

# Financial Ombudsman Service Limited

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## MINUTES

MINUTES of the meeting of the directors, held at South Quay Plaza, 183 Marsh Wall, London E14 9SR on Wednesday 21 December at 9.30 am

Present	Chris Kelly	chairman
	Gwyn Burr	director
	Janet Gaymer	director
	Alan Jenkins	director
	Elaine Kempson	director
	Kate Lampard	director
	Julian Lee	director
	Roger Sanders	director
	Pat Stafford	director
In attendance	Natalie Ceeney	chief executive and chief ombudsman
	Tony Boorman	decisions director
	Julia Cavanagh	performance & finance director and company secretary
	David Cresswell	communications and customer insight director
	Caroline Wayman	legal director
	David Thomas	lead ombudsman (for executive update and item 5)
	Alison Hoyland	board secretary & head, CEO's office (minutes)

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### Apologies for absence

An apology for absence was received from Maeve Sherlock.

### 0/1112 Executive update

The board noted the update from the executive and discussed the following issues:

- a) *Operations director vacancy*  
The chief executive and chief ombudsman was pleased to update the board that the service had appointed an interim director the day before the board meeting, to start in early January. The appointment would enable the service to take a little more time to get the right calibre candidate for the permanent post.

The board also noted other senior operations appointments, aimed at providing additional senior management oversight of our PPI work going forward and strengthening the management level below the executive.

- b) *Olympics planning*  
The board noted that the latest available information suggested that travel disruption would not be as extensive as reports had first suggested. Further work had suggested that the Service could manage the period for the majority of its business through a combination of home-working (including remote e-working), flexible working, leave etc and hence avoid significant expenditure on alternative accommodation. Board members asked that the service keep itself fully informed as the latest information became available to check that its plans remained appropriate and that the Audit Committee should be asked to review the service's approach nearer the time.

**action** Olympics planning to be reviewed by the Audit Committee at its meeting in February.

c) *FSA*

The board noted that the FSA was at a crucial point in its evolution to becoming the FCA and while the service was working closely with the regulator to make sure that matters of mutual interest remained on track, the service was mindful of not compromising its independence.

d) *Mortgage cases*

In noting that mortgage cases had been increasing in recent months, the board asked what lay behind the rise. The decisions director explained that an increasing number of cases were coming through which involved over-indebtedness and financial hardship and lenders' treatment in this regard. There had also been an increase in CMC-brought cases involving more complex mortgage arrangements.

Board members noted that the an increasing number of debt cases was not surprising against the background of the current economic climate and factors such as lenders' forbearance arrangements coming to an end and that the Service may well expect numbers to carry on increasing for some time.

e) *Social media*

The board noted the innovative social media work being undertaken by the service. The communications and customer insight director explained that a three-month project - in partnership with a specialist digital agency (which had been selected with the help of board member Pat Stafford) – had just been completed. The work looked at the risks and opportunities posed to the ombudsman service by the social web. The project had been in two phases:

- *First* - identifying exactly where and how conversations were taking place and the language being used across the internet about money-related problems in general, complaints more specifically, and the ombudsman in particular.
- *Second* - with this understanding, devising a set of operational guidelines on when and how to intervene in online conversations.

The communications and customer insight director explained that the service was now piloting a project to put these operational guidelines into practice.

The Board commended the work and asked that it receive a follow-up report in due course.

f) *Equality & Diversity*

The board congratulated the communications and customer insight director on the signing-off of the service's equality and diversity action plan a year early. The board was reassured to know that the 'mainstreaming' of equality and diversity would not result in a reduced focus however, noting that the service intended adding an 'equality and inclusion' performance indicator to the corporate scorecard for 2012/13.

g) *European Commission*

The European Commission had published proposals on alternative dispute resolution (ADR) and online dispute resolution (ODR). The service was keeping itself apprised of the developments in this regard and would be working with the relevant Government departments and fellow ombudsman schemes on the implications and opportunities arising from the proposals.

## **1/1112 Minutes and approvals**

The minutes of the board meeting held on 23 November were approved.

The board noted the draft minutes of the audit committee held on 10 November 2011.

The board noted the draft minutes of the quality committee meeting held on 23 November.

## **2/1112 Matters arising**

### *File Review*

The board agreed that the File Review item from the October board should be carried over to the January 21012 board meeting.

**action** File Review to be added to the agenda for the board meeting on 25 January 2012.

## **3/1112 Update on PPI planning**

**fos/11/12/03a**

At its November meeting, the board had agreed the approach the service was proposing to take to increase its capacity to handle higher numbers of PPI cases and the challenges uncertain and volatile volumes presented.

The decisions director confirmed that a number of key commitments had been approved by the project steering group (which two board members attended as critical friends), including:

- accommodation;
- project management support work; *and*
- the operational approach.

## **2012/13 Plan & Budget**

**fos/11/12/03b**

The board had been asked at its November meeting to agree the broad parameters and assumptions underlying the service's plans and budget for 2012/13. The service had prepared its plans in the light of stakeholder views that demand for the service next year was likely to be higher than original plans had estimated and that it should prepare for an increase in non-PPI complaints as well as a significant increase in PPI complaints.

Stakeholder feedback had suggested that the additional capacity required to manage an increasing PPI workload should be funded by adjusting the case fee arrangements, rather than making changes to the levy – and that, as far as possible, the costs should be allocated to those who had been responsible for PPI misselling. The service proposed therefore to introduce a supplementary PPI case fee of £350 from 1 April 2012, payable on 'conversion' of each new PPI case (after the first 25 cases). The board noted that, with the exception of those cases subject to the supplementary fee, the service proposed to retain the existing case fee and general levy for the new financial year (2012/13).

The board noted that the FSA Board had since approved the basis upon which the service intended to consult and, subject to one or two amendments to provide some clarity on certain aspects of the paper, the board approved the 2012/13 plan and budget consultation document for publication in January.

The 2012/13 plan & budget consultation paper flagged that the service proposed to review the funding arrangements from 2013/14 onwards. The case profile and demands on the service had changed significantly over the last few years – but the funding mechanism had essentially remained the same since the Service was established over 10 years ago

The board had previously agreed the broad parameters of a new approach to funding and the FSA Board had raised no objections to the basis of the consultation when the service had shared the proposals with it in December.

The proposals were quite a departure from the current model and so the service proposed to issue a preliminary consultation paper on the funding arrangements for 2013 onwards, seeking initial views on the high-level principles. The service would consult further later in the year, subject to feedback and ongoing discussions with its stakeholders. In the meantime, the service would continue to work with FSA officials on the detail and the rules as it fleshed out its plans.

The board approved the paper for publication in January alongside the 2012/13 plan and budget paper.

**4/1112 Risk, development priorities & “success measurement”****fos/11/12/04**

In the light of the significant challenges the service was facing, particularly in relation to PPI, the executive team wanted to step back and reassess what this meant for the risks it faced as an organisation and its mitigation plans, as well as its priorities and performance measures. For similar reasons, the executive was also keen to engage the board earlier on in the process than it ordinarily would.

**Risk**

The board agreed that the risks identified and the relative assessments and mitigation management measures looked about right, subject to a number of small amendments, namely:

- combining risks 4 & 6 – which both concerned people-related risks;
- including ‘reputational risk’ as an inherent part of all risks;
- adding a risk which emphasised the organisation's need to be flexible and responsive to an unforeseen event/situation; *and*
- add a sub-risk to 2 – which concerned PPI planning – around IT.

**Development priorities**

The board agreed with the service's analysis that the existing priorities for the development of the service applied just as much going forward as now – not least in the light of the PPI challenges and continuing uncertainty around the caseload and other external factors. The issues would rather be more about resource levels and the timeframe for delivery, not the principle.

The executive team would work on the detail of the milestones and timeframes for delivery to bring back to the board in February, before setting them for the following year. The board agreed that its in year quarterly reviews would provide the opportunity for it to consider any reprioritisation of objectives.

**Success measurement**

Again, the board agreed that there were many external variables beyond the service's influence that could impact on the service's performance. It was right that the service should set stretching targets; the discipline of doing so encouraged the right behaviours

and provided appropriate accountability and reassurance to the board. However, there would need to be a degree of flexibility in allowing for adjustments, where appropriate, to the numerical targets against which success would be measured. The board also agreed that for the purposes of the service's reward arrangements, some of the targets would need to align to those aspects of the measure that staff could influence, for example, in relation to related drivers and development work.

The board agreed that the alternatives ran the risk of setting targets that were not stretching enough and de-motivating, or which were bound to fail or which ignored large aspects of the service's work or were too inward facing.

As with the development priorities, the executive team would work on the detail of the targets to bring back to the board in February, before setting them for the following year. The Board agreed that its in year quarterly reviews would again provide the opportunity for it to consider any changes to the numerical targets/baselines and agree plans for bringing the targets back on track.

Decisions on the payment of any collective reward would be a matter for the nominations and remuneration committee.

#### **5/1112 NAO efficiency review**

**fos/11/12/05**

The board had a long established commitment to periodic independent reviews of the Service. The review by the NAO was the third such review – and followed Lord Hunt's review on the service's accessibility and transparency in 2008.

The board agreed that the third review would involve NAO looking at our efficiency – reflecting a number of stakeholder views that such a review should be conducted. The proposals for reforming financial services regulation also included a provision for the ombudsman service to be subject to NAO going forward.

The board had agreed with the NAO that the detail of its report and the recommendations it had made would be subject to a full review by the audit committee after its publication.

In the meantime, the board confirmed receipt of the report and agreed that it should be published in January. The board noted that overall the report reflected positively on the service and how it had coped with year-on-year increases to its volumes and how it had managed its major "change programme" to meet this demand. The report recognised the significant operational challenges the service faced in terms of volatile demand and the impact that this had, including in relation to the drivers of the costs of settling disputes and the Service's funding model.

The board also noted the cooperative way in which the service and the NAO had worked together during the course of the NAO's review.

The NAO and the ombudsman service would provide a copy of the report to the Treasury Select Committee shortly before publication.

There being no other business, the meeting ended at 13.15.