> *... September always feels like a good time to look back, and to look ahead*

Natalie Ceeney, chief executive and chief ombudsman

ombudsman news

essential reading for people interested in financial complaints – and how to prevent or settle them

looking both ways

September. Half way through the financial year, the beginning of a new academic year – and certainly *this* year, what feels already like the beginning of autumn.

So September always feels like a good time to look back, and to look ahead. In this issue of *ombudsman news*, we do a bit of both.

In *ombudsman focus* on page 12, I've offered my perspective on what we've been seeing during the first half of our financial year. There's more talk of recovery in the wider economy at the moment – and I've highlighted some reasons for optimism in the complaints world too. But I'm also sharing in the spirit of *cautious* optimism.

I'm seeing signs of improvement, but it's not universal, and there's a huge amount of work to be done – by all of us.

And so to looking ahead. Every three years or so, our board commissions an external review of the ombudsman service.

Financial Ombudsman Service

scan for previous issues

in this issue

The review gives our non-executive board members the chance to gather independent insight to help them do their job effectively – overseeing how the ombudsman service operates. Our chairman, Sir Nick Montagu, and his fellow board members believe that the best insight comes from looking at things from different perspectives.

And given the board is focused on helping make sure the ombudsman is doing the right things in the right way, an external perspective is hugely beneficial to us all.

The focus of the external review changes each time. Previous reviews have focused on transparency, accessibility and value for money – and each one has offered something different and valuable.

You may have read in our *directors' report* – which we published in July 2013 – that the board has been busy thinking about and commissioning the next external review. Since then, more work has gone into defining its focus. This time around, the review will focus on the future. It will explore the ombudsman service's environment – the attitudes and behaviour of the people and organisations that shape it, and how they are likely to change over the coming years.

Insight into the future, based on the best research available, will be both thought-provoking and valuable for anyone working in an environment like ours. Because at the moment, change is the only thing we feel able to predict with any certainty.

Keep an eye on our website for more updates about the practicalities of how the review will go ahead – and your opportunity to feed into it.

Natalie Ceeney
chief executive and
chief ombudsman

... the best insight comes from looking at things from different perspectives

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consumer helpline
Monday to Friday 8am to 8pm *and*
Saturday 9am to 1pm
0800 023 4567 or **0300 123 9 123**

technical advice desk
020 7964 1400
Monday to Friday 9am to 5pm

interest-rate hedging products

Businesses who want to protect themselves against the risk of their loan becoming more expensive – because of rising interest rates – sometimes take out "interest-rate hedging" products. These products are often sold to small and medium-sized businesses, usually at the same time that the business takes out a loan.

A capped or fixed interest-rate can be helpful for some small businesses, but some hedging products come with significant risks. The type and scale of the risk varies from product to product – and depends on the type of hedging, the length of the product and the amount hedged. But in general, many products that last for more than just a few years are likely to have very high break costs if the customer wants to leave the contract early.

In 2012 the Financial Services Authority – the regulator at the time – announced that it had found serious failings in the sale of interest-rate hedging products. This led to a small increase in the number of complaints we saw about these products. Since then, the banks have agreed with the regulator to look at the sales they have made to certain customers since 2001 – as part of a wider review.

In the regulator's review, it defined four main types of product:

- **swaps – which allow the customer to "fix" their interest rate;**
- **caps – which put a limit on interest rate rises;**
- **collars – which allow the customer to limit interest rate fluctuations to a specified range;** ***and***
- **structured collars – which are the same as collars – but also include terms that mean the customer might have to pay more interest if the "reference" rate falls below a certain point.**

We have received complaints about each of these types of product, and have recently published two final decisions by our ombudsmen on our website (you can find these in our online technical resource).

In most cases we see, the business complained that they did not understand the product – and particularly the costs of early termination.

In some cases these costs came to 30% or more of the amount of the business's original loan. Most of the businesses who brought cases to us said that they would not have taken out the product if they had understood just how much it might cost to get out.

If we conclude that an interest-rate hedging product has been mis-sold to a business, we have to think carefully about what the business would have been likely to have done if they had been given suitable advice – and/or had been given the information they needed to make an informed decision.

We might tell the bank to put the business in the position they would now be in if they hadn't taken out the interest-rate hedging product – or if they had taken out a different product that was more appropriate for them. But in some cases, we might decide that the business would still probably have gone ahead and taken out the product anyway.

Financial Ombudsman Service

case study 112/01

business complains they were mis-sold a long-term interest-rate swap that didn't meet their future needs

Mr Y and Mr J had taken out a loan to refurbish a hotel, which they then planned to sell. They had done this once before and had made a profit. While they were refurbishing the hotel, they decided that they also wanted to buy another property to let out as part of their business. So they got in touch with their bank to ask about borrowing more money.

The bank said it could offer them a larger loan – to consolidate their existing debt and to provide the additional capital they needed. The bank also said that Mr Y and Mr J would need to take out an interest-rate hedging product for a minimum of five years.

Mr Y and Mr J said they wanted to sell the hotel within six years – either to buy a different hotel or to move abroad. The bank noted down in its records that they planned to move on at some point within the next six years.

A team from the bank went to see Mr Y and Mr J to discuss the arrangements in more detail. This involved a presentation about interest-rate swaps. An adviser from the bank also spoke to Mr Y on the phone about the product.

Following these conversations, Mr Y and Mr J took a 20-year interest rate swap – to match the duration of their loan.

Six years later Mr Y and Mr J sold their hotel. They asked to break the swap because they were leaving the country. The bank told them that the cost of breaking the swap would be around 25% of the original loan.

Mr Y and Mr J complained about this. They said they had not been made aware that it could cost that much. When the bank rejected their complaint, they asked us to investigate.

complaint upheld

When we looked at all the evidence, it seemed to us that the bank had advised Mr Y and Mr J to take out the swap. So we had to decide whether that advice from the bank had been suitable for them.

We noted that when the bank's advisers had visited the hotel and given a presentation to Mr Y and Mr J, they had only included information about that particular swap. They hadn't mentioned any other products. We therefore took the view that the bank had effectively recommended the swap to Mr Y and Mr J.

We also noted that Mr Y and Mr J had made it very clear that they wanted to sell the hotel within six years – and that there was a significant possibility they would need to cancel the swap early.

We looked at the bank's record of the phone conversation between the adviser and Mr Y. The record showed that Mr Y had asked what would happen if he and Mr J decided to sell the hotel or if they decided to move abroad. According to the bank's own records the adviser had said that the swap could be transferred to a different loan. She had also said that the swap could be closed, and that either Mr Y and Mr J, or the bank, would cover the cost – depending on the state of the market at the time.

We could see no evidence that the bank had explained how much it would actually cost to pull out of the swap within six years. The bank had known how high the break costs might be. And we felt that it should have recognised the possibility that these costs could have had a significant influence on Mr Y's and Mr J's decision to take out the hedging arrangement.

... the cost of breaking the swap would be around 25% of the original loan

... they said the bank had forced them to take out a cap that they hadn't wanted or needed

We decided that if Mr Y and Mr J had been given suitable advice – and been made aware of the potential break costs – they would not have decided to enter into a hedging arrangement for more than six years.

The fact that the swap was in place for 20 years – with the potential for very high costs if the arrangement was broken early – effectively denied Mr Y and Mr J any flexibility if interest rates were to fall significantly.

We told the bank to put Mr Y and Mr J in the position they would now be in if they had taken out a six-year interest-rate swap. Mr Y and Mr J had been happy with the idea of fixing their interest rate – and this shorter term would have met their needs at the same time as satisfying the bank's requirements.

case study 112/02

small business complains it was forced to take out an interest rate cap to secure a loan

Mr and Mrs N ran a decorative homeware business. They rented their shop and warehouse – but they decided they wanted to stop renting and buy the properties instead. They also wanted to buy out a minority shareholder in the business. So they got in touch with their bank and applied for a loan.

In return for some additional security, the bank offered Mr and Mrs N a loan with a 12-month interest-only period.

Just before the interest-free period came to an end, Mr and Mrs N realised they were going to struggle to keep up with their repayments – which would increase because they would start paying the interest on the loan. They asked the bank whether it could extend the interest-only period. The couple also wanted to withdraw the additional security they had paid – so that they could invest it directly into their business.

The bank agreed, but only on the condition that Mr and Mrs N take out an interest-rate hedging product. The bank said this was to protect the couple if interest rates increased in the future – which could affect their ability to meet their loan repayments.

The bank talked through the various options with Mr and Mrs N. The couple were keen to keep the costs down – and they settled on a two-year interest-rate cap that involved their paying a relatively small premium. The premium was added to the loan, and they repaid it monthly along with their loan repayments.

Mr and Mrs N later complained to the bank. They said the bank had forced them to take out a cap that they hadn't wanted or needed. They pointed out that when they had originally taken out the loan, they hadn't been told that they would have to take out an interest-rate hedging product if they wanted to release the security at some point in the future.

Unhappy with the bank's response, Mr and Mrs N asked us to look at the complaint.

complaint not upheld

We looked at the evidence from around the time Mr and Mrs N had taken out the original loan. It appeared to us that the bank hadn't explained that if the couple decided to change the terms of the loan after taking it out, they would need to have an interest-rate hedging product.

However, we took the view that the bank had been entitled to require that the couple take out an interest-rate hedging product – based on their circumstances at the time they had asked to change the terms of their loan.

We also looked at the evidence from the time the couple took out the interest-rate hedging product. We were satisfied that the bank had explained the options to Mr and Mrs N in a way that was clear and not misleading. We concluded that Mr and Mrs N had been given the information they needed to make an informed decision.

Taking everything into account, we were satisfied the bank had not acted unfairly in the circumstances of this complaint. If Mr and Mrs N had not been happy with the new terms they were offered by their bank, they had had the option of looking elsewhere – or continuing with their current loan on its original terms.

... the bank had been entitled to require that the couple take out an interest-rate hedging product

... we thought they would not have chosen one with such potentially high exit costs

case study 112/03

business complains they were mis-sold an interest rate swap that exposed them to risk they weren't happy to take

Mr and Mrs O owned and ran a pub, guesthouse and restaurant. When their business relationship manager left their bank and moved to Bank B, they decided to move their accounts to follow him.

When they moved their accounts to the new bank, they were offered a loan to consolidate their debts. This new loan was repayable over 15 years.

At the same time, someone from the bank's treasury department rang Mr and Mrs O to talk to them about the idea of hedging their borrowing. They agreed to having another conversation about it, and a team from the bank came to visit them. The bank's representatives gave Mr and Mrs O a presentation that covered a variety of hedging options.

After the presentation Mr and Mrs O agreed to a 10-year interest-rate swap – that didn't include paying a premium.

Interest rates fell over the next couple of years. But Mr and Mrs O noticed that they weren't paying any less. So they got in touch with the bank to ask them what was going on. Unhappy with the position they found themselves in and following a number of conversations with the bank, they said that they wanted to pull out of the swap.

The bank told them they would have to pay a large sum of money to end the arrangement. Mr and Mrs O complained – saying that they had never needed the swap and that the bank had approached them about it in the first place.

When the bank rejected their complaint, they decided to ask us to investigate.

complaint upheld in part

We looked at all the evidence and listened to both sides of the story. We noted that Mr and Mrs O and their relationship manager had known each other for a number of years.

The couple had even moved their accounts to Bank B so they could carry on working with him.

We also noted that the bank had decided what hedging option Mr and Mrs O should take out before meeting with them – and had actively recommended one particular course of action to them.

We concluded that the bank's advice had not taken into account the fact that Mr and Mrs O needed flexibility. The potential cost of leaving the swap meant that it was inflexible.

We noted that Mr O was in his late sixties – and the bank itself had recorded that Mr O's age was a consideration. We therefore took the view that the bank should have realised that the couple might need to leave the swap early.

The bank had also noted that Mr and Mrs O were particularly cautious – and were concerned about unexpected costs. The bank said this was the reason for introducing the idea of interest-rate hedging in the first place. But we decided that a product with an unknown – and potentially very large – exit cost was not suitable for their needs.

We also concluded that the bank had not given Mr and Mrs O clear information about the swap. They were not told about the potential size of the break costs. And they were not given any information about other options.

We decided that if Mr and Mrs O had been given suitable advice and clear information, they would probably still have chosen to take out an interest-rate hedging product. But given their circumstances, we thought they would not have chosen one with such potentially high exit costs.

We were satisfied that Mr and Mrs O would probably have taken a cap instead – which would have involved a fixed cost when taking it out and no cost to leave. So we told the bank to put Mr and Mrs O in the position they would now be in if they had bought a cap rather than the 10-year swap.

... it was very unlikely that Mr and Mrs W would have chosen such a complex and risky product

case study 112/04

business complain they were mis-sold a structured collar

Mr and Mrs W ran a property business. They took out a loan with their bank – along with a three-year interest-rate cap. When the cap expired, they met up with their relationship manager at their bank to talk about other hedging options.

The relationship manager – and other advisers at the bank – presented Mr and Mrs W with a variety of interest-rate hedging options. The couple weren't sure what to do. After the meeting, someone from the bank phoned Mr W to talk through the options again. The adviser then sent the couple an email to explain how a structured collar would work – and how much it might cost. Mr and Mrs W subsequently took out a structured collar on a ten-year basis.

Some time later, when the base rate dropped rapidly, Mr and Mrs W noticed they were paying the maximum amount under the structured collar. They got in touch with their bank to ask why they were paying so much, but they didn't understand the bank's explanation. They complained to the bank – but it said it hadn't done anything wrong.

Mr and Mrs W decided to bring their complaint to us.

complaint upheld

We looked carefully at all the evidence sent to us by the bank and by Mr and Mrs W. We noted that one of the bank's advisers had recorded that Mr and Mrs W had wanted to continue with some interest-rate protection when their original three-year cap expired. And Mr and Mrs W themselves told us that they had been looking to protect themselves against interest-rate rises.

The bank had recorded that Mr and Mrs W were "most interested" in a structured collar. But we could see no evidence to suggest that the couple had had any strong view on what interest rates were likely to do over the next few years – or any inclination to speculate on them.

The structured collar that the bank had recommended had carried a risk that if rates went below a certain level, the interest-rate Mr and Mrs W would pay would actually begin to rise. From the evidence we saw, we decided it was very unlikely that Mr and Mrs W would have chosen such a complex and risky product.

Mr and Mrs W ran their business themselves. A business like theirs needed a degree of flexibility – just in case something happened that meant they couldn't run it any more. We noted that Mr and Mrs W had an exit strategy in place. But we decided that being tied into a product for a long period of time – with potentially high break costs – could have stopped them from putting that strategy into practice.

Taking everything into account, we concluded that the bank's advice had been unsuitable for Mr and Mrs W. The structured collar contained an element of interest-rate speculation that we did not believe fitted in with their objectives at the time.

We also concluded that the bank had not given the couple clear information about the risks of taking out the product. It had not explained the possible exit costs – which were extremely high. We decided that Mr and Mrs W would probably have acted differently if the bank had explained clearly the speculative risks and the potential break costs.

We could not be sure what the couple would have done if they had been given suitable advice and clearer information. They had wanted some protection against possible interest rate rises, and given their circumstances, a simple five-year collar seemed a reasonable alternative. This would have removed the speculative element of the structured collar – and mitigated the possibility of incurring very large exit costs.

We told the bank to put Mr and Mrs W in the position they would now be in if they had taken out a simple collar for five years.

case study 112/05

business complains they were mis-sold an interest rate swap that did not match the duration of their loan

Mr F and Mr F – who were brothers – owned and ran a large garden centre and garden design business. They wanted to buy some land next door to the garden centre – to develop some of the buildings and sell them on after four years.

They got in touch with their bank to talk through their options. The bank offered them a four-year loan that was "repayable on demand". They also discussed the possibility of the brothers borrowing more money at the end of the four-year term.

In the same conversation, the bank talked about interest-rate hedging. The brothers subsequently took out a base-rate cap for two years, and a base rate swap for 16 years that would begin when the cap ended.

Some time later, the brothers came across a series of reports in the press about interest-rate hedging products. They looked into their own situation more closely and felt comfortable with the base-rate cap they had taken out. But they weren't happy with the swap. So they complained to the bank, saying that they felt that it had not explained the risks to them.

complaint upheld

At the point the swap was sold, neither the bank nor Mr F and Mr F could have known exactly how much more money – if any – the brothers might need to borrow at the end of the four-year term. In these circumstances we identified a clear risk that the duration of the swap might be longer than the term of their loan.

Because of the way the hedging products had been set up, Mr F and Mr F might have had to pay to pull out of the 16-year swap before it had even come into effect. This meant that the brothers were effectively entering into an agreement that would last for 20 years.

... we identified a clear risk that the duration of the swap might be longer than the term of their loan

And if, after the four years, they ended up borrowing an amount of money that was less than the amount covered by the swap – or indeed, they ended up borrowing no more money at all – they might still have had to keep on making significant payments under the swap.

We could see from the evidence that the bank had mentioned an exit cost, but it had simply compared it to "having a fixed rate". We did not think the bank had drawn the brothers' attention to the potential cost of breaking the swap.

We concluded that the arrangements that the bank had recommended to Mr F and Mr F had lacked the flexibility they needed. The 20-year agreement had potentially involved extremely high exit costs – and it might not have been needed at all if the brothers had not gone on to borrow any more money.

We decided that if Mr F and Mr F had been given suitable advice about the swap – and had the potential risks explained to them – we decided, on the balance of probability, that they would probably not have taken it out.

To put things right, we told the bank to put Mr F and Mr F back in the position they would now be in if they had never taken out the swap.

... the 20-year agreement had potentially involved extremely high exit costs – and it might not have been needed at all if the brothers had not gone on to borrow any more money

... they were unlikely to need to pull out of the arrangement early

case study 112/06

business owners complain that they were mis-sold an interest-rate collar

Mr and Mrs M owned two large houses, which they rented out to students. They wanted to buy another house, and decided to look into changing their borrowing arrangements to release some equity. So they got in touch with their bank to talk about their options.

The bank offered them a loan, but said that they would need to take out an interest-rate hedging product. Mr and Mrs M took out a five-year interest-rate collar.

Two years later, when interest rates dropped, Mr and Mrs M noticed that their loan repayments did not fall. After reading an article in the press, Mr and Mrs M thought that the interest-rate collar might have been mis-sold to them.

They complained to the bank, but were not satisfied with its response. So they decided to come to us.

complaint not upheld

Mr and Mrs M felt that the bank had clearly advised them to take out the interest-rate collar. But the bank said it had simply given them information to help them make their own informed decision. So we looked at the evidence to try and get to the bottom of what had really happened.

We decided that, on balance, it was likely that the bank had advised the couple to take out the interest-rate collar. So we had to decide whether that advice was suitable for Mr and Mrs M in their circumstances.

We noted that the collar had provided Mr and Mrs M with valuable protection against interest-rate rises. The collar had a term of five years, which we did not think was excessive in these circumstances.

We also needed to establish whether Mr and Mrs M had thought they might need to break the collar arrangement before the five years was up. The bank's notes from the time showed that the couple were looking to grow their property portfolio – and that they were unlikely to need to pull out of the arrangement early.

In these circumstances we decided that the bank had not given Mr and Mrs M unsuitable advice.

We also needed to decide whether the bank had given Mr and Mrs M information that was clear and not misleading – so they could make an informed decision about the product.

We checked that the bank had explained the main features of the product adequately. We concluded it had not given the couple enough information about the potential costs of leaving the arrangement early.

Having said that, we also noted that this would only have made a difference to Mr and Mrs M if they had thought they would need to break the agreement early – and we did not think that was likely. We were also satisfied that Mr and Mrs M would have been unlikely to have acted any differently – even if they had been given more information about breaking the arrangement.

So taking everything into account, we decided the bank had been entitled to make hedging a condition of the loan – and that it had not acted unfairly towards Mr and Mrs M.

ombudsman focus: **the year so far**

Half way through the financial year, September is always a good opportunity to take stock of what's happening at the ombudsman – and outside it. *ombudsman news* asked chief executive Natalie Ceeney for her take on the year so far.

have you noticed any particular trends in the complaints the ombudsman service has received so far this year, Natalie?

Whenever people ask me that question I always start by distinguishing between "PPI and non-PPI". It's impossible to talk about trends in our work without being clear about that distinction.

So let's start with PPI. By now, we're all familiar with the story. It's acknowledged as the biggest mis-selling scandal in the history of the UK's financial services. PPI is the most complained-about product we've ever seen. To give you an idea of scale, over the last year, we've been receiving up to 3,000 PPI complaints a day. In just one year, complaint volumes went up by 140% – and they weren't low to start off with.

So it's been huge, and it's still huge. But – and this is the update – there are signs that it's starting to slow down. That doesn't mean the end is in sight. Far from it. But we are starting to see the volume of complaints level off and edge slightly downwards.

I think we'll all breathe a sigh of relief when everyone who's owed compensation has received it. In the meantime, we're working through all of the individual cases as best – and as fast – as we can. We've made huge progress in increasing our capacity to deal with the cases – and the thousands of cases that people are still referring to us.

leaving PPI aside for a minute, is there anything you've seen so far this year that concerns you?

It's disappointing that we're starting to see more complaints about "packaged" bank accounts – those current accounts that include things like breakdown cover and travel insurance.

There are some case studies on packaged accounts in this issue of *ombudsman news* – and I hope some of the things we're highlighting will be helpful in preventing problems before they get as far as the ombudsman.

On a positive note, we've been working closely with the banks in this area. I've been encouraged to see willingness in certain quarters to learn from the problems we're all seeing – and to ensure that as many complaints are resolved by the banks themselves, rather than needing to come to us for a decision.

Mobile phone insurance is something else that's on my mind at the moment. Although we've received relatively few complaints about it, we are seeing more and more examples of mobile phone insurance being added to on consumers' accounts without their realising – and in some cases, unusual or important terms and conditions that haven't been made clear to consumers.

But in this area too, I've been encouraged by parts of the industry's response to the problems we've been highlighting. My team has been working closely with the some of the big players in this sector, and I know that some providers have taken steps to try and prevent problems at an early stage. Some have clearly changed the way they do things – which is a great example of extracting the lessons from complaints, and using them to improve customer service overall.

The third area I'd like to mention is payday lending. This isn't because we've seen significantly more complaints over the last six months, but because we really can help in this area. By nipping problems in the bud complaints can be identified and sorted out relatively easily – to everyone's benefit. We're working hard to make sure that people who might come across a problem with short-term lending know we're here – and have enough confidence to talk to us.

are there any developments you've been particularly encouraged by this year?

Earlier this month we published our regular six-monthly complaints data about named financial businesses. That data suggests that for some businesses, better complaints-handling has moved up the agenda. I take a lot of encouragement from that. I'm hoping it reflects a broader shift towards a more customer-oriented outlook. In time, that might develop into businesses responding more positively to what complaints are actually telling them – rather than seeing complaints handling as a fundamentally negative "compliance function" that needs to be "dealt with".

But this shift isn't universal – as the data shows. Unfortunately, not all of the major financial businesses are yet thinking – or acting – this way. I'm optimistic, as things do seem to be improving – but cautiously so, as there is still a huge amount of scope for improvement.

how have things been going with the new regulator – the Financial Conduct Authority?

Although the FCA took over officially from the Financial Services Authority on 1 April 2013, things didn't suddenly change overnight. In reality we've been in touch with their chief executive, Martin Wheatley, and people in his team for the last 18 months. So, this doesn't feel "new" to us!

Part of the government's thinking when it created the new regulator was that there needed to be earlier intervention if things were going wrong in financial services – to make it less likely that a "mass detriment" situation like mortgage endowments or PPI could happen in the future. The new regulator has been putting the emphasis on this kind of proactive earlier intervention – and we've certainly seen things move quickly around "swaps" (another product area that features in this month's *ombudsman news*) and in a couple of other areas too, such as the recent intervention on card protection insurance. This regulatory commitment to deal with problems early, and quickly, can only be welcomed.

clearly it's been a time of massive change at the ombudsman service. How has the organisation been coping?

The scale and pace of change over the last year or so has certainly been a challenge for us. We have had to respond to unprecedented demand. But this is what we are here for – to respond to problems and complaints.

The good news is that we've now recruited almost all the people we need to deal with the recent escalation in demand. It's been a huge job to make sure that everyone who's joined us is fully up to speed – and able to work to the high standard we expect. But this job doesn't go away. Training and developing our people is continuous.

I won't pretend for a minute that the changes we've been through haven't had an impact on our customers. We've had to ask people to wait far longer than we'd have liked – and certainly in PPI, many people may be waiting for up to two years to get a decision about their case.

We know this isn't good and is hard for people to accept. We have to look at each case individually, using well trained staff, which takes time. But we will get there. By Christmas, we'll be working at full capacity – and able to work through more complaints than ever before.

At some point in the future, the current volume of PPI complaints will subside – and things will change again. But for now, this is how it is – and we're doing everything we can to keep our standards high and to work through it.

surely everything you've just described has had an impact on the rest of your work – the things that aren't PPI?

Actually no. We took the conscious decision 18 months ago to ring-fence PPI from the rest of what we do. We knew then that we just couldn't allow everything else to be affected by what was happening on the PPI front – and that we didn't want to ask staff working on cases other than PPI to have to deal with the burden of growth and change that I've just mentioned.

So we've actually been *reducing* the time customers have had to wait in other product areas. We've learnt some valuable lessons from the work we've done to address specific problems – like the difficulties banking customers had when their bank was hit by IT problems last year. We've also been building on the lessons we learnt from our "experimental" casework project – where we did things differently for people having problems with e-money transfers.

... we have to look at each case individually, using well trained staff, which takes time. But we will get there.

So outside PPI, we've been moving forward and making improvements. Like any organisation worth its salt, we're looking at how we can meet the changing needs and behaviour of our customers. And they really are changing. There'll be more to come on this, so keep an eye on *ombudsman news* and our website.

what do you expect to happen in the complaints world over the next couple of years?

Complaints are closely linked to hard times. We all know that when things are tough financially, people are more likely to look at their finances and question things. But it's not just about people's attitudes to money. Economic conditions themselves directly influence financial products like mortgages, pensions and investments. So when times are hard and financial markets are going through a period of volatility, people are directly affected – which can, and does, translate into problems and complaints.

There's a lot of talk of economic recovery at the moment – which is great news for us all. So we might well start to see fewer complaints. But equally, I'm convinced that consumer expectations have risen over the last few years – and we can't put that genie back in the bottle. Trust in institutions and the established professions – doctors, bankers, MPs – has diminished. And many people turn to other people like them – usually online – to validate their feelings and answer their questions.

Of course, people have always had worries and concerns – it's just that consumers might not have complained "officially" before. All the research we – and others – do suggests that most people in the past just put up with poor service – and perhaps now they just won't. Times have obviously changed.

So I think things will be different in the future – in some cases radically different. I certainly believe that consumer attitudes have changed, which means that financial businesses' attitudes to customer complaints need to be different too.

finally, there's been a lot of talk over the summer about the number of women on boards. What are your thoughts on quotas for women board members?

I find it hugely frustrating that boards of companies find it such a difficult issue. It's utter common sense that organisations should look for the very best talent – and of course that means hiring and promoting out of the talent pool that actually reflects society. I know so many bright, talented, capable women that I just can't see why certain organisations *wouldn't* look at them as leaders. These places are hurting themselves by limiting women's career prospects and failing to engage with their diverse customer base.

Having said that, I don't think quotas are the answer. I for one wouldn't want to be hired for a job knowing that I was just making up the numbers. But at the same time I know that many organisations will "get what they measure". I'm therefore in favour of aspirational targets for diversity at all levels in organisations (ethnicity as well as gender), but not of quotas.

I'm proud to say that the ombudsman service wouldn't bat an eyelid if someone gave us targets tomorrow. Women thrive in senior positions here – just as their male colleagues do. We have roughly 50:50 representation of men and women at every level here – including our board and executive team. But we're not going to take our eye off the ball. Why would we let talent pass us by?

packaged bank accounts

Packaged bank accounts – sometimes called ”paid-for” accounts – usually charge a consumer a monthly or annual fee. These accounts can be called a lot of different names – gold, premium, upgraded, reward – but the thing they have in common is that they usually include a range of insurance and non-insurance benefits.

A typical account might include travel insurance and mobile phone insurance – as well as car breakdown cover, preferential rates on overdrafts or loans, use of airport lounges, and discounts on various products and services.

Consumers usually pay between £5 and £25 each month for an account.

Packaged accounts can be a good option for many people – saving them time and money. They can work well as long as people know what the benefits are, whether they can use them and what they have to pay for them.

But sometimes things go wrong. When consumers come to us with a problem involving a packaged account, they often tell us they didn't know they had one. Others say they knew they had the benefits – but hadn't realised they were paying for them.

We also see complaints from consumers who tried to claim under an insurance policy included in their account, and found they weren’t covered – perhaps because of an age limit or an exclusion for a “pre-existing” medical condition.

Sometimes we hear from consumers who have come across other limitations in the policies included in their packaged accounts. Often, these limitations are things they perhaps wouldn’t have expected to find in a “stand-alone” insurance policy. For example, sometimes the item had to be bought using the packaged account.

As the following case studies show, we look at the evidence to establish what happened when the account was opened. We usually look at whether the bank gave the consumer advice or a recommendation – and if so, whether it did enough to make sure that any insurance policies it recommended as part of the account were suitable for the consumer’s needs.

Regardless of whether the bank gave advice, we will look at whether it gave the consumer clear information about the cost of the account, how it worked, and the specific products that were included – to allow the consumer to make an informed decision about whether to open the account.

In those cases where we decide that the bank had acted unfairly, we look at the broader circumstances to decide what it should do to put things right.

Financial Ombudsman Service

... she said she could not have made it any clearer that she was planning to use the travel insurance

case study 112/07

consumer complains the bank did not tell her about the age limit on her travel insurance – part of her packaged bank account

Mrs T was 73. She was retired and her three children lived abroad. She often went to see them, and travelled regularly in the UK as well.

When Mrs T was in the local branch of her bank, she noticed that they offered a current account that included travel insurance. She thought one of these accounts would be perfect for her – so she asked an adviser about opening one.

Mrs T explained that she was interested in opening an account that came with travel insurance. She said that in the past she had always taken out stand-alone travel insurance when she went away – for about the same cost as the account fee. The adviser set out the details of the account, and Mrs T opened one straight away.

A few months later, Mrs T went to visit her daughter in Australia. Unfortunately, while she was there she became ill – and needed to be taken into hospital. She phoned her travel insurer to talk through what was happening – and to arrange for it to cover her medical expenses. But the insurer said it would not pay the claim because Mrs T was over 70 years old – and so wasn't eligible for cover under the policy. Mrs T paid her medical expenses herself and, once she had recovered, carried on with her holiday.

Soon after she got home, Mrs T complained to her bank. She said that the bank had known that she was over 70 years old when she had upgraded her account. She said she could not have made it any clearer that she was planning to use the travel insurance that was included in the package. And she pointed out that the adviser she had spoken to had not said anything about age limits on the travel insurance policy.

The bank rejected Mrs T's complaint. It said she would have been sent a welcome pack when she upgraded her account – which had set out the terms of her policy.

Mrs T thought the bank's response had missed the point. So she referred her complaint to us.

complaint upheld

We asked the bank to send us its notes from the meeting during which Mrs T had upgraded her account. These notes said that Mrs T had wanted the packaged bank account because it included travel insurance – and that she travelled often.

We were satisfied that the bank would have known that Mrs T was over 70 when it upgraded her account. And even if the bank hadn't known, the age limit was an important restriction on the travel insurance policy – so we felt the bank should have drawn it to Mrs T's attention. We did not think sending her a folder of information was enough.

We also thought that if Mrs T had been aware of the age restriction on her policy, it was likely that she would have arranged travel insurance elsewhere that *didn't* have the age restriction – at a similar cost to the account fee and on similar terms. We also thought that she would have been unlikely to have taken out the packaged account.

The insurer told us that it would have paid Mrs T's claim if it hadn't been for the age restriction. So we told the bank to pay Mrs T the amount she would have received, plus £200 to compensate her for the distress and inconvenience that she had been caused while she was ill in Australia.

case study 112/08

consumer complains his bank told him he had to have a packaged bank account to have his loan application approved

Mr M's daughter had recently been offered a place at university. He wanted to help her out as much as he could, and decided to take out a loan to pay her accommodation fees.

Mr M phoned his bank to ask about a loan. The adviser told him that because he had a packaged account, the bank should be able to give him a "preferential interest rate".

Mr M was confused. He asked the adviser to explain what she meant by a "packaged" account. When she told him what the account included, Mr M said that he remembered opening an account like that many years ago when he had taken out a loan. Mr M said that at the time, he had thought he needed to open the account to make sure his loan application was successful. But he had also thought the monthly payments for the account would stop once he had paid off his loan.

Mr M felt that he had been misled by the bank, and he complained. The bank insisted that the terms of the account would have been made clear to him when he took it out.

But Mr M was still unhappy, and he decided to bring his complaint to us.

... he asked the adviser to explain what she meant by a "packaged" account

The insurer told us that it would have paid Mrs T's claim if it hadn't been for the age restriction. So we told the bank to pay Mrs T the amount she would have received with interest applied at a rate of 8% simple per year from the date she paid the expenses to the date the complaint was settled, plus £200 to compensate her for the distress and inconvenience that she had been caused while she was ill in Australia.

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But Mr M was still unhappy, and he decided to bring his complaint to us.

... he asked the adviser to explain what she meant by a "packaged" account

complaint not upheld

We asked the bank to send us its records for Mr M. These showed that five years earlier, Mr M had opened a packaged account – and six months *after* that, had taken out a loan. There were no records of any loan applications or earlier packaged accounts before then. We noted that Mr M had paid off his original loan after three and a half years.

We asked the bank for a copy of the letters that Mr M was sent at the time he took out the packaged account, at the time he took out the loan, and at the time he paid the loan off. We saw evidence that the terms and conditions of the packaged account had been sent to Mr M – and noted that the accompanying letter had clearly and prominently stated that he would pay a monthly charge unless he "downgraded" his account.

We could see nothing to suggest that the bank had told Mr M that he *had* to take the account for his loan application to be successful.

We checked to see whether Mr M had asked to change his packaged account at any point. We were satisfied that he hadn't.

Taking everything into account, we were satisfied that the bank had not told Mr M that he *had* to upgrade his bank account to get a loan.

We also looked into whether Mr M had been given enough clear information to make an informed decision about whether to upgrade his account. We thought some of the information he had received could have been clearer.

However, we noted that Mr M had benefited from the packaged account – because he had received a better interest rate on his loan. The saving he had made was more than the amount he had paid for the account. So in these circumstances, we did not uphold the complaint.

... she said she hadn't been offered any alternative to the paid-for account

case study 112/09

consumer complains that her bank did not tell her that a paid-for bank account was optional

Miss L lived in Canada, and moved to the UK when she got a job in London. Soon after she arrived, she went into her local branch of a bank to set up an account.

Miss L had a meeting with an adviser in the branch and opened a paid-for bank account. The account included car breakdown cover and travel insurance. The adviser explained that Miss L would need to pay a monthly fee for the account – but Miss L wasn't surprised, because she had always had to pay a fee for her bank account in Canada.

A few months later Miss L was chatting to a colleague. He said that you don't *have* to pay a fee for a bank account in the UK. So Miss L went back into the branch and asked to change her account to a free one.

She was annoyed that she had to waste time going back into the branch to change her account – and she complained to the bank. She said she hadn't been offered any alternative to the paid-for account.

The bank rejected Miss L's complaint. It said the adviser she spoke to would have told her about the free accounts available to her.

Miss L didn't think that was right, so she asked us to investigate.

complaint upheld

We asked the bank to send us all the documentation from around the time Miss L had opened the packaged account. The bank sent us a copy of the brochure and the application form that Miss L had signed. These made no reference to free accounts – and the bank couldn't point to any other evidence to show that Miss L had been told about an alternative account.

We noted that Miss L did not have a driving licence – or a car. So we couldn't see why breakdown cover would have been of any use to her. And she told us that because she had just come over from Canada – and was getting to know a new city – she didn't have any plans to travel anywhere in the near future.

In these circumstances, we decided that Miss L would probably have opened a free account if she had been told about one. We told the bank to refund the account fees that Miss L had paid – with interest applied to each one (at a rate of 8% simple per year from the date she had paid it to the date the complaint was settled). We also told the bank to pay Miss L £50 to compensate her for the inconvenience of having to go into the branch to sort things out.

case study
112/10

consumer complains that his packaged bank account was not explained to him – and that he has not benefited from it

Mr B had been with the same bank for four years. The bank wrote to him and offered him a "personal finance review" – a meeting with an adviser to talk about how they could work together to "help meet his lifestyle goals".

Mr B accepted and made an appointment to meet up with an adviser at his local branch. During the subsequent meeting, Mr B signed up to a packaged bank account and ticked the form to say he had been given a welcome pack.

A year later Mr B heard a phone-in on the radio about the pros and cons of packaged accounts. This made him wonder whether paying for his account was worth it.

Mr B phoned the bank to find out more about what he was paying for. An adviser explained what was included in his packaged account. But Mr B said that when he opened the account, he'd felt he hadn't been given a clear enough explanation of the benefits. The adviser said that she couldn't deal with that there and then, but that if Mr B wanted to complain more formally, the bank could look into things more thoroughly for him.

So Mr B complained, and a few weeks later the bank wrote to him in more detail. The bank turned down Mr B's complaint. It said that the adviser would have explained how the account worked – and pointed out that it had sent him a welcome pack that set out what was included. It also said that he had benefited from the features included in his account.

Mr B was not happy with this response – and he asked us to look into his complaint.

... Mr B phoned the bank to find out more about what he was paying for

▶

complaint not upheld

We looked at all the evidence from Mr B and the bank to help us understand what was included in the account – and what Mr B had understood about the benefits.

First we looked at the mobile phone and gadget insurance part of the package. Mr B confirmed to us that he had a mobile phone and a laptop – and that he had wanted them to be covered. It seemed likely either that the adviser had explained the cover to Mr B, or that he had read the brochure that set out the features and benefits of the account – because soon after Mr B had opened the packaged account, he had followed the instructions to register his mobile and his laptop for the insurance policy.

We then looked at the breakdown cover element. We noted that Mr B had a car. And the bank sent us evidence showing that he had in fact used the breakdown cover. So again, it was clear to us that Mr B had understood he had the cover in place – and had a need for breakdown cover.

We also checked to see whether the welcome pack that Mr B had received had set out the details of the account clearly. We were satisfied that it had.

In these circumstances, we were satisfied that Mr B had been able to make an informed decision about whether to open the account. If Mr B had been given advice, it was not unsuitable for him in his circumstances. So we did not uphold the complaint.

case study 112/11

consumer complains he did not know he had a packaged bank account – and that the bank upgraded his account without his consent

Mr F had been struggling financially for a few years. He had been using his overdraft each month – and was paying the bank a monthly fee. Eventually, he managed to clear his overdraft and get back into credit. But when he checked his bank statement, he noticed that he was still paying a fee o the bank each month.

Mr F phoned the bank to ask why he was still paying them a fee. An adviser told him that he had an upgraded premium bank account. He said he had never even heard of this type of account – and that he certainly hadn't asked for his account to be changed.

... he couldn't understand why the bank had been making things harder for him by charging him for his bank account

Mr F pointed out that he had been struggling with his money for a long time – and that he couldn't understand why the bank had been making things harder for him by charging him for his bank account.

The bank turned down Mr F's complaint. It said that he had been a "premium customer" for a number of years – and that he would have been sent a welcome pack shortly after he agreed to the upgrade.

The bank pointed out that the account fees had been itemised on Mr F's statements each month for years – and that they would have expected him to have mentioned a problem sooner.

Mr F did not recall anything about an account upgrade – so he got in touch with us to ask us to look into it.

complaint upheld

The bank could not tell us much about what had happened when Mr F's account was upgraded. It couldn't send us any evidence to show that Mr F had agreed to the upgrade – or a copy of the welcome pack that it said he would have been sent.

However, the bank did send us sample letters it said would have been sent to Mr F over the years. These included updates on the account and changes to the benefits that were included. But the bank couldn't show us any evidence that these letters had actually been sent to Mr F – and Mr F said he did not remember receiving them.

In any case, when we looked at the sample letters, we were not satisfied that they were clear enough – or that they were sent often enough – for a customer to be sure what sort of account they had and which benefits this entitled them to.

In these circumstances, we could see why Mr F might have been confused about his account. We could also understand why he might have thought for a long time that he was paying for an overdraft – rather than for a paid-for account.

To sort out this case we had to decide what we felt Mr F would actually have done if he had been given enough clear information at the time his account was upgraded.

Mr F sent us evidence to show that he had been paying for separate breakdown cover and travel insurance as well as his paid-for account. Given his tight finances, we could not see why he would have done this knowingly. We noted that the interest rate Mr F had paid on his overdraft with the packaged account was the same as he would have paid with a non-fee paying account.

In these circumstances, we told the bank to refund the account fees that Mr F had paid – minus the overdraft fees – with interest applied to each one (at a rate of 8% simple per year from the date he had paid it to the date the complaint was settled).

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Q? &A

featuring questions raised recently with our free, expert helpline for businesses and advice workers

talk to us

I work for an advice centre. One of my clients is visually impaired – and she can't fill in your complaint form. What can she do?

We work hard to make sure that there are no barriers to using our service. The simplest way might be to call us on 0300 123 9 123. We will be able to fill in the form using the details that your client gives us.

We can then send the form out for her to sign. We can also supply information about our service in several different formats like Braille, large print and audiotape. You can find out more about this on the accessibility pages of our website.

We always encourage our customers – both consumers and businesses – to let us know as soon as possible if there is anything we can do to meet their communication needs.

loan trouble

I work for Citizens Advice and one of my clients is in real trouble after taking out payday lending. She already had three payday loans – all of which had been rolled over – when she was approved for £300 by yet another lender. They didn't ask for any ID or check whether she could afford it. All she had to do was give an address and mobile phone number. She can't afford to pay any of the loans. Shouldn't they be written off?

The lender should have made sure that your client could afford the loan before they approved it. The Consumer Finance Association made this clear in its Good Practice Charter – and it's certainly something we would expect the payday lender to have done.

We would also check whether the lender had looked at your client's payment history.

This would have been especially relevant here – because she had other loans that she was struggling to repay. This would probably have been a good indicator that she might not be able to manage more borrowing.

However, writing off the loans might not be the best way to sort this out. Your client has benefited from the money that she borrowed, so it might be fair for the business to freeze the interest and arrange an affordable repayment plan with her.

The business should also stop contacting her for 30 days to give her some breathing space. But remember this is a two-way street. Your client needs to let the business know that she is having trouble paying and is seeking advice about her debt.

Financial Ombudsman Service

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