

Our plans for the year ahead 2010/2011

26 March 2010

The Financial Ombudsman Service's 2010/2011 budget (for the year from 1 April 2010) has been approved by the boards of the ombudsman service and the Financial Services Authority (FSA) - in line with statutory requirements.

The ombudsman service is gearing up to receive 190,000 new cases in 2010/2011- and to resolve a record 210,000 cases (a 27% increase on the forecast for 2009/2010).

Both the amount of the case fee and the total levy payable by financial businesses has been frozen at 2009/2010 levels. The total budget of £115,675,000 (up 25% from 2009/2010) reflects an increase in cases resolved, and case fees collected, as well as an adjustment in reserves. The average cost of handling a case will fall to £551.

Budget for 2010/11 (as approved by the FSA)

Income	£ million
Levy	19.5
Case fees	94.5
Other income	0.2
Provision for bad/doubtful debts	(0.5)
Total	113.7

Expenditure	£ million
Staff and staff-related costs	99.7
Professional fees	1.6
It costs	1.8
Premises and facilities	7.0
Other costs	3.5
Depreciation	1.9
Operating costs	115.5
Financing costs	0.2
Total costs	115.7

Surplus/(deficit)	(£2.0 million)
Cases resolved	210,000
Unit cost	£551

Number of new cases expected in 2010/11

Banking	
Credit cards	22,100
Current accounts	35,000
Mortgages	8,500
Consumer credit	10,200
Other	19,400

Insurance	
Payment protection (PPI)	46,000
Car/motor	6,600
Other	17,000

Investment	
Endowments linked to mortgages	4,000
Pensions	3,600
Other	17,600

Total	190,000
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Our consultation

The ombudsman service published its proposed budget for 2010/2011 on 12 January 2010, alongside its corporate plan - and invited comments from stakeholders and users of the service by 22 February 2010.

Meetings to discuss the budget proposals in detail were held with eight financial-services trade associations and with the statutory panels set up under the Financial Services and Markets Act. Thirteen written responses were received from businesses, trade associations and consumer groups.

Stakeholders were broadly supportive of the ombudsman service's plans to receive 190,000 new cases and to resolve 210,000 cases, whilst freezing the case fee and total levy. But a recurrent theme both in consumer and industry feedback was the hardening of attitudes in complaints, with businesses increasingly taking a more legalistic approach and consumers becoming less willing to concede.

Stakeholders have warned that this trend - largely reflecting the tougher economic environment - could have a significant impact on the ombudsman service's dispute-

resolution work, reducing the opportunity to settle complaints quickly and informally at an early stage.

Taking this into account, the final budget includes an additional £2 million to cover the impact of dealing with entrenched disputes involving more appeals. This includes the cost of increased ombudsman resource, in response to rising demand for final ombudsman decisions as the last stage of the appeals process.

This has been achieved without increasing either the proposed case fee or levy, because cost savings over recent months mean that the ombudsman service starts 2010/2011 with larger reserves than had been anticipated when the proposed budget was published.

A number of points emerged from the consultation responses.

“how did the ombudsman service forecast complaint numbers for next year?”

Forecasting complaints is not an exact science. The number of cases that consumers will refer to the ombudsman service up to the end of March 2011 will be affected by a very wide range of factors - including the economic environment, the role of the media and claims-management companies, and the way in which businesses deal with complaints themselves before the ombudsman service gets involved.

Following our initial discussions with the larger businesses whose customers complain to us the most, we agreed that showing a range of possible figures would stress the variables involved in predicting complaint numbers. Most stakeholders agreed broadly with the central assumptions set out in our plan and budget - but most also suggested that there is more likelihood of the number of new cases moving towards the pessimistic rather than optimistic end of the scale.

Different stakeholders had varying views on the forecast number of new cases in relation to specific financial products.

Some said that the number of payment protection insurance (PPI) complaints would continue to rise - and would exceed our central assumption of 46,000 new cases in 2010/2011 - as claims-management companies advertise more aggressively and drive up volumes of complaints. Others took the view that rules and guidance for firms on handling PPI complaints - currently being consulted on by the FSA - will mean fewer PPI cases referred to the ombudsman service.

We have had to take a view on the number of PPI cases that we will be called on to handle in the light of the outcome of FSA's current consultation on the handling of PPI complaints - and the industry's reaction to it. Clearly, there is potential for significant impact (in either direction) on our workload and budget.

Organisations responding to our consultation also took different views on whether forecast numbers of complaints relating to motor insurance, pensions and investments were too optimistic or too pessimistic.

“could the ombudsman service do more to screen out complaints?”

Only about one in six of all initial enquiries and complaints referred to our consumer front-line (our customer-contact division) go on to become "chargeable cases" involving an adjudicator and/or ombudsman. The other five out of six complaints can be sorted out or re-directed at our front-line "filter", without our needing to take the complaints on as formal cases.

In our initial scan of all new complaint enquiries, we continue to see many instances where the business concerned has done little to investigate matters in the eight weeks following the consumer's complaint. This is the period set by the FSA under its complaints-handling rules ("DISP" rules). In our annual review last year we observed that in up to 40% of cases we see, businesses had failed to send a final response letter to the consumer by this eight-week deadline.

This means that, if a consumer refers their case to the ombudsman service after this eight-week period, there is often no final response letter on which we can rely as a summary of the business's investigation and conclusions. It is only when we become formally involved in a case - after it has become "chargeable" - that some businesses apply themselves to looking at the complaint and dealing with it properly.

If businesses issue final decision letters to their customers on time - explaining their position on a complaint clearly and fully - we will be able to take the views and facts set out in these letters into account at our front-line filtering stage, when we decide whether or not to take on a complaint formally as a "chargeable" case.

“what about free cases for businesses?”

Following consultation with trade bodies representing the different financial services sectors, we have agreed funding arrangements for 2010/2011 that again involve no case fee being charged for each business's first three cases referred to the ombudsman during the year. We have also frozen the case fee (charged for the fourth and any subsequent case) at £500 - the level charged in 2009/10.

All the trade bodies with which we discussed this matter recognised that further increasing the number of "free" cases would transfer the costs of our handling these cases to the levy instead. As all businesses pay the levy, this would mean the vast majority of smaller

businesses with only low levels of complaints paying for the additional free cases used only by a minority of larger businesses.

“is the plan to eliminate waiting times for customers achievable?”

We are determined to improve the timeliness of our complaints handling. We know that resolving complaints quickly is very important to consumers and businesses. In recent years, our ability to deal with complaints as quickly as we would like has been adversely affected by our having to handle much higher volumes of cases than forecast.

As the 300 adjudicators we have recruited during 2009/10 progress through their training and mentoring - and reach their full potential in the financial year 2010/2011 - we are confident that we will be able to improve timeliness in relation to a large majority of the complaints we handle. This is reflected in the timeliness targets we have set ourselves in the budget - which will involve settling over half of all cases in three months and three quarters of cases within six months.

However, our research shows that people also want to know that their complaint has been dealt with thoroughly - as well as quickly. And the speed with which we can settle a dispute can be very much determined by whether the consumer and the business both agree, at an early stage, to any recommendation or informal settlement that we may suggest; or whether either side requests the more formal stage involving lengthy investigations and a full appeals process.

Feedback on our corporate plan and budget has indicated that we should plan to deal with a marked increase in the number of disputes involving hard-fought arguments and appeals to an ombudsman. If the parties appeal an increased proportion of cases, this will have an effect on the timeliness of this minority of cases.

“what does the increased workload mean for the panel of ombudsmen?”

The substantial increase in our workload means that there are more cases at all stages of our process - including a near doubling of cases appealed to an ombudsman for a final decision. This is why our panel of ombudsmen has already increased, following recruitment during the year.

We have seen a significant increase not only in the number of cases referred to ombudsmen for a final decision but also in the proportion of cases appealed to the final stage. In recent years around 8% of cases have required an ombudsman's final decision - but this has now risen to 12%. For complaints about pensions and investments, this rises to 30% - reflecting the complexity of these disputes, the larger amount of money often at stake, and the socio-demographic background of many of the consumers involved.

This is in line with feedback from consumer and industry stakeholders, who have told us to expect a marked increase in the number of disputes involving hard-fought arguments and appeals to the ombudsmen. In response, we will be adding more ombudsmen to our ombudsman panel, to deal with the increased workload.

Around 60% of appeals to ombudsmen are asked for by consumers, and about 40% by financial businesses. In about 85% of these cases, ombudsmen at the appeal stage reach the same conclusion as the adjudicator. In the others - around 2% of the total cases that we resolve - there may be a finely-balanced judgement call or, more often, new facts that have come to light only at this very late stage.

[“what does working ‘collaboratively with bodies to support the public interest’ mean?”](#)

We are committed to working with a wide range of external stakeholders, to help rebuild confidence in financial services - for the benefit of the industry and its customers. This is even more important in a difficult economic environment. Research shows that consumers find the existence of the ombudsman reassuring. They are more likely to acquire financial products - confident that, if they have a problem, it can be sorted out fairly and impartially.

[“how is the business-process improvement programme progressing?”](#)

It is now ten years since we brought our predecessor separate ombudsman schemes together under one roof - to form the new single Financial Ombudsman Service. In that time, our workload has increased eight-fold.

We have reviewed our processes as we went along. But the time is now ripe for a fresh look. How are the systems and procedures we put in place to deal with a smaller volume of cases standing up to our current scale of operations? Is our service keeping pace with the changing needs of users?

We commissioned a detailed business-process review by external management consultants between October 2009 and January 2010 - to independently assess the processes we have in place for handling complaints. They have now reported back to us with the findings of their review. They have concluded that our core casework process and supporting systems are appropriate and in line with best practice in other complex service-organisations. In particular, they commented on the strong customer-service ethos across the ombudsman service.

The management consultants also agreed a number of areas where we had already identified development opportunities - but had not yet committed the significant resource needed. This includes building on our existing case-handling system with new "paperless" processes; enabling fully electronic interaction with businesses and consumers; and investing greater

resource in "triage" - using initial diagnostic reviews to allow new complaints to be quickly assessed and progressed to the most appropriate next stage.

We are now looking at a significant development programme phased over more than two or three years. This will involve turning the high-level principles into more detailed operational processes; considering how these will look to our users; and then pilot-testing and refining them. We will also need to work up a more detailed and costed business case, to support the additional investment in IT - to be added into our proposed budget for 2011/2012, on which we will consult in January 2011.

In the meantime, we are already investigating how we can better identify, filter and "fast track" the types of cases where we are more likely to be able to intervene early on and encourage informal settlement. This work has included trialling an innovative way of communicating our views and decisions more clearly and concisely, using simple forms and postcards instead of our more usual detailed letters and lengthy reports.

The results from this trial project - carried out between November 2009 and March 2010 - suggest that consumers and businesses receiving our new-style "short form" communications are more likely to agree with our conclusions at an early stage than those who receive the same conclusions set out in a more conventional letter.

We are now planning to extend this project - which transforms the way we *communicate* the outcome of cases but *does not* change *the* approach by which we arrived at those outcomes - across a wider range of our casework.

[“what should be covered by the 2010 external review?”](#)

Our public-interest non-executive board is committed to commissioning and publishing an independent external review every three years.

In 2004 Bristol University's Personal Finance Research Centre examined our performance in terms of quality, consistency, process and value; and in 2008 Lord Hunt reviewed our accessibility and transparency.

Our board has decided that the next review should look at the "value for money" provided by our service. Stakeholders responding to our consultation suggested a range of "efficiency" issues that could be covered by the review. We will share these suggestions with National Audit Office (NAO) which our board hopes to be able to commission to carry out the review.