

the role of the Financial Ombudsman Service in the UK redress landscape



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history of ombudsmen in the UK

- The office of Parliamentary Commissioner for Administration (Parliamentary Ombudsman) was the first ombudsman scheme created back in 1967.
- The first private sector ombudsman was the Insurance Ombudsman Bureau (IOB) established in 1981 and others quickly followed.
- In 2001 a number of voluntary schemes (banking, building societies, insurance and investment) were brought together by law to form the Financial Ombudsman Service.
- Statutory private-sector ombudsman schemes now exist in other sectors – and *non*-ombudsman forms of “alternative dispute resolution” (ADR) have also grown, backed by various voluntary codes.



criteria for recognition in the UK

- The Ombudsman Association (formerly the British and Irish Ombudsman Association) five key criteria:
 - Independence
 - Fairness
 - Effectiveness
 - Openness and transparency
 - Accountability



ombudsmen across the consumer world

- Statutory ombudsman schemes now exist in sectors such as **legal services, energy and property services**.
- The current landscape **can be confusing** for consumers, with some businesses covered by multiple ombudsman schemes and some sectors having more than one ombudsman scheme.
- This has made it **increasingly important for ombudsman schemes to work together** to deliver a redress framework that can be easily understood both by consumers and businesses.
- We have been working to this end with government departments, regulators and other ombudsman schemes.



where we sit: UK financial landscape

- We operate within the financial services framework, which includes the following statutory bodies:
 - Financial Services Authority / Office of Fair Trading
 - Money Advice Service
 - Financial Ombudsman Service
 - Financial Services Compensation Scheme



- We were **set up by law** to resolve individual complaints between consumers and financial businesses about a wide range of financial matters.
- We are **independent and impartial** – so when we decide a complaint, we look carefully at both sides of the story and weigh up all the facts.
- If we decide a business has acted wrongly – we can **direct it to put things right**.
- Consumers are always **free to go to court instead** - but if the consumer does accept our decision then it **becomes binding**.
- Our **award limit** has increased from £100,000 to £150,000 for complaints referred to us on or after 1 January 2012.



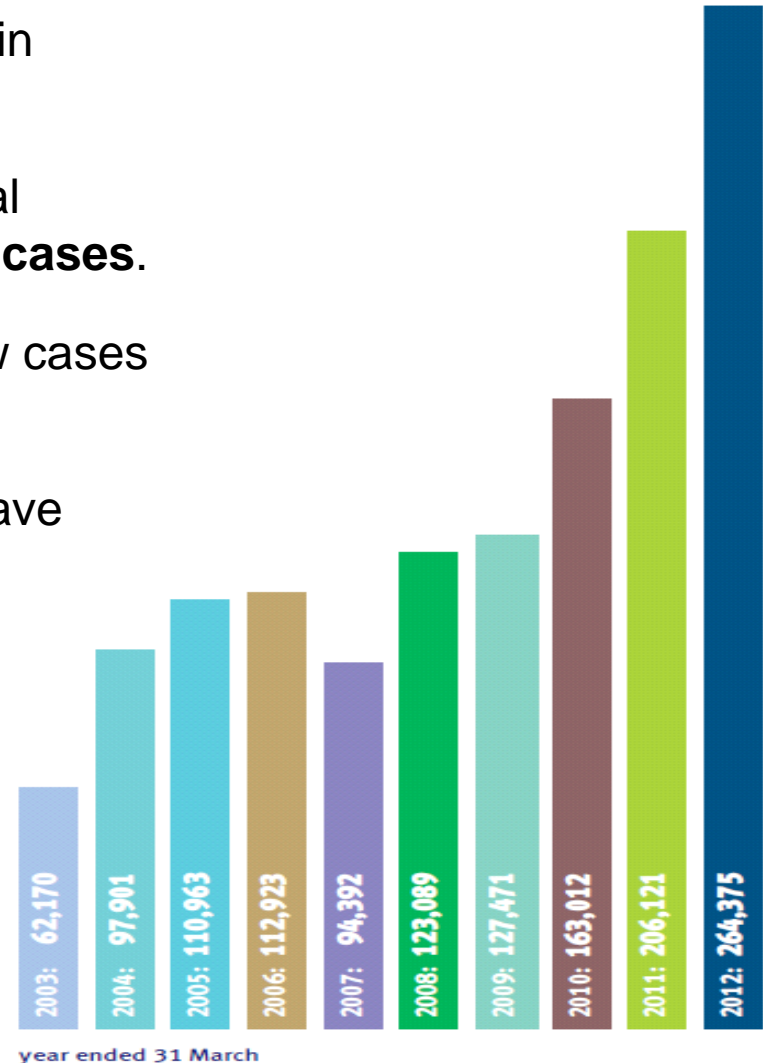
our approach

- We decide each case by reference to what is **fair and reasonable** in all the circumstances.
- In considering what is fair and reasonable we will take into account, relevant:
 - law and regulations;
 - regulators' rules, guidance and standards
 - codes of practice; *and*
 - (where appropriate) what is considered to have been good industry practice at the relevant time.



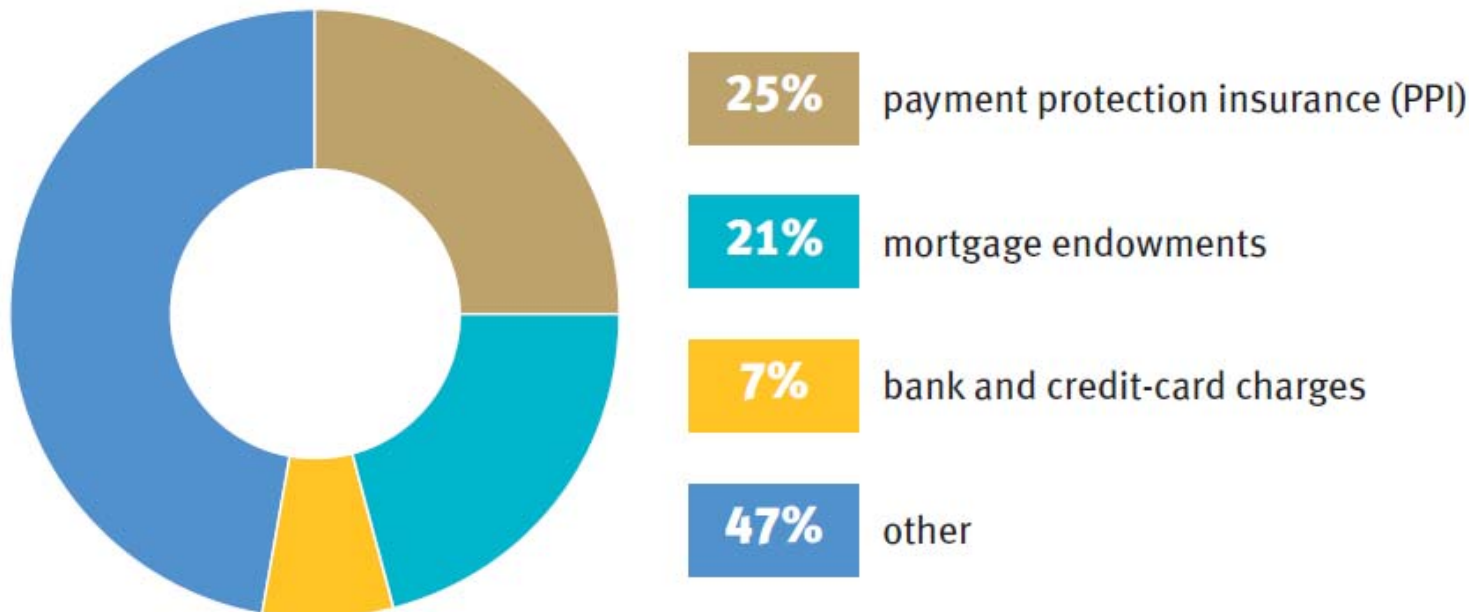
our workload

- Over **1.25 million** initial enquiries received in 2011/2012.
- 1 in 5** of these enquiries turned into a formal dispute, resulting in a **record 264,375 new cases**.
- This is a **28% increase** on the 206,121 new cases received in 2010/2011.
- It is the highest number of new cases we have received **in any year** since we were set up.
- The record level in 2011/12 resulted from a 51% increase in complaints about **PPI**.



“mass complaints” and the ombudsman

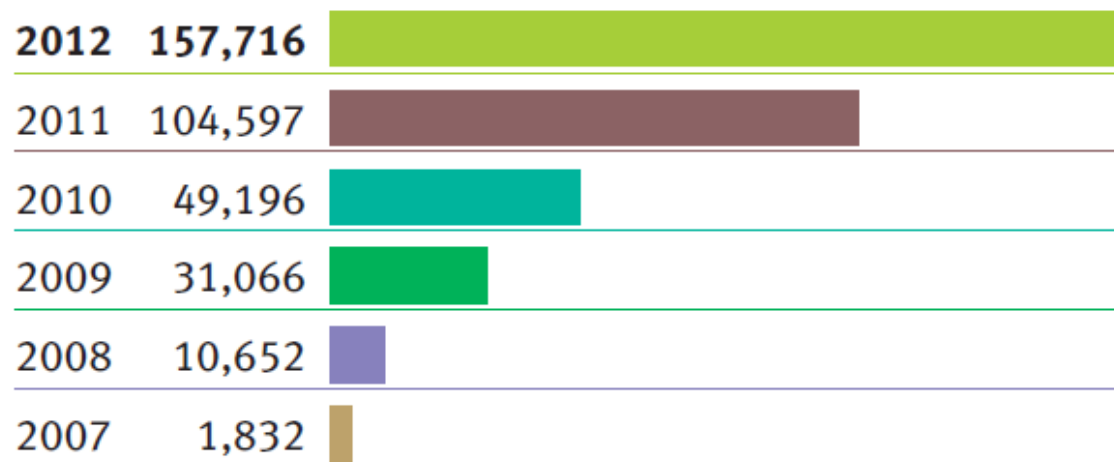
- Since we were set up we have received over 1.4million complaints with over half of these involving so-called “mass complaints”.
- The most complained-about financial products since we were set up include:



- The most recent “mass complaint” issue (PPI) is having a substantial impact on our workload.

PPI: overview

- In 2011/2012 we received a further 157,716 PPI complaints.



year ended 31 March

annual trend:
+51%

- PPI accounted for 60% of our total new workload during the year and we recently received our 500,000th PPI complaint.

“mass complaints”: the challenges

- We are a “**demand led**” organisation so forecasting the volume of complaints likely to be referred to us is a crucial part of our planning.
- **So-called “mass complaints”**, and the way in which financial businesses deal with them, can make this difficult and raise major **operational challenges**.
- The **challenges of our PPI caseload are unprecedented** and there is considerable uncertainty around likely volumes in future years.
- PPI now makes up the majority of our cases (but five years ago accounted for just 2%). So we have had to **substantially increase our capacity** to reflect this.



PPI: our “change programme”

- We are **rapidly expanding** our case-handling capacity at all levels - including at the more senior ombudsman level.
- We are looking to **streamline processes** – making our processes quicker – without reducing standards of service / quality.
- We are exploring **how technology can help us** reach more people and increase efficiencies – eg through “e-enablement”;
- We are **developing the expertise of our people** even further by introducing stronger professional development.
- We have introduced a **supplementary PPI case fee** and consulted on a **new charging structure** for businesses.



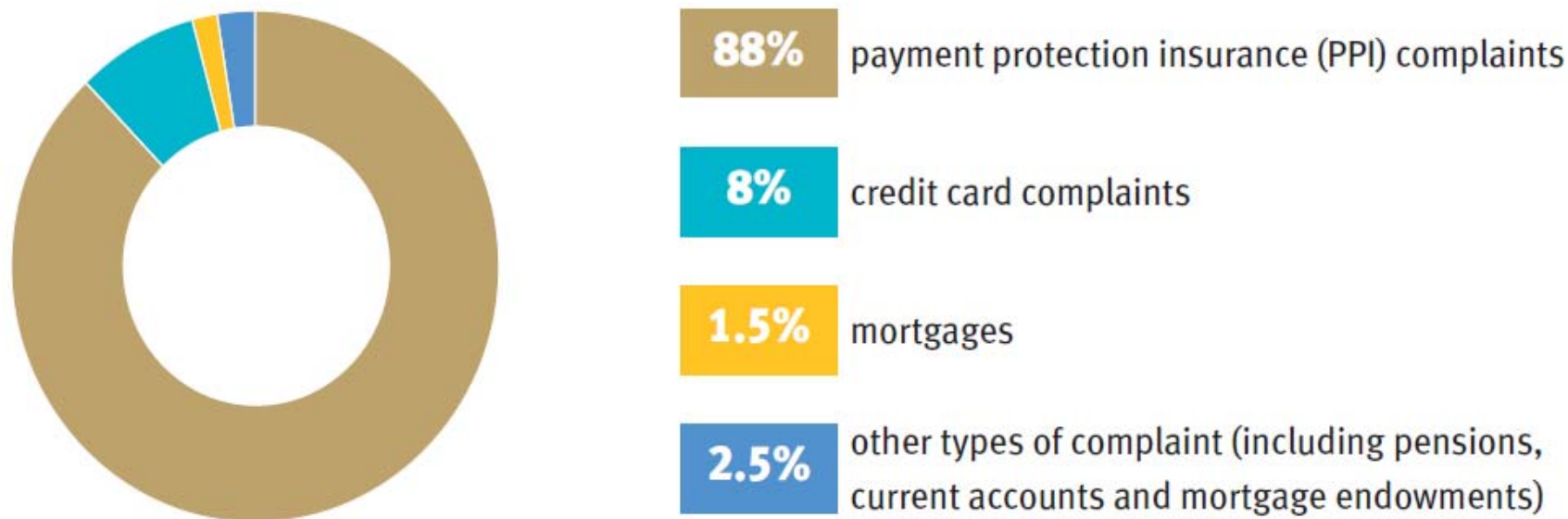
complaint landscape

- The **complaint landscape has changed** significantly since we were set up in 2000.
- In 2000/2001 we received **31,347** new complaints while in 2011/2012 we received **264,375**;
- The **impact of so-called “mass-complaints”** has been significant.
- The **impact of harder times** – with family finances and job security coming under pressure – has also been significant.
- Consumers and businesses are becoming more entrenched and we are **seeing cases being harder fought**.
- The proportion of **complaints referred to us by claims managers** on behalf of consumers has continued to rise.



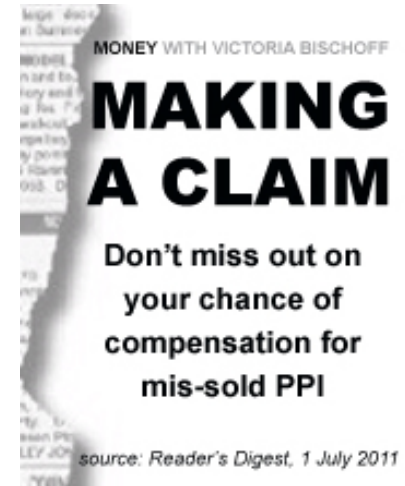
cases referred by claims managers

- 46.5% of all new cases brought to us in 2011/12 were made on behalf of consumers by a claims manager (88% of these were about PPI):



cases referred by claims managers (cont)

- We do all we can to make sure claims managers who refer complaints to us understand and follow our processes.
- We meet regularly with the larger claims managers and their trade associations to identify practical steps that can be taken.
- We work closely with the Claims Management Regulator (a part of the Ministry of Justice). But we do not handle complaints ourselves about claims managers.
- We continue to tell consumers that they do *not* need the help of a claims manager to bring a complaint to us.
- But we understand that there will always be some consumers who will want someone by their side to fight their case.



lessons learned

- Our work in resolving disputes has a significantly greater impact if the **lessons learned** can be fed back to prevent future problems.
- This is why we have continued our work to make the activities and decisions of the ombudsman service even more **open and transparent**.
- We completed a consultation on our proposals for **publishing ombudsman decisions** (with information about consumers kept confidential).
- We have invested significant time in **helping financial businesses learn** from what we see – through events, outreach and publications.



lessons learned (cont)

- We continue to have **close dialogue** with the FSA and OFT – both through the joint “co-ordination committee and on specific issues.
- This has helped to identify **emerging issues** that affect large numbers of consumers or businesses – and where regulatory action may be needed.
- We remain fully committed to developing a similarly **close and effective** working relationship with the new FCA,
- The new FCA will have a much greater focus on **earlier intervention**. The insight we provide can help the FCA to prevent problems from escalating.



benefits of an ombudsman

- It provides an **informal alternative** to the courts and is seen as being **quicker, cheaper** and more **accessible**.
- It allows disputes to be resolved at relatively **low cost** and is **free to consumers** (funded by industry).
- It provides consumers with the **certainty** that a complaint will be taken forward and a decision made on it.
- It can help to improve consumer **trust and confidence** across the business sector.
- It can help businesses to **learn from situations** where things have gone wrong – to help **prevent future problems**.
- It provides **strong incentives for businesses** to resolve complaints effectively and efficiently in the first place.

