures, the productivity level has increased by around 15% during the year - measured by the average number of cases resolved each week by our adjudicators.

“what's the story behind the predicted increase in motor-insurance complaints?”

A further significant rise in all types of motor-insurance complaints had initially been predicted - following the 42% increase in the previous year. The ombudsman service has set up a joint exercise with the Association of British Insurers (ABI) to investigate what may be causing these increases.

Meanwhile, in the light of further feedback from some insurers, the forecast number of new complaints in this category has been reduced from 11,000 to 8,000.

As other feedback suggested that the volume of complaints about payment protection insurance (PPI) may have been underestimated, the forecast number of those complaints has been increased by 3,000 (to 25,000).

This means the *total* number of new complaints for 2009/10 remains 150,000. This does not affect the proposed tariff rates, as these are based on the number of cases settled and closed.

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