Financial Ombudsman Service

our plans and budget for 2016/2017 *consultation*

Financial Ombudsman Service – 8 December 2015
closing date for comments – 2 February 2016

December 2015

our plans and budget for 2016/2017

As a public service that's funded by the industry we cover, it's doubly important we're accountable for how we use our resources. In a demand-led and often unpredictable environment, we rely on our stakeholders' insight into the challenges we need to respond to.

For these reasons, we consult publicly each year on our plans and budget. In this consultation, we review what's happened during the first eight months of the current financial year (2015/2016) – and in light of this, explain our plans for 2016/2017.

As we explain, ongoing uncertainty around payment protection insurance (PPI) means we're still likely to be some years off finally resolving the fall-out from that period of mass mis-selling. But at the same time, it's essential we look beyond PPI and ensure we're fit for the future. That means managing our resources in a way that's mindful of our impact on those who fund us – while remaining accessible and relevant to those who use us.

Like every year, we're sharing our forecasts with a wide range of stakeholders. We talk to financial businesses and trade associations, the Financial Conduct Authority and its consumer and small business panels – as well as consumer groups and other organisations with an interest in our work.

We'll continue these discussions and listen to what people tell us before we finalise and publish our budget in March 2016.

I'm looking forward to hearing your views.

Caroline Wayman
chief ombudsman and chief executive
December 2015

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annexes

responses

We'd welcome your views and comments on our *plans and budget for 2016/2017*. Please reply by 2 February 2016 to consultations@financial-ombudsman.org.uk – or write to:

Debbie Enever
stakeholder team – consultation responses
Financial Ombudsman Service
PO Box 69989
London
E14 1PR

We plan to publish the responses we receive. Please let us know if there's a particular reason you think your response should be kept confidential.

“fair, unbiased answers… ”

“…using our insight to prevent future problems”

We were set up by Parliament to resolve individual complaints between financial businesses and their customers – fairly, reasonably, quickly and informally. These principles also underpin the new EU Directive on alternative dispute resolution (ADR), which came into force in July 2015.

We can look into problems involving a wide range of money matters – from banking and insurance, to pensions and investments, and from mortgages to payday loans.

If a business and its customer can’t resolve a problem themselves, we can step in to sort things out. We’re unbiased and get to the heart of what’s happened – and reach a fair, pragmatic answer that allows both sides to move on.

If we think someone’s been treated fairly – or there’s just been a misunderstanding – we’ll explain why. But if someone’s been treated unfairly, we use our power to put things right. That could mean anything from changing a credit file or reducing loan repayments, to settling an insurance claim or correcting a pension.

“… if someone’s been treated unfairly, we use our power to put things right”

Over fifteen years, we’ve seen the real impact of concerns, complaints and disputes on all sorts of lives and livelihoods. It’s vital we continue to share our insight and experience – to stop things going wrong in the future and to encourage greater fairness and confidence in financial services.

The chapters that follow set out:

- what we've been doing – and are planning to do – to meet the demands on our service;
- our commitment to being efficient and effective – and how we plan to deliver our services as cost effectively as possible; *and*
- how we plan to develop our service over the coming year.

chapter 1: summary

In this consultation we set out:

- How we're dealing with the current demands on our service – compared to what we forecasted in last year's plans;
- The trends we're seeing so far – and the uncertainties we face in forecasting for next year;
- The expected demands on our service in 2016/2017;
- How we're managing our finances to bear down on costs and reduce the amount the industry pays for our service in our proposed budget for 2016/2017; *and*
- How we're adapting our service for the future.

The Financial Ombudsman Service carries out a statutory role and provides a public service. Through our day to day work resolving complaints – and through sharing our insight and experience – we're committed to underpinning and improving confidence and trust in financial services. As a private company limited by guarantee – funded by the financial businesses we cover – we've got a responsibility to meet these commitments in a sustainable way that is efficient and effective.

Volumes of new complaints that aren't about PPI or "packaged" bank accounts have remained relatively steady this year. But higher than expected volumes of new payment protection insurance (PPI) complaints have had an impact on our service. We currently anticipate that we'll receive around 20% more than the 150,000 we'd planned for.

Complaints about packaged bank accounts have also risen faster than expected – and we've been making sure we're prepared to deal with around 10,000 more complaints than we'd originally planned for, an increase of over 30% on our budget.

Despite this, we've resolved more complaints than we've received over the past few months – meaning we've reduced the number of customers waiting for our answer.

Although we have made good progress, we're mindful of the time many people have had to wait, and we're focused on using the trends we've seen so far to help us improve further next year.

As a demand-led service, our planning has always involved managing uncertainty about the numbers and types of complaints that people will refer to us – and how far the parties involved will cooperate with us to resolve them. In the last few years, our workload has – to a very large extent – been driven by PPI complaints.

We know the next twelve months will be particularly challenging – as the Financial Conduct Authority (FCA) consults on introducing a deadline for complaining about mis-sold PPI. This has the potential to lead to an increase in PPI complaints in the short-term – although in the medium term, it should lead to a more predictable workload.

The FCA is also consulting on proposed rules and guidance in light of the Supreme Court's decision – in the case of *Plevin v Paragon Personal Finance* – that an undisclosed commission on a PPI policy could, in some circumstances, result in an unfair relationship under the *Consumer Credit Act 1974.*

While managing these uncertainties, it's essential we remain relevant and accessible – bearing in mind the way changes in technology and lifestyles have in turn changed expectations of modern businesses and services. To maintain the confidence of those who fund us, it's also vital we continue to review how we can work and organise ourselves most efficiently.

We plan to freeze our case fee at £550 – the fourth consecutive year it will be at this level. Through minimising costs and increasing efficiency, we'll put our finances on a sustainable footing in the long term. A key part of this is continuing to develop ways of working that reflect what "quick" and "informal" mean today. And to help prevent problems in the future – and all the associated costs of resolving them – we'll continue to gather and share our experience and insight.

In **chapter 2** we explain how we're dealing with the current demands on our service compared to what we forecasted in last year's plans – and the trends we've identified in the complaints we're seeing.

In **chapter 3** we explain how we're managing the challenges we face in forecasting for next year.

In **chapter 4** we set out the levels of demand we expect in the next financial year – and our plans for dealing with them.

In **chapter 5** we give more detail about our financial plans for 2016/2017. This includes how we're continuing to minimise costs and increase efficiency – ensuring our finances are sustainable in the long term and freezing fees for a fourth year running.

In **chapter 6** we explain how we're developing and modernising our service, ensuring we remain relevant and accessible, and working to resolve the problems we see as quickly and informally as possible.

We'd welcome your views on:

- Our overall approach to dealing with the challenges we face – and on our priorities and budget for 2016/2017.
- The impact on the ombudsman service of developments around payment protection insurance (PPI) – in particular, the FCA's proposed guidance in light of the decision in *Plevin v Paragon Personal Finance;* and the proposed time bar for complaining about PPI.
- Whether the review of claims management regulation and the proposed cap on claims managers' fees will affect the number and nature of complaints referred to us.
- The impact of the FCA's new rules on complaints handling – particularly the introduction of a "summary resolution communication" from 30 June 2016 – on complaints to the ombudsman service.
- The volumes of new PPI complaints we'll see in 2016/2017 – and our plans for resolving them.
- The volumes of new complaints about packaged bank accounts we'll receive in 2016/2017.
- What volumes of other types of complaints and enquires we should expect – including any new and emerging trends we might see.
- Our plans to maintain our case fee arrangements this year, to review whether our current fee model is fit for purpose; and our approach to managing our reserves.

Your views will help us to finalise our plans and budget before they're put to the Financial Conduct Authority for approval in March 2016.

Please respond by 2 February 2016, using the contact details on page 3.

chapter 2: our progress this year (2015/2016)

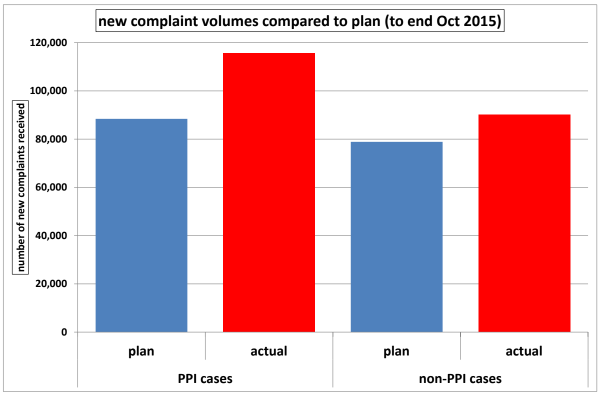
In this chapter:

- We explain how we're dealing with the current demands on our service – compared to what we forecasted in last year's plans; *and*
- We set out details of the trends we've seen so far – and how we think these trends will develop into 2016/2017.

overall case volumes so far in 2015/2016

Our workload has grown significantly since we were established in 2000 – from 25,000 new cases in our first year, to more than half a million new cases in both 2012/2013 and 2013/2014 (as shown in *Annex A*). Although the volume of new complaints declined in 2014/2015, this year we expect numbers to stabilise around the current level.

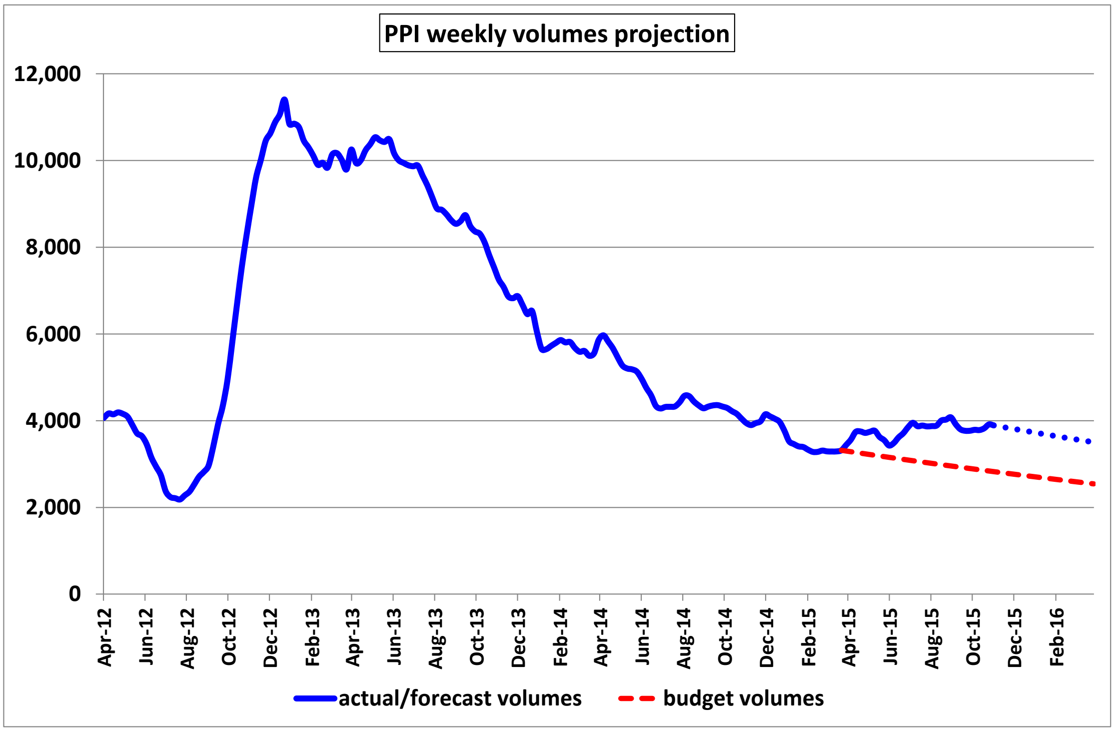
The charts below show this year's new complaint volumes compared to our plan, and how our workload has grown since 2000/2001.



Based on current trends, we expect our general casework – complaints that aren't about PPI or packaged bank accounts – to reach 105,000 cases for the year. This is broadly in line with the 106,000 in our plan.

On the other hand, we expect to receive 40,000 complaints about packaged bank accounts this year – a third higher than the 30,000 we'd budgeted for.

The chart below shows the number of PPI complaints we've been receiving – and expect to receive up to the end of the financial year.



In 2014/2015, we received 205,000 complaints about PPI. When we consulted in January 2015 on our plans for 2015/2016, we assumed that we'd receive around 150,000 new PPI complaints – and our stakeholders broadly agreed in their responses.

But the decline hasn't been as fast as expected – and by the end of the year, we expect to receive around 180,000 complaints. In late 2012, we were receiving nearly 12,000 new PPI complaints each week. Even today – at a third of that rate – these volumes of complaints remain challenging.

PPI is by far the biggest challenge we've faced. In total, we've now received more than one and a half million PPI complaints. After making greater headway into resolving complaints than we'd anticipated in 2014/2015, we started 2015/2016 with around 265,000 PPI complaints left to resolve.

We've continued to make headway over the last year. But higher than expected numbers of new PPI complaints – combined with the Supreme Court's decision in *Plevin* – has had an impact on the progress we've been able to make. We explain more about these uncertainties in the next chapter.

We know that many businesses and their customers have waited a long time for us to look into their PPI complaint. To continue to reduce waiting times while dealing with increasingly complex and challenging complaints, it's essential we develop and retain our best people.

We're committed to rewarding our people fairly. But the reality of a competitive jobs market is that the technical and problem-solving skills our employees develop with us are attractive. We don't currently expect to recruit on a large scale next year – but we'll keep this under review as the likely volumes and types of new cases becomes clearer.

trends in product type

During the year the types of issues and financial products involved in the complaints we see has continued to evolve. In some areas the complaints have become more complex – adding to our operational challenge.

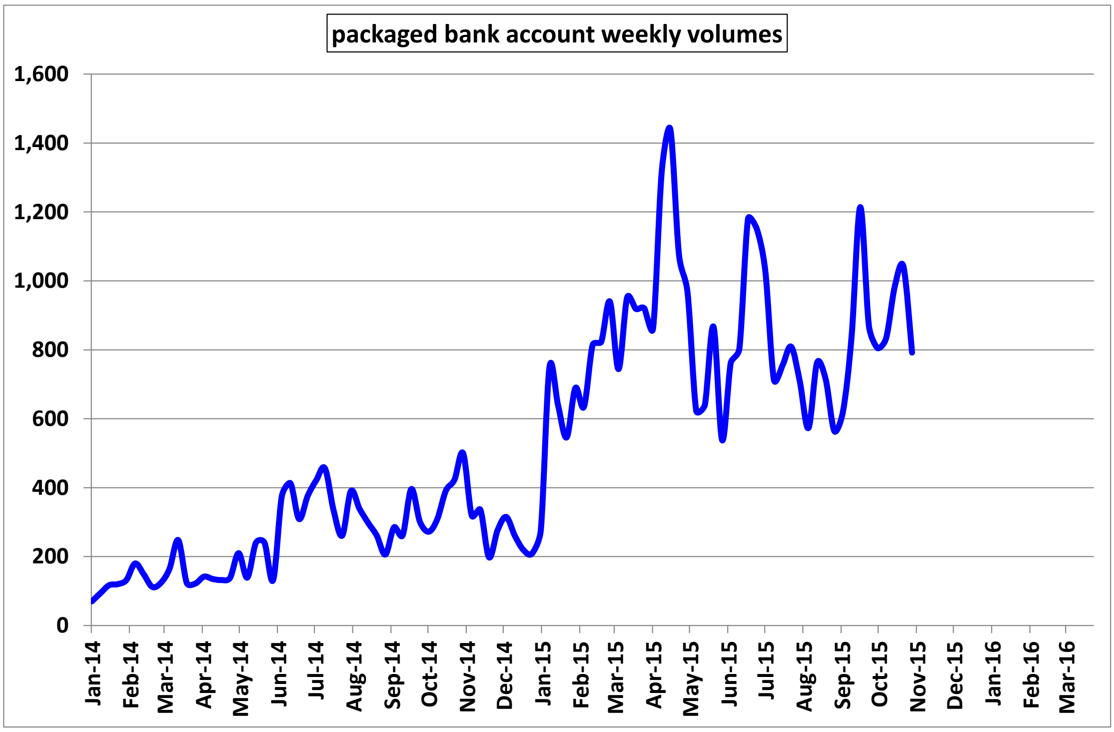
complaints involving banking and credit

Apart from PPI, complaints involving banking and credit – including mortgages – continue to be our largest area of work. Many of the complaints we see in this area involve debt – whether it's a loan, overdraft, credit card or business borrowing.

And in a number of these complaints, the people involved are struggling. Where this is the case complaints can be particularly complex, time consuming and entrenched.

Over the last few months, we've been increasingly hearing from people who've been tricked into handing over their banking details – including passwords and other codes – which has allowed fraudsters to access, and take, significant amounts of money from their accounts. Because transactions are generally authorised by the customer in these cases, they're often unable to get their money back. In July 2015 – to highlight what we were seeing – we published the insight we'd gained from our experience of dealing with these so-called "vishing" complaints.

One area where we've received significantly more complaints this year is "packaged" bank accounts. In 2014/2015 we received 21,348 about packaged bank accounts in total. But there's been some volatility, with weekly numbers fluctuating between under 600 to over 1400.



Most complaints about packaged bank accounts centre on how they were sold. In many cases, this was some years ago – with people frequently telling us they didn't want or need the features of the account, or felt pressured into taking it out.

In resolving these complaints, we've found that individual circumstances can vary markedly. In some cases, we agreed that someone was misled into having an account with features they didn't need or couldn't use. In others, we decided the features were useful to someone overall – and they were given a fair choice about having the account.

A large number – and a large proportion – of the complaints we receive about packaged bank accounts come through claims management companies. We continue to work with claims managers and banks to ensure the lessons from other "mass" complaints are being applied – and to prevent disputes being escalated to us unnecessarily.

Banks have told us that they're applying our approach when they first receive a customer's complaint. And after frank conversations with claims management companies, we're beginning to see fewer complaints from claims managers where it's clear an account hasn't been mis-sold.

Following discussions with us earlier this year, a number of claims managers – after talking to their clients – decided not to pursue several thousand complaints they'd already forwarded to us. And over recent months the proportion of packaged bank account complaints brought to us by claims managers has fallen by a quarter, from eight in ten to six in ten.

In July 2015, the Claims Management Regulator issued a special edition of its bulletin for claims managers specifically about packaged bank accounts. This reminded claims managers that they should undertake "comprehensive fact finds" and "present complaints properly" – both to financial businesses and to us. We welcome this clear guidance, which we hope will particularly help those claims managers with less experience of packaged bank accounts.

If the positive trends we've begun to see continue, we think the number of complaints we receive about packaged bank accounts could fall in the months ahead. We currently anticipate receiving 40,000 packaged bank account complaints this year.

complaints involving investments and pensions

Based on current trends, we expect to receive around 15,000 new complaints about investments and pensions this year – around 2% higher than we'd assumed in our budget for 2015/2016.

The complaints we receive regularly involve people who feel the investment they bought didn't match the description they were given. These situations may be complex – and so can take more time to investigate and resolve than other types of complaints.

We continue to get complaints about unregulated collective investment schemes and other unusual investments. In 2014 the FCA banned the promotion of these investments to the vast majority of retail investors in the UK – but it will still take some time for this to have an effect on our own workload, as most of the complaints we see pre-date this ban. We frequently hear from people who've lost all the money they'd invested.
These cases can be complex, involving numerous parties and the complex relationships between them.

Recent changes in April 2015 giving people greater choice about what to do with their pensions (so-called "pensions freedoms") have so far resulted in a relatively small number of enquiries and complaints reaching us. Many of these relate to delays and administrative issues on the part of pension providers – or problems people are having accessing financial advice.

We've already shared some of our emerging insight in this area in response to the Government's consultation. And we'll continue to monitor what we see in relation to these issues which we know are important to many of our stakeholders.

complaints involving insurance

Based on current trends, we expect to receive around 30,000 new complaints about insurance this year – in line with our budget.

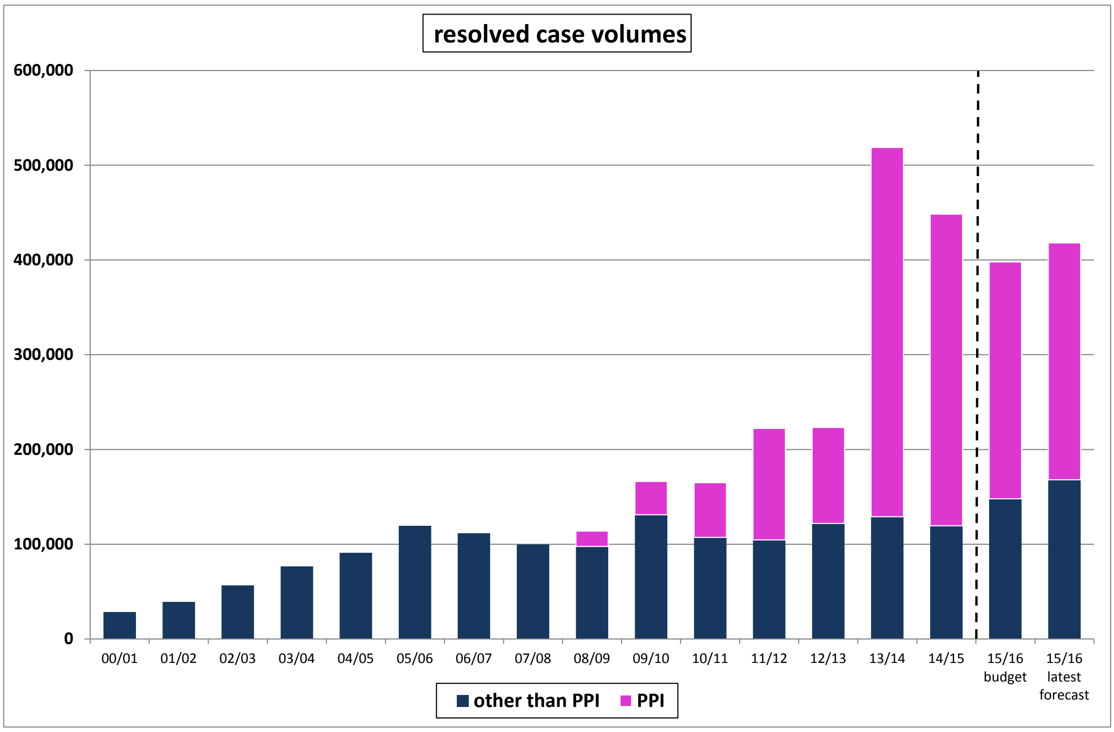
The largest proportion of the insurance complaints we receive involve problems with claims. As we mentioned last year, people often tell us that they feel a policy term hasn't been fairly applied. Many other complaints centre on poor communication and issues with the numerous contractors who may be involved in settling a claim.

Communication is still one of the main drivers of complaints we receive about the selling of insurance policies – whether someone feels a policy isn't suitable for them or that it isn't good value.

We're also receiving a growing number of complaints about the price of insurance premiums. It's been suggested that some insurers' pricing strategies focus on offering cheap premiums to new customers – while at the same time longer-standing customers see year-on-year price increases.

resolving complaints in 2015/2016

Over the last two years we've resolved nearly a million complaints. This year we expect to resolve slightly fewer than last year – reflecting the growing complexity of the PPI complaints we're dealing with.



Given the scale of the challenge of putting right the fall-out of mis-sold PPI, it's inevitable that PPI has had some impact across the whole of our service. But as far as possible, our strategy has been to minimise this impact on complaints about everything else. The table below shows how long we've taken to resolve non-PPI complaints this year, compared with last year.

time taken to resolve complaints (excluding PPI)	resolved within 3 months	resolved within 6 months	resolved within 12 months
2014/2015	53%	78%	90%
so far in 2015/2016	61%	84%	95%

As the table shows, despite the challenge of PPI, elsewhere we've continued to reduce the length of time that people are waiting for our answer. We're committed to reducing these waiting times further, which we know is a key part of improving our service.

As we explain in chapter 6, over the last year we've developed and established new, more streamlined and efficient ways of working. As well as helping us meet people's expectations of a modern service, this will help us continue to improve our timescales and the quality of the service we provide.

Because of the volumes of PPI complaints we're dealing with, it's likely that individual PPI complaints will continue to take significantly longer to sort out than complaints in other areas. On the other hand, we continue to resolve more complaints than we receive – meaning that the number of people waiting is currently falling overall.

In the next chapter, we explain how recent developments – in particular, the Supreme Court case of *Plevin* and the FCA's proposed deadline for complaining about PPI – create uncertainty for us in how and when we can finally resolve our outstanding PPI complaints.

chapter 3: managing uncertainties in forecasting for next year

Because so many factors can have a bearing on demand for our service, forecasting future numbers and trends is always challenging.

Some factors are short-term – for example, complaints arising from a single incident such as an IT glitch at a bank. Others are longer term – and connected with how people respond to changing economic circumstances. The impact of regulatory action can also play a part. So it's clearly vital for us to get a broad range of views from our stakeholders on the types of issues we may be called in to resolve.

The continued unpredictability around PPI complaints adds to the challenge. Because of the numbers involved, changes in the environment in which we operate – for example, changes in the major banks' approach to PPI, or an increase in activity by claims managers – can have a disproportionate impact on the number of PPI complaints we receive.

This year in particular, a number of developments relating both to PPI and to claims managers raise this uncertainty further:

- The FCA is currently consulting on a deadline for complaining about mis-sold PPI. We might see an increase in new complaints after any deadline is announced – as well as in the run-up to the deadline - as people and claims management companies try to complain in time. Any proposed communication campaigns around the deadline could also influence volumes of complaints being referred to us.
- The Supreme Court's decision in *Plevin v Paragon Personal Finance* – involving a lender's non-disclosure of the level of commission on a PPI contract – has meant that it has become much harder to progress PPI complaints. And the way businesses respond to us in future – and how they respond to the complaints they receive – is likely to be influenced by the FCA's consultation, in light of the judgment, on proposed rules and guidance for handling PPI complaints.

- The outcome of Carol Brady's review of claims management regulation – as well as the Claims Management Regulator's consultation on a proposed fee cap – could have an impact on the behaviour of claims managers. This could, in turn, have an impact on the number and type of complaints referred to us – especially about PPI, where claims managers currently bring the majority of new complaints to us.
- From 30 June 2016 the FCA's new rules on complaints handling will be in operation. Some businesses have told us that we may see more complaints as a result of the new "summary resolution communication". This is something we'd welcome stakeholders' views about.

question 1

- What impact will the FCA's consultation on a PPI time limit have on complaints to the ombudsman service?
- What will be the impact of the FCA's proposed guidance on the handling of complaints affected by the decision in *Plevin v Paragon Personal Finance*?
- Will the proposed cap on claims managers' fees mean they refer fewer complaints to the ombudsman service – or affect the types of complaints they refer to us?
- What will be the impact of the FCA's new rules on complaints handling – including the new "summary resolution communication" from 30 June 2016 – on complaints to the ombudsman service?

chapter 4: our plans for 2016/2017

In this chapter:

- We set out the levels of demand we expect in the next financial year (2016/2017). This includes the number of PPI complaints we'll receive, as well as the numbers of enquiries and new complaints about other issues; *and*
- We explain how we're planning to meet the demands on our service.

expected number of new complaints in 2016/2017

As we've explained in the previous chapter, the majority of complaints we receive and resolve next year will continue to be about PPI. It's very difficult to predict at this stage the impact of the FCA's proposed time bar on PPI complaints, as well as its proposed new rules and guidance in light of *Plevin*.

PPI case volumes in 2016/2017

Although the number of new PPI complaints has now started to fall, this hasn't happened as quickly as we and our stakeholders had originally expected. As we've explained, recent and ongoing developments – for example, in the courts and on the part of the FCA – mean there's a high level of uncertainty about future volumes of PPI complaints, and the consequences this might have for our service.

Many of the PPI complaints waiting for our answer are complex – and are likely to be harder-fought than those we've previously resolved. These will need to be dealt with by our most experienced adjudicators and ombudsmen – and are likely to take longer to resolve.

For planning purposes – following discussions with the FCA and other stakeholders – we're projecting that we'll receive an average of over 3,000 PPI complaints each week, with more at the beginning of the year and fewer towards the end. If these assumptions are right, we'll receive around 170,000 new complaints.

However, we can't yet be certain of the impact on these volumes of the ongoing developments around PPI complaints. For example, the FCA's consultation on introducing a deadline for complaining about mis-sold PPI may give rise to an increase in new complaints.

We might see an increase in new complaints after any deadline is announced – as well as in the run-up to the deadline, as people and claims management companies try to complain in time. The proposed communication campaigns around the deadline could also influence the volumes of complaints being referred to us.

The way businesses respond to us in future – and their response to the complaints they receive – is likely to be influenced by the FCA's current consultation on rules and guidance for handling PPI complaints in light of the judgment in *Plevin v Paragon Personal Finance*. This will have an impact on the complexity of the complaints we need to resolve.

At the same time, the outcome of Carol Brady's review of claims management regulation – as well as the Claims Management Regulator's consultation on a proposed fee cap – could have an impact on the behaviour of claims managers. This could in turn have an impact on the number and type of complaints referred to us – especially about PPI, where claims managers currently bring the majority of our new complaints.

In light of the range of possible outcomes, we're particularly interested in stakeholders' views on how PPI might develop in the coming months and years – and whether our assumptions are reasonable.

question 2

- What volumes and types of complaints about mis-sold PPI do you think we'll receive next year?
- Are our plans and assumptions for dealing with PPI complaints realistic?

non-PPI complaint volumes in 2016/2017

For complaints other than PPI, we're currently assuming that volumes will remain generally stable. The exception is packaged bank accounts, where we're anticipating that numbers will fall.

But we know changes in the economic and regulatory environment can push different parts of our workload either up or down – and can also affect how quickly we can resolve complaints.

From experience, we know that where businesses invest in their complaints handling, fewer of their customers refer problems to us. And where we and businesses take steps to work together more efficiently, we can give answers sooner and reduce waiting times.

An improving economic outlook can lead to fewer people complaining. For example, when investment returns are higher, fewer people might question the advice they were given to make particular investments. But we may see *more* complaints in some areas. For example, if more people are buying and selling properties, it's likely the number of complaints involving mortgages will rise.

Complaints may also grow if people – including businesses themselves – are feeling less secure about their finances and worried about the future. For example, rising levels of debt may result in more complaints. In these situations, complaints may become harder-fought – with people more likely to appeal to an ombudsman for a formal, final decision.

So although we think the total number of complaints other than PPI will be broadly stable next year, the mix of products involved is likely to change. To respond effectively to this change as it happens, we'll need to manage our workload effectively. This will mean making sure our people are confident in solving problems across a range of different products and issues – rather than experienced in only a few narrow areas.

At this stage, we're assuming that in 2016/2017 there will be no large-scale new or emerging issues where we'll be dealing with higher complaint volumes than the previous year. And we think complaints about packaged bank accounts may decline from an anticipated 40,000 this year to 15,000 next year.

But we'd particularly welcome feedback from our stakeholders about any other emerging issues or areas of complaint that they think could have an impact on our work. For example, given the continued attention being given to pensions, are we likely to receive more pension-related complaints?

For planning purposes, we're also currently assuming that we're likely to receive broadly the same number of complaints which are not about PPI or packaged bank accounts – 106,000 in 2016/2017 (*plus or minus* 15%) against 105,000 forecast in 2015/2016. We'd welcome stakeholders' views on these figures, as well as on new issues that might arise.

The table below sets out the number of new complaints that we're assuming will be referred to us in 2016/2017. A more detailed breakdown is at *Annex B*.

new complaints	**actual 2014/2015**	**budget 2015/2016**	**forecast 2015/2016**	**budget 2016/2017**
banking and credit*	79,763	90,900	99,600	76,000
insurance (not including PPI)	30,080	30,300	30,300	30,000
investments and pensions	14,723	14,800	15,100	15,000
PPI (payment protection insurance)	204,943	150,000	180,000	170,000
total	**329,509**	**286,000**	**325,000**	**291,000**

***including packaged bank accounts**

expected enquiries in 2016/2017

As the first port of call for people contacting us with a problem, our helpline can handle a wide range of questions and concerns. We can provide the steer people need to resolve problems themselves – often directing them to our website or other sources of support.

Our staff can also explain how to get started with making a complaint – and put people in touch with the business involved. They have the skills to talk through and unpick complicated situations – and get to the heart of the problem that needs to be resolved.

From 2012 to 2014, we received more than two million enquiries each year – and around 1.7 million in each following year. While numbers are still high, more recently, the number of new enquiries has declined as we've received fewer new PPI complaints – and as more people access our services and information online.

From experience, we know the volume of calls we receive is particularly sensitive to the impact of online campaigns, media coverage, advertising by claims managers, and announcements by the FCA and other regulators.

In the past this has affected our PPI work in particular – and we're mindful that developments around PPI this year and next could have consequences on volumes in future. For example, we may receive more enquiries about the effect of *Plevin* on individual complaints. And it's not yet clear how and when the proposed time-bar for complaining about PPI could affect volumes of enquiries to us.

For planning purposes, we're assuming that the overall downward trend in enquiries will continue next year – but this may be influenced by a range of factors, and so our estimates below are only tentative. As we expand the range of channels people can use to engage with us, we may also see some volatility between new and "traditional" channels.

enquiries to our helpline	**actual 2012/2013**	**actual 2013/2014**	**actual 2014/2015**	**forecast 2015/2016**	**budget 2016/2017**
phone calls	1,067,607	1,150,002	927,737	900,000	850,000
written and online enquiries (including email)	1,093,832	1,207,372	859,236	850,000	850,000
total	**2,161,439**	**2,357,374**	**1,786,973**	**1,750,000**	**1,700,000**

expected number of resolved complaints in 2016/2017

As we explained earlier in this chapter, the Supreme Court's decision in *Plevin* may be relevant in a number of PPI complaints with us – meaning that it has been harder to progress many complaints. In addition, in those PPI complaints unaffected by *Plevin*, we're increasingly dealing with more complex and harder-fought disputes.

Assuming the number of new complaints is within the range we've planned for, we should be able to resolve around 270,000 PPI complaints in 2016/2017. That would mean that during the year, we'd reduce the overall number of people waiting for our answer by about 100,000. But much will depend on the way in which businesses and claims managers adapt to the FCA's proposed rules and guidance for dealing with PPI complaints affected by *Plevin* – and how readily businesses and CMCs are able to adapt their complaints handling to meet the requirements.

We've also explained that we're assuming the number of new *non*-PPI complaints will be broadly stable – apart from packaged bank accounts, where we expect numbers to fall. Although we're likely to need to replace some people next year, we expect a reduction in our number of employees – unless volumes of new PPI complaints are much higher than expected. We'll continue to ensure that our people can resolve problems across a range of products and issues – meaning we can respond flexibly to changes in the complaints that people refer to us.

Taking everything into account, we think we'll resolve around 121,000 *non*-PPI complaints in 2016/2017.

The table below shows the *total* number of complaints we expect to resolve in 2016/2017.

complaints resolved	actual 2014/2015	budget 2015/2016	forecast 2015/2016	budget 2016/2017
banking and credit (including packaged bank accounts)	68,470	98,000	116,000	76,000
insurance (not including PPI)	34,978	33,000	35,000	30,000
investments and pensions	16,024	17,000	17,000	15,000
PPI (payment protection insurance)	328,915	250,000	250,000	270,000
total	**448,387**	**398,000**	**418,000**	**391,000**

question 3

- What volumes of new complaints and enquiries do you expect us to receive?
- Have we made reasonable assumptions about complaint volumes?
- What volumes of complaints about packaged bank accounts do you think we will receive?
- Are there any new issues or possible areas of complaints that you think we may start to see, or that could affect our work in the future?

chapter 5: our proposed budget for 2016/2017

In this chapter:

- We set out how we're continuing to bear down on costs and increase efficiency;
- We set out our proposed budget for 2016/2017 and how this will help us to deal with our 2016/2017 caseload, and with PPI in particular;
- We explain how we're reducing the overall amount the industry pays for our service; *and*
- We explain how we're ensuring our finances are sustainable for the long-term.

minimising costs and increasing efficiency

As a public service that's funded by the industry we cover, we need to account fully for the money we spend – and to provide a service that's sustainable as well as effective. As part of our commitment to being efficient and effective, everyone who works for us is expected to understand who our money comes from and how we spend it.

As a result of improving our ways of working and reviewing spending, we've already made significant savings this year. For example, we've been able to procure better deals from suppliers, as well as consolidating some of our support functions. We expect this to continue next year and beyond – as we make further efficiencies and cost savings across every part of our service.

unit cost

We calculate the "unit cost" of resolving a complaint by dividing our total running costs (less financing costs and bad debts) by the total number of complaints we resolve in the year.

Because of economies of scale in how we deal with "mass" complaints such as PPI – and more recently packaged bank accounts – our unit costs have fallen in recent years.

For example, we've worked with major businesses to resolve large numbers of complaints collectively – as well as improving efficiency more generally.

This year, our focus on operating efficiently and effectively across the service has helped to reduce our operating costs even further than expected. We forecast our unit cost for 2015/2016 to be £619 – compared with £678 in our budget – rising in 2016/2017 to £675. In contrast, the unit cost in 2012/2013, for example, was £724.

Over the long term – and while we'll try to mitigate this as far as possible – we think there will be continued upward pressure on our unit cost. This is because of a combination of cost pressures, the shift towards harder-fought disputes, changes in the types of complaints we receive, and fewer opportunities for economies of scale as we increasingly deal with more complex disputes.

our proposed budget for 2016/2017

Our plans for 2016/2017 are designed to ensure we can continue to provide a high level of service everyday – but at the same time develop and establish new ways of working, including digital services. We also want to reduce the number of people who are waiting for our answer about their PPI complaint.

We plan to deliver all this without making changes to our fees. We plan to freeze the standard case fee for the fourth year running, maintain the current group-account fee arrangements, and to keep the number of "free" cases at 25. We also plan to keep the PPI supplementary case fee at zero. Taking all this into account means we're planning for an operating income budget of £223.2m for 2016/2017, broadly in line with our 2015/2016 budget and slightly lower than our latest forecast of £227.2m.

overall picture

£m	15/16 budget	15/16 forecast	16/17 budget
income			
complusory jurisdiction levy	23.3	23.3	24.5
voluntary jurisdiction levy	0.6	0.6	0.6
release of deferred CCJ levy	0.8	0.8	0.0
group fees	146.6	153.7	153.0
case fees	51.0	47.4	44.0
supplementary case fees	0.0	0.0	0.0
other income	1.6	1.4	1.2
total operating income	**223.9**	**227.2**	**223.2**
expenditure			
staff and staff-related costs	181.3	171.5	168.6
contractor staff	38.8	42.2	39.9
consultancy support	5.0	4.4	5.0
professional fees	1.2	1.1	0.7
IT costs	7.2	7.2	6.8
premises and facilities	25.6	25.5	28.0
other costs	2.7	1.7	1.9
depreciation	6.0	5.3	5.2
financing costs	0.0	0.0	0.0
bad debt write-off	0.5	0.7	0.4
contingencies	2.0	0.0	7.6
total operating costs	**270.3**	**259.5**	**264.2**
operating surplus / (deficit)	**(46.4)**	**(32.3)**	**(41.0)**
accounting adjustments			
deferred income	0.0	0.0	0.0
deferred income release	20.5	24.0	7.9
total accounting surplus / (deficit)	**(25.9)**	**(8.3)**	**(33.1)**
reserves + deferred income total (end of year)	**213.0**	**233.0**	**192.0**
unit cost	**£678**	**£619**	**£675**

case fee	£550	£550	£550
free cases	25	25	25
supplementary case fee	£0	£0	£0
free cases	25	25	25
incoming cases			
other than PPI	136,000	145,000	121,000
PPI	150,000	180,000	170,000
resolved cases			
other than PPI	148,000	168,000	121,000
PPI	250,000	250,000	270,000

case fees

For both our jurisdictions (compulsory and voluntary), the case fee amount is set by us and approved by the FCA. Although each case is “chargeable”, each business outside the group-fee arrangement has 25 “free” cases a year – where a case fee isn’t charged. For the 26th and each subsequent case, we charge £550 once the complaint is resolved.

Our free-case allowance is intended to ensure that our funding requirements have a fair and proportionate impact for every type of business we cover. It reduces the number of businesses having to pay case fees, so that around 9 in 10 of the businesses whose customers complain to us each year don’t pay any case fees at all.

We propose to freeze the standard case fee at £550 for 2016/2017 – the fourth consecutive year it will be at this level. We also plan to maintain the number of free cases at 25.

As we explain further in chapter 6, we’re increasingly working with businesses and claims management companies to resolve complaints at an earlier stage – something that’s been welcomed by businesses and their customers alike.

Focusing on resolving complaints earlier means using our resources differently – and raises important questions about whether our current fee arrangements remain fair and sustainable. These include whether it would be appropriate to adapt our arrangements to reflect changes in the complaints being referred to us – and our aim to resolve complaints as informally and efficiently as possible.

In addressing questions such as this, we’ll also need to consider the effect of upcoming changes to the FCA’s complaints-handling rules. From 30 June 2016, businesses will have three working days – rather than one – to provide a “summary response” to a complaint. Customers will also be told about their right to refer their complaint to us – meaning we may be contacted at this point.

With all this in mind, we'll need to review our current fee arrangements. We plan to gather evidence and views about this over the next twelve months and may propose changes for 2017/2018. We'd be interested in any comments or insight you have.

PPI supplementary case fee

Since April 2014 we've set the supplementary case fee for PPI at £0 – and we plan to keep it at £0 in 2016/2017.

group-account fee

In April 2013 we introduced a new group-account fee for the largest businesses who use our service the most – to reflect their larger contribution to our overall costs. Initially, the arrangement applied to the four major banking groups that, at the time, accounted for around 60% of complaints with us. In 2014 we extended the arrangement to a further four businesses.

The group-account fee is calculated using the same general principles that apply to other case-fee paying businesses. But rather than pay fees for *individual* complaints once they're received, a quarterly fee is set in advance based on the overall level of expected work from each business group. If actual figures are significantly different, there can be some adjustment at the end of the year in certain circumstances.

The first three years of the group-account fee have been a success. The arrangement helps ensure that we receive our income in a timely and stable way. The businesses involved have welcomed its transparency and predictability. And both we and businesses benefited from the lower administrative costs, increased efficiency and steadier cash flow.

We don't propose to extend the group-fee arrangements to any more business groups in 2016/2017 – because benefits only arise if businesses have significant volumes of complaints with us. But we'll keep this under review.

We’ll set the relevant sum for each of the existing eight groups at the start of 2016/2017 – on the basis that the total amount each group pays will be in line with individual case fees (according to our forecast of each group’s usage). After making a temporary adjustment last year – to offset a distortion relating to the rapid increase in complaints about packaged bank accounts – we plan to return the free case allowance in the group fee arrangements for the largest banking groups to 125 from 200.

compulsory jurisdiction – levy

The general levy payable by FCA-authorised businesses is collected by the FCA. The FCA will consult on the total amount of its levy, including the levies for the Financial Services Compensation Scheme, Money Advice Service and the FCA – and on how it should be allocated among industry blocks – as part of its wider consultation on the levies for the Financial Services Compensation Scheme, Money Advice Service and FCA, which is expected to be published in March 2016.

Broadly, allocating the general levy among regulated businesses involves two stages:

- The total levy is divided among industry blocks (based on activities) according to the number of complaints-handling staff we expect to need for complaints arising from that sector; *and*

- The levy for each industry block is divided among businesses in that block according to a tariff rate (relevant to that sector) that’s intended to reflect the scale of each business’s activities.

Next year marks the end of the transition period for consumer credit businesses – from being licenced by the OFT to being authorised by FCA. To return the levies to the same level as before the transition, and in line with our previously agreed approach, we plan to ask the FCA to increase the overall levy for the compulsory jurisdiction from £23.3m to £24.5m in 2016/2017.

This means the overall amount of the levy in 2016/2017 is effectively frozen for all other industry blocks. The FCA sets tariff rates for each fee block, and the exact amount each business will pay will depend on the block they're in.

voluntary jurisdiction – levy and case fees

The voluntary jurisdiction levy is set and collected by us and approved by the FCA.
As with the compulsory jurisdiction, the income we receive for the voluntary jurisdiction is ring-fenced.

The levy rates we propose for 2016/2017 are set out in *annex C*. These are the same as in 2015/2016. Together with the income we receive from case fees, we expect these rates will cover our work under the voluntary jurisdiction in 2016/2017. In line with our compulsory jurisdiction, we plan to freeze the standard case fee for our voluntary jurisdiction at £550 and to maintain the number of free cases at 25.

split between jurisdictions

With the levels of demand we've forecast for 2016/2017, we expect to be able to set an operating income budget of £223.2m. To reflect the caseload we forecast under the compulsory and voluntary jurisdictions, we expect our total budget expenditure for 2016/2017 to be divided as follows:

- 99.2% would relate to our compulsory jurisdiction (which covers businesses regulated by the FCA) *and*

- 0.8% would relate to our voluntary jurisdiction (which covers a small number of businesses who have *chosen* to be covered by us – who wouldn't otherwise come under our compulsory jurisdiction).

question 4

- Do you agree with our proposals to freeze the levy and standard case fee?
- Do you agree with our plans to keep the PPI supplementary case fee at £0?
- Do you agree we should maintain the number of free cases at 25?
- Do you agree that we shouldn't extend the group-account fee arrangements at this time?
- Do you agree we should explore whether our current flat-rate case fee model remains fit for purpose – in light of the diverse range of complaints we see and the variety of ways we resolve them?
- Do you agree with our approach to managing our reserves over the coming year?

making our finances sustainable in the long term

We're confident that we can make these changes to our income and still make the necessary long-term investments needed for our future. But as we've explained, the fallout of PPI mis-selling will take several more years to resolve. So far, the costs for us have run into hundreds of millions of pounds. As they continue, we're in the unusual position of planning to make a deficit.

We need to bear in mind the very high level of uncertainty about future volumes of PPI complaints. As we've explained, a number of different events – both planned and unplanned – could lead to an increase in PPI complaints. In particular, there's still significant uncertainty about the exact impact of *Plevin* and the proposed time bar for complaining about PPI.

Our strategy for dealing with PPI has always reflected the long-term nature of the challenge – for us and for businesses. In particular, we've set out to ensure that the costs we'll continue to incur are paid for in a fair way. We've also had to bear in mind that the greater the headway we make into our PPI workload, the greater the complexity involved in the complaints.

Our general approach has always been to keep our financial reserves at a level that's both fair and forward-looking. As we've said in previous years, building up our reserves over recent years has given us stability in managing the costs of PPI.

Our current level of reserves (approximately £250 million including deferred income) is mainly a result of the supplementary case fee we charged for PPI complaints in 2012/2013 and 2013/2014 (and the equivalent element of the group-account fee).

More than 90% of our PPI complaints have come from just ten businesses – and more than 70% of our related income has come from four major banking groups (Lloyds, Barclays, HSBC and RBS). If we were to reduce reserves at this stage, this would mean giving a pro-rata rebate against supplementary case fees incurred between April 2012 and March 2014.

But we're mindful that if we reduce the size of the reserves while there's still considerable uncertainty about developments in PPI over the next year or so, then we could create other risks.

In particular, if PPI complaint volumes turn out higher than currently forecast, we might need to increase fees in future years. Importantly, it's likely the businesses who would pay those higher fees would likely be different from those who previously paid the supplementary fee. We don't think this would be a fair outcome. Businesses who contributed the most to our PPI workload would end up paying less – and the costs would instead be borne by other, smaller businesses who contributed much less to the overall problem.

We began to draw on our reserves in 2014/2015 and we currently expect to make a £32.3m deficit this year. We expect to operate at continued significant deficits as we deal with a rising number of more complex PPI complaints. We'll also begin to incur the costs associated with winding down our PPI operation – and, looking beyond PPI - ensuring our service is fit for the future.

It's difficult to forecast with any degree of certainty the demand on our service several years ahead – especially given ongoing developments in PPI. But currently we expect that by 2019/2020, our reserves will have fallen significantly as a result of operating deficits. This would leave our reserves much closer to our normal position of around three months' operating expenditure. At the same time, we anticipate that our total costs to the financial services industry will also have fallen significantly – as existing PPI complaints are finally resolved and volumes of complaints settle to a less exceptional level.

So – as we explained when we consulted last year on our plans and budget – we don't plan to keep reserves at their current levels in the long run. But we think the medium-term and ongoing challenges and uncertainties of PPI mean it's appropriate to keep our reserves as they are for the time being. This also reduces the risk of having to raise further extra funds for PPI in the future, over and above normal case fees.

For the last two years, we've asked our stakeholders for their views on our approach to managing our reserves. All the feedback we've received has supported our plans not to return anything at this stage. And a large majority agreed that we should reinvest our reserves to improve our efficiency and develop our technology and casework model for the future.

This means that, having taken everything into account, we don't currently propose to return any of the reserves we're holding. But we'll keep the positon under review, including as part of our annual budget setting process

In the meantime – in line with our stakeholders' views last year – we'll continue to invest in developing our service, as we carry on our work to finally resolve the fall-out of mis-sold PPI, as well as ensuring our service is ready for the future.

We'd particularly welcome stakeholders' feedback on this approach to handling our reserves.

chapter 6: sustainable and relevant - adapting our service for the future

In this chapter:

- We set out how we're adapting the way we work to reflect people's changing expectations; *and*
- We explain how we're developing and retaining expertise within our service.

As well as resolving 391,000 complaints, in 2016/2017 we'll continue to:

- establish and scale up new ways of working to ensure we remain relevant and accessible – reflecting changing expectations of what "quick" and "informal" mean today;
- invest in modernising our IT and case-handling infrastructure, allowing us to work more efficiently; *and*
- share more of our insight with our stakeholders to encourage greater fairness and confidence in financial services.

the work we'll need to do

Over the last year we've continued to evolve different ways of working – and plan to carry on this work into 2016/2017. We'll again focus on improving our existing processes and engaging differently with business and their customers – which will help us to resolve problems at the earliest possible opportunity. We continue to evolve our operating model to help ensure that we remain efficient and effective.

Building on our work last year to resolve payday loan problems in a totally different way, we've extended this approach to cover an increasingly wide range of complaints – from banking and insurance through to mortgages and pensions.
Through minimising formality and process, we've been able to get to the heart of complaints and give fair, pragmatic answers more quickly.

We know that establishing and scaling up these new ways of working will be demanding. But we think the benefits of greater informality and flexibility are already clear – both in terms of efficiencies and customer service.

We've been very encouraged by the positive engagement we've had from businesses involved so far. We're confident that financial businesses will continue to want to play their part – working with us to further improve the service we're both responsible for. We will also continue to work with claims management companies – including discouraging them from sending us complaints that we clearly wouldn't uphold, which wastes time and resources for all involved.

After carefully considering our future needs – and comparing available options and costs – we've started the process of replacing the way we currently handle complaints with a new IT platform and casework management system.

This investment has already been taken into account as part of our ongoing plans to update and develop the service we offer, while at the same time improving our efficiency. It builds on the launch of our online complaint form in January 2015 – and follows our work in previous years to e-enable our casework, with 2014/2015 being our first full paper-free year for case files.

Increasing and modernising the different channels people can use to contact us is an important part of our remaining relevant and accessible. It means people can choose the channel that fits their own individual preference and lifestyle. For complaints other than PPI, around a third of people who complain to us now do so online.

In response to feedback we've received, as part of our work to improve our systems we're planning to improve the search function of our online decisions database.
We'll also be making it more user-friendly, particularly for people accessing it through their phone or tablet. Changes should be in place in the near future – and we'd welcome your ongoing feedback.

We're also committed to using our insight – gained from resolving hundreds of thousands of complaints each year – to encourage greater fairness and confidence in financial services.

After our focus last year on payday lending complaints, we've highlighted the issues we've been seeing involving "vishing" scams, small businesses' relationships with financial services providers, and older people's experiences with financial services. We've also published our regular case studies in ombudsman news. In 2016/2017, we'll continue to share what we see with a wide range of stakeholders.

Since July 2015, the FCA's new complaints-handling rules have allowed us – with the consent of the business and their customer – to look into a complaint *before* the business has had eight weeks to look into it. We're currently working together with businesses to better understand how the application of this rule works in practice – where we can add value and help resolve a dispute at the earliest possible opportunity without the need to take the customer through the traditional complaints process. While we're still in the early stages, we're already seeing the benefits of being able to step in and help both sides straight away.

We recognise that, under our current arrangement, complaints resolved at this early stage aren't included in our published complaints data. So for the current reporting period, we'll publish the number of complaints we've resolved under the FCA's new rule – giving the name of the business, but not the outcome. We plan to review our approach to publishing data more fully in the year ahead – and we'll keep our stakeholders updated.

our people

At the heart of our role is understanding different perspectives – and finding a way forward that feels fair to both sides. Given the challenging nature of this work, our people's skills and professionalism are extremely important.

Over the past three years we've doubled in size, recruiting and training more than 2,000 new people to help resolve complaints. We've strengthened the professional leadership role that our ombudsmen have in training and supporting all our adjudicators.

Developing our people's technical and problem-solving expertise – and investing in our ombudsmen – has put us in a strong position to answer the complex and hard-fought disputes we're seeing. Of course, it will also help our people to become increasingly productive – ensuring we can respond to demands on our service with pace, as well as with professionalism.

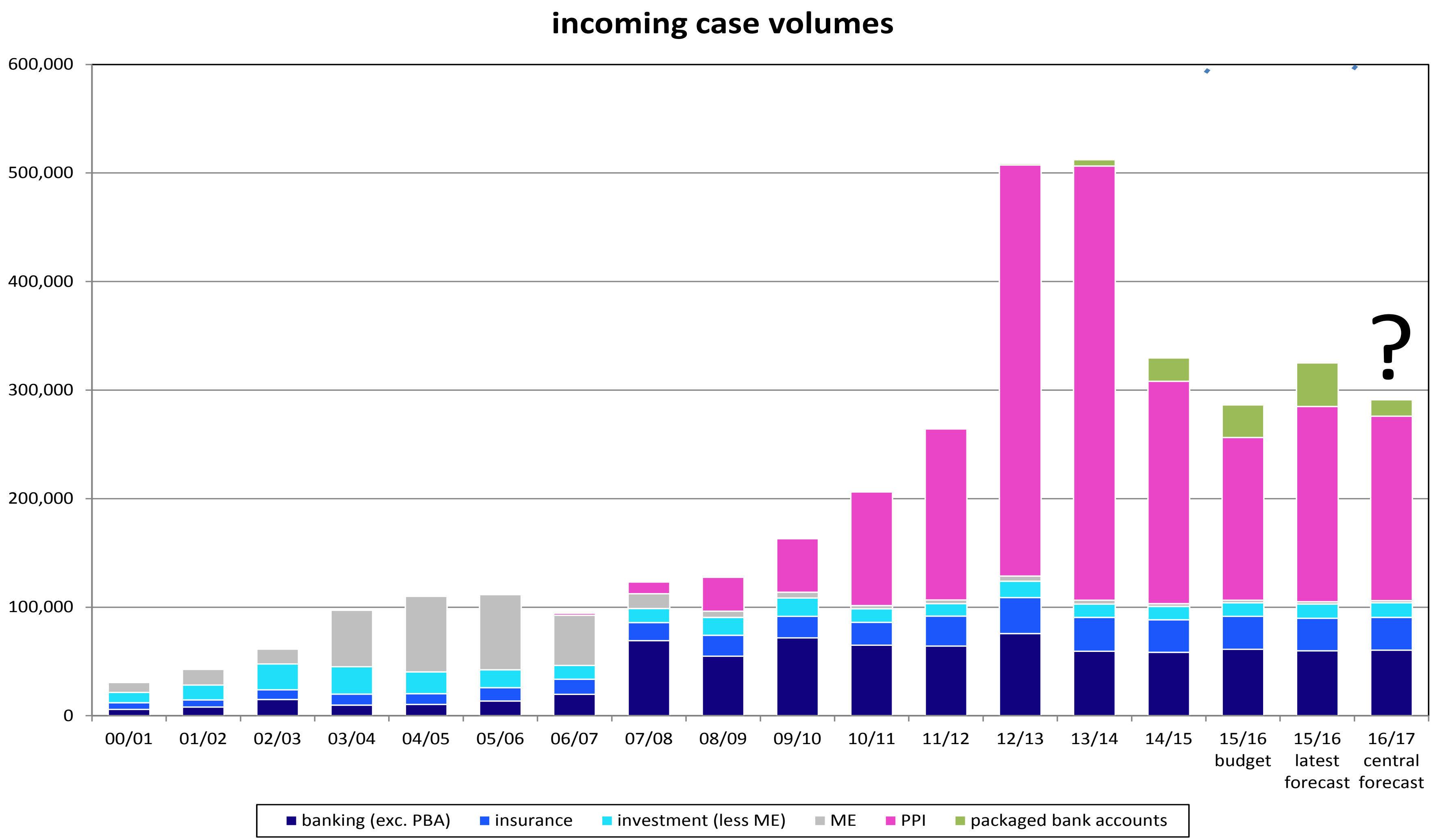
It's essential we continue to retain and develop the expertise we've grown in our service over the last few years. To do this, we'll need to continue to provide challenging and rewarding work – recognising excellence and rewarding people fairly, as well as promoting wellbeing and work-life balance.

question 5

- Do you agree with how we're approaching the challenges ahead of us?
- What do you think our priorities should be in the years ahead?
- Are there particular issues on which you want us to share our insight?

historic case volumes

annex A



annex B

our latest projections for volumes of new cases in 2015/2016 and 2016/2017

Product family	2014/15	2015/16		2016/17
	actual	plan	forecast	budget
consumer credit	9572	10900	11300	12000
credit cards	8482	8700	8400	8300
current accounts	13996	13800	13200	13200
mortgages	12297	13000	12200	13000
packaged bank accounts	21348	30000	40000	15000
unsecured loans	6255	6300	6200	6300
savings accounts	2989	2200	2100	2200
other banking	4824	6000	6200	6000
banking	79763	90900	99600	76000
buildings and contents insurance	5946	5400	5600	5500
health insurance	3155	3100	3200	3100
motor insurance	7361	7500	7800	7500
travel insurance	2318	2300	2200	2100
other insurance	11300	12000	11500	11800
insurance (exc. PPI)	30080	30300	30300	30000
mortgage endowments	2573	2200	2100	2000
pensions products	4290	4700	4600	4800
securities	2625	2700	3100	3000
whole of life / savings endowments	2107	2200	2000	2000
other investment products	3128	3000	3300	3200
investment & pensions	14723	14800	15100	15000
total non-PPI	124566	136000	145000	121000
payment protection insurance	204943	150000	180000	170000
total	329509	286000	325000	291000

voluntary jurisdiction – proposed levies for 2016/2017 *annex C*

FEES 5 Annex 2R
annual levy payable in relation to the voluntary jurisdiction for 2016/2017[1]

industry block and business activity		tariff basis	tariff rate	minimum levy
1V	deposit acceptors, *mortgage lenders* and *mortgage administrators* and debit/credit/charge card issuers and merchant acquirers	number of accounts relevant to the activities in DISP 2.5.1R	0.0278	£100
2V	*VJ participants* undertaking general insurance activities	per £1,000 of relevant annual gross premium income	0.103	£100
3V	*VJ participants* undertaking life insurance activities	per £1,000 of relevant adjusted annual gross premium income	0.025	£100
6V	intermediaries	not applicable	n/a	£75
7V	freight-forwarding companies	not applicable	n/a	£75
8V	National Savings & Investments	not applicable	n/a	£10,000
9V	Post Office Limited	not applicable	n/a	£2,000
10V	persons not covered by 1V to 9V undertaking activities which are: (a) *regulated activities* or (b) *payment services* or (c) *consumer credit activities*; or would be if they were carried on from an establishment in the *United Kingdom*	not applicable	n/a	£75
12V	persons undertaking the activity which is the issuance of electronic money or would be if carried on from an establishment in the *United Kingdom*	Average outstanding electronic money as described in FEES 4 Annex 11R Part3	£0.15 per £1000	£75

[1] We anticipate that the FCA will also add a new block for Consumer Buy to Let but this will be a negligible proportion of overall income.

annex D

draft rules instrument – case fees for 2016/2017 and proposed changes to FEES 5

FOS 2016/xx

FEES MANUAL (FINANCIAL OMBUDSMAN SERVICE CASE FEES 2016/17) INSTRUMENT 2016

Powers exercised by the Financial Ombudsman Service

A. The Financial Ombudsman Service Limited makes this instrument amending:

(1) the rules and guidance relating to the payment of fees under the Compulsory Jurisdiction; and
(2) the standard terms for Voluntary Jurisdiction participants relating to the payment of fees under the Voluntary Jurisdiction.

in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(a) paragraph 14 (The scheme operator's rules) of Schedule 17;
(b) paragraph 15 (Fees) of Schedule 17; and
(b) paragraph 18 (Terms of reference to the scheme) of Schedule 17.

B. The making of these rules, guidance and standard terms by the Financial Ombudsman Service Limited is subject to the consent and approval of the Financial Conduct Authority.

C. The Financial Conduct Authority approves and consents to the making (and amendment) of the rules and standard terms that are made and amended by the Financial Ombudsman Service Limited under this instrument, pursuant to the following powers and related provisions in the Act:

(a) section 227 (Voluntary jurisdiction);
(b) paragraph 14 (The scheme operator's rules) of Schedule 17; and
(c) paragraph 18 (Terms of reference to the scheme) of Schedule 17.

The rule making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

D. This instrument comes into force on 1 April 2016.

Amendments to the Handbook

E. The Fees manual (FEES) is amended by the Board of the Financial Ombudsman Service in accordance with the Annex to this instrument.

Citation

F. This instrument may be cited as the Fees Manual (Financial Ombudsman Service Case Fees 2016/17) Instrument 2016.

By order of the Board of the Financial Ombudsman Service Limited
DATE 2016

Consented to, and approved by, the Board of the Financial Conduct Authority
DATE 2016

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Amend the following as shown.

5 Annex 2R **Annual Levy Payable in Relation to the Voluntary Jurisdiction ~~2015/16~~ <u>2016/17</u>**

…

5 Annex 3R **Case Fees Payable for ~~2015/16~~ <u>2016/17</u>**

…

Part 3 – Charging groups	
The *charging groups*, and their constituent *group respondents*, are listed below. They are based on the position at 31 December immediately preceding the *financial year.* For the purposes of calculating, charging, paying and collecting the special case fee, they are not affected by any subsequent change of ownership.	
1	Barclays Group, comprising the following *firms*: [tbc]
2	HSBC Group, comprising the following *firms*: [tbc]
3	Lloyds Banking Group, comprising the following *firms*: [tbc]
4	RBS/NatWest Group, comprising the following *firms*: [tbc]
5	Aviva Group, comprising the following *firms*:

	[tbc]
6	Direct Line Group, comprising the following *firms*: [tbc]
7	Nationwide Building Society Group comprising the following *firms*: [tbc]
8	Santander Group, comprising the following *firms*: [tbc]

Part 4 – Special case fees	
The special case fee shall be calculated and paid as follows:	
1	Proportions:
	(1) In the calculations that follow in (2), (3) and (4): new *chargeable cases (PPI)* for *group respondents* – A = twice the number of new *chargeable cases (PPI)* that were referred to the *Financial Ombudsman Service* in respect of *group respondents* from 1 July to 31 December (both dates inclusive) in the immediately preceding *financial year*. new *chargeable cases (PPI)* for all *firms* – B = twice the number of new *chargeable cases (PPI)* that were referred to the *Financial Ombudsman Service* in respect of all *firms* (whether or not they are part of a *charging group*) from 1 July to 31 December (both dates inclusive) in the immediately preceding *financial year*. open *chargeable cases (PPI)* for *group respondents* – C = the number of *chargeable cases (PPI)* referred to the *Financial Ombudsman Service* in respect of *group respondents* before 1 January in the immediately preceding *financial year* which had not been closed before 1 January in the immediately preceding *financial year*. open *chargeable cases (PPI)* for all *firms* – D = the number of *chargeable cases (PPI)* referred to the *Financial Ombudsman Service* in respect of all *firms* (whether or not they are part of a *charging group*) before 1 January in the immediately preceding

	financial year which had not been closed before 1 January in the immediately preceding *financial year*. new *chargeable cases (general)* for *group respondents* – E = twice the number of new *chargeable cases (general)* that were referred to the *Financial Ombudsman Service* in respect of *group respondents* from 1 July to 31 December (both dates inclusive) in the immediately preceding *financial year*. new *chargeable cases (general)* for all *firms* – F = twice the number of *chargeable cases (general)* referred to the *Financial Ombudsman Service* in respect of all *firms* (whether or not they are part of a *charging group*) from 1 July to 31 December (both dates inclusive) in the immediately preceding *financial year*. open *chargeable cases (general)* for *group respondents* – G = the number of *chargeable cases (general)* that were referred to the *Financial Ombudsman Service* in respect of *group respondents* before 1 January in the immediately preceding *financial year* which had not been closed before 1 January in the immediately preceding *financial year*. open *chargeable cases (general)* for all *firms* – H = the number of *chargeable cases (general)* referred to the *Financial Ombudsman Service* in respect of all *firms* (whether or not they are part of a *charging group*) before 1 January in the immediately preceding *financial year* which had not been closed before 1 January in the immediately preceding *financial year*.
	(2) 'Proportion X' for each *charging group* is a percentage calculated as follows – A / B x 100
	(3) 'Proportion Y' for each *charging group* is a percentage calculated as follows – {A + C} / {B + D} x 100
	(4) 'Proportion Z' for each *charging group* is a percentage calculated as follows – {E + G} / {F + H} x 100
2	The special case fee is intended to broadly reflect the budgeted workload capacity of the *Financial Ombudsman Service* and comprises elements in respect of:
	(1) new *chargeable cases (PPI)*;
	(2) closed *chargeable cases (PPI)*; and
	(3) closed *chargeable cases (general)*;
	with a free-case allowance of:
	(4) 125 new *chargeable cases (PPI)*; and

	(5) ~~200~~125 closed *chargeable cases (general)*.
3	The special case fee for each *charging group* is a total amount calculated as follows:
	(1) in respect of new *chargeable cases (PPI)* – {£0 x [~~150,000~~170,000] x the 'proportion X'} – {£0 x 125}
	(2) in respect of closed *chargeable cases (PPI)* – £550 x [~~250,000~~270,000] x the 'proportion Y'
	(3) In respect of closed *chargeable cases (general)* ~~–~~ {£550 x [~~148,000~~121,000] x the 'proportion Z'} – {£550 x ~~200~~125}
4	The *FOS Ltd* will invoice each *charging group* for the special case fee (calculated as above) in four equal instalments, payable in advance on the following dates during the *financial year*: (1) 1 April (or, if later, when *FOS Ltd* has sent the invoice); (2) 1 July; (3) 1 October; and (~~2~~ 4) 1 January.
5	Year-end adjustment:
	(1) If the actual number of new *chargeable cases (PPI)* referred to the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is more than 10,000 and is more than [115%] of {[~~150,000~~170,000] x the 'proportion X'}: (a) the *FOS Ltd* will invoice the *relevant charging group*; and (b) the relevant *charging group* will pay to *FOS Ltd*; an additional £35,000 for each block of 100 (or part thereof) new *chargeable cases (PPI)* in excess of the [115%].
	(2) If the actual number of *chargeable cases (general)* closed by the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is more than [115%] of {[~~148,000~~121,000] x the 'proportion Z'}: (a) the *FOS Ltd* will invoice the *relevant charging group*; and (b) the relevant *charging group* will pay to *FOS Ltd*; an additional £55,000 for each block of 100 (or part thereof) closed *chargeable cases (general)* over the [115%].

	(3) If the actual number of *chargeable cases (general)* closed by the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is less than [85%] of {[~~148,000~~ 121,000] x the 'proportion Z'}, the *FOS Ltd* will promptly repay to the relevant *charging group* £55,000 for each block of 100 (or part thereof) closed *chargeable cases (general)* under the [85%].