

Financial Ombudsman Service Limited

MINUTES

MINUTES of the meeting of the directors, held at held at South Quay Plaza, 183 Marsh Wall, London, E14 9SR on Wednesday, 19 February 2014 at 9.00 am

Present	Nick Montagu (NM)	chairman
	Maeve Sherlock (MS)	director
	Gwyn Burr (GB)	director
	Julian Lee (JL)	director
	Alan Jenkins (AJ)	director
	Pat Stafford (PS)	director
In attendance	Tony Boorman (TB)	chief executive and chief ombudsman (interim)
	Liz Brackley (LB)	strategic development director
	Julia Cavanagh (JC)	finance and performance director
	Caroline Wayman (CW)	legal director
	Jacquie Wiggett (JW)	HR and organisational development director (to item 3)
	Garry Wilkinson (GW)	PPI operations director (for item 4)
	Alison Hoyland (AH)	board secretary & head of CEO's office (minutes)
	Judy Delaforce	FSTP Global, observing as part of the annual board evaluation

Apologies for absence

There were no apologies for absence.

0/1402 Executive update

The Board noted the update from members of the executive on their respective areas, with some further discussion on the following:

Ombudsmen appointments

The Board noted the latest ombudsmen appointments, and again, the high calibre of appointees.

Litigation

The Court of Appeal case involving the rights of complainants to take civil action to recover redress balances in excess of the ombudsman service's monetary cap had concluded. The judgement had found for the appellants, concluding that it was not possible for a consumer who had accepted an ombudsman monetary award to then go to court on the same issues to recover the balance of their alleged total losses.

Noting the number of litigation cases where the ombudsman service had been awarded costs, the Board reaffirmed the general presumption that the service would always seek to recover its costs, unless there were compelling reasons that it should not seek to do so in specific cases. This approach reflected the ombudsman's commitment to managing its costs effectively and efficiently.

Casework issues

Case-handling colleagues continued to monitor incoming case work, and the financial services landscape more generally, for signs of any emerging issues which had the potential to impact the ombudsman, including in terms of significant volumes of cases. An example of such an area included 'no hang up' banking scams which had received a degree of media attention in recent weeks; volumes to the ombudsman had so far been modest though.

Another area receiving media attention was pay day lending. Again, while the volumes of cases to the ombudsman had been modest to date, timely handling was crucial given the vulnerability of some consumers, and the immediacy of the problems some of them were facing. The ombudsman had, therefore, put in place arrangements to try and streamline the process, which included the receipt of direct referrals from citizens advice offices.

actions

- MS to put CW and colleagues in touch with local advice and support agencies in the North East to inform thinking on the experiences of consumers who relied on pay day and other similar means of credit.
- A note on pay day lending cases to come to a future Board, if the numbers of cases increased in any great volume, and/or an analysis of the issues suggested that a discussion at the Board would be helpful.

Project management

A new framework for the management and oversight of projects, which included a simple initiation process, would be put in place from 1 April 2014. The process was designed to ensure an early understanding of the scope of a project, the business and IT needs and the costs and benefits. It would also help make sure that initiatives and resources were prioritised effectively.

The governance arrangements included a project oversight board, which would report back to the executive, including on any conflicting priorities.

action

- a more detailed note on the framework to be included in LB's update to the March Board.

Marta Szafran

The Board and the executive wished to record, on behalf of everyone at the ombudsman service, their sincere sympathy for the family of colleague, Marta Szafran, who had died of cancer earlier in the month following a long illness. Marta had been an adjudicator at the service and would be remembered by colleagues with fondness and great affection.

1/1402 Minutes and approvals

The minutes of the Board meeting held on 11 December 2013 were approved.

2/1402 Matters arising

Matters arising were picked up in the substantive business before the Board.

3/1402 Q3 performance & Q4 outlook

fos/14/02/03

Performance in the third quarter remained strong overall, with higher than forecast case resolutions, continuing the good progress from the first half of the year. Areas of pressure remained around the effective management of the PPI caseload, with new cases continuing to come in at a steady rate of 6000 a week, getting more answers out on the oldest cases and focussing on those aspects of customer satisfaction and service quality where feedback suggested more should be done. In PPI, for example, a slight decline in customer satisfaction reflected people's understandable frustration as they waited for an answer. Work was under way to get a better understanding of the different expectations and needs of people who were waiting, depending on their personal circumstances, the type of case they had and how long their case was likely to take. This work would help inform the support the ombudsman might need to give to different people in different circumstances, including, where relevant, tailoring updates to make them more meaningful and informative for the individuals involved.

The strong financial performance, which came off the back of the higher than forecast number of PPI cases and the consequent income generated from the PPI supplementary case-fee, would be considered as part of the next item on the 2014/15 budget. Staff engagement and retention would be looked at in more detail at the March Board meeting, as part of a wider 'people' strategy review. The annual review of the corporate risk register was also due to be undertaken at the April Board, alongside the Board's annual effectiveness evaluation which would include a look at the effectiveness of the information and support the Board received. These sessions would provide an opportunity for a fundamental refresh of the register, both in terms of content and presentation.

The Board commended the ombudsman staff on another strong quarter; while a number of challenging areas remained, the Board noted the work that was under way to respond to the areas under pressure and to strike the right balance between the different priorities. It agreed the revised forecasts for higher numbers of new PPI cases, and, in turn, higher numbers of PPI case resolutions.

4-7/1402 2014/15 budget and strategic overview

fos/14/02/04-07

At the March meeting, the Board would be asked to sign off the 2014/15 plan and budget for submission to the FCA Board for approval. Before then, to help with the final preparations, the executive had undertaken a review of the operational and financial position, as the service approached the year-end, and tested the latest assumptions for the year ahead.

There were a number of interdependencies informing the 2014/15 budget and plans – of which the three key aspects for consideration were:

- the significant challenges which remained around managing the PPI caseload (for which there were a number of operational options); and
- the ombudsman's financial position as it headed into 2014/15 (which would be better than anticipated in the plan and budget consultation, mainly as a result of a higher than forecast number of PPI cases and the income generated from the PPI supplementary case-fee); and
- the developing view of the ways in which the service would seek to make sure it was able to continue to meet customer needs and expectations (reviewed later in the agenda).

Managing the PPI caseload

Managing the PPI caseload would be a multi-year challenge, and while it continued to dominate operational planning, it would remain a key area of strategic focus for the Board, both as part of the annual budget setting process and on an ongoing basis.

Earlier in the budget planning cycle, the Board had heard how, over time, there were likely to be fewer straightforward and quicker to resolve cases, and the existing stock would contain an increasing proportion of more complex, more difficult to resolve cases. The implications included a growing need to up-skill the capabilities of case-handlers, as well as a need to be flexible and responsive enough to adapt the operational approach, to take account of the size and nature of the caseload and the level of customer service being provided.

The Board reviewed the latest analysis of the caseload size and its ageing profile over the next financial year, tested against a number of scenarios, including a broad range of new case volumes and resolution levels. The analysis bore out the assumptions about increasing case complexity. The Board agreed an approach which balanced the need to get answers out to consumers who had been waiting the longest, with an imperative to tackle the more complex cases which had not been resolved at the earlier stages.

While it understood that this would require modest levels of recruitment to maintain current staffing levels and to increase ombudsman capacity, the Board continued to

take the view established at its November meeting the previous year, that further mass recruitment was not currently appropriate. It did agree though, that the possibility of further recruitment in future should not be ruled out. It would want to continue to test staffing-level assumptions as part of its ongoing oversight of the overall strategy.

Financial and investment considerations

The ombudsman was in a strong financial position as it headed into the next financial year, better, in fact, than anticipated in the plan and budget consultation, mainly as a result of a higher than forecast number of PPI cases and the income generated from the PPI supplementary case-fee. The discussion on the operational challenges in PPI continued to highlight the significant uncertainties that remained, and to support the Board's view that the ombudsman should retain the reserves it held to deal with PPI over the next few years and fund any number of scenarios, including any future changes to its operational response.

In reaching the view that it would not be appropriate at this point to return funds to fee-payers, the Board noted that the responses received to the consultation had not supported the ombudsman doing so. The Board also acknowledged that if it did give any money back, this would expose other fee-payers, not responsible for PPI mis-selling, to any additional costs that may be incurred in the future. Respondents had recognised the work that remained to be done to manage the PPI caseload in future years (with some suggesting that PPI case volumes may be higher than forecast), and the opportunity that the annual consultations would provide to review the position and the potential for returns in future years.

Outside of PPI, the Board agreed that further investment as part of the ombudsman's commitment to developing its service was also appropriate, noting again the overwhelming support from respondents for investment in service improvement.

The ombudsman service would now proceed to finalise the plans and budget for 2014/15, in the light of the Board's continued support for the strategic outlook. It would then be put to the March Board to sign off for submission to the FCA Board for formal approval.

Performance

At the March meeting, the Board would also be asked to approve the annual performance measures for 2014/15, comprising a corporate scorecard (the internal metrics for assessing performance) and a set of key organisational development priorities. The Board agreed the broad approach being proposed by the executive: for the performance measurements, the executive wanted to take a more nuanced approach than in previous years, to take account of the different operating environments in the different business areas, and for the key development objectives, the intention was to roll-forward the current areas of focus, in so far as they remained relevant, with some changes to reflect how those areas had moved on and the expected next steps. A more detailed review of the underlying metrics would be undertaken at the March Board.

action

- quality assurance group to consider the proposed measures and how, in assessing performance, they are also able to do so from the customers' perspective
- Board members to send JC comments on the proposed measures ahead of the March Board.

8/1402 Service development

fos/14/02/08

The ombudsman service was continuing to refine its thinking on the shape and pace of its service development and improvement programme. The focus of attention, at least initially, was on defining clearly the ombudsman service's role, the business it was in and the environment in which it operated. This phase of the work was being

informed by reference to the ombudsman's statutory remit and other external factors, such as the consumer and industry landscape and wider societal and political developments more generally. The Board commissioned independent review, looking at future changes in the ombudsman's operating environment and society more broadly, would also help inform the thinking here, both in the shorter and the longer term.

The findings from the independent review were due to be presented to the March Board. Thereafter, the Board would continue to be involved as the programme of work developed, including on the next phase and the more detailed plans for how the service might develop and change, and the initiatives and innovations under consideration. The Board acknowledged that service development and improvement were essential to the ombudsman staying relevant and able to meet consumer need. However, it accepted too that ambitions here would need to take account of the operational challenges in PPI, and that it would have an eye to both service improvement and PPI case management as part of its strategic oversight role.

9/1312 Rules instrument

fos/14/02/09

The Financial Conduct Authority (FCA) was taking on the regulation of consumer credit from 1 April 2014, at which point the ombudsman's consumer credit jurisdiction would be abolished and the relevant activities would transfer to its compulsory jurisdiction. At the same time, the ombudsman's scope would be extended to cover group licensees and micro-enterprises as well as peer-to-peer lending which the FCA was making a regulated activity.

The Board approved the associated amendments to the relevant rules in DISP, subject to approval by the FCA at its meeting later in the month.

Any other business

There being no other business, the meeting ended at 12.15.