Financial
Ombudsman
Service

consultation on our plans and budget for **2018/2019**

December 2017

the closing date for comments is 31 January 2018

our year so far
our plans for 2018/2019

contents

responses – please respond by Wednesday, 31 January 2018 to:

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

or email **consultations@financial-ombudsman.org.uk**
or respond online at **www.research.net/r/ombudsman1819**

We may want to publish the responses we receive – and in the interests of transparency, we encourage non-confidential responses. If you do send us a confidential response, please tell us why you consider the information confidential. We can't guarantee that confidentiality can always be maintained, and we won't view an automatic email confidentiality disclaimer as binding.

about us

We were set up by Parliament to resolve individual complaints between financial businesses and their customers – fairly, reasonably, quickly and as informally as possible. We can look into problems involving most types of money matters – from payday loans to pensions, pet insurance to PPI.

If a business and their customer can't resolve a problem themselves, we can step in to sort things out. Independent and unbiased, we'll get to the heart of what's happened – and reach a fair, pragmatic answer that helps both sides move on.

If we think the business has acted fairly – or there's just been a misunderstanding – we'll explain how things stand. But if someone's been treated unfairly, we'll use our powers to make sure the business puts things right. That could involve anything from amending a credit file to reducing loan repayments, or from settling an insurance claim to correcting a pension.

Since we were set up, we've seen the real impact of financial concerns, complaints and disputes on people from all sorts of backgrounds and livelihoods. We're committed to sharing our insight and experience to encourage fairness and confidence in financial services.

questions

We'd welcome your feedback on our plans and budget. Please read our consultation with these questions in mind.

1. Do you agree with our projections for complaint volumes for the rest of 2017/2018 and for 2018/2019? What trends and developments should we keep in mind?
2. How do you think PPI will develop in the future? Do you agree with our plans for managing the complexities we face?
3. Do you agree with our plans for funding our service?
4. Do you agree with our plans for continuing to develop our service?
5. Have you got any other comments on our proposed plans and budget?

chief ombudsman's introduction

This time last year, we explained the uncertainties we faced in planning for the future at a time the biggest area of our work – payment protection insurance (PPI) – was still in flux. When we published our consultation in December 2016, the Financial Conduct Authority (FCA) had just announced it would give a further update in March 2017 on its response to the case of *Plevin vs Paragon Personal Finance Ltd*. And it was on that basis we set out our plans for the upcoming financial year.

Today, three-quarters of the way though that financial year, we've got more clarity in some respects. The FCA's *Plevin* rules and guidance are now in force – albeit later than initially planned. A two-year deadline for making a complaint about PPI is now in place. And we've begun the task of resolving the 140,000 PPI complaints affected by *Plevin* that have been waiting for our answer, so the people involved know where they stand.

> PPI isn't the only story – far from it. Over the last year, we've continued to develop our service
>
> Caroline Wayman

But while the end may now be in sight, it's a long road ahead. Three months into the FCA's PPI awareness campaign, we've seen a definite increase in people contacting us about PPI. However – as we've explained in this consultation – it's inevitably a complex picture. A number of factors could influence how things play out – from people's response to the FCA's campaign, to businesses' and claims-management companies' behaviour and engagement with us. We'll be relying on the cooperation of all the parties involved to keep up the momentum – working together to finally draw a line under PPI.

The scale of PPI mis-selling meant we needed to treble in size – and we're now in a position where, looking ahead, we can anticipate reducing the scale of our operations. But PPI isn't the only story – far from it. From levels of consumer debt to new technologies, there are many other developments we need to keep in mind as we make our plans. To make sure we're ready for the future – and ensure we stay not just accessible, but sustainable – over the last year, we've continued to develop our service. This has meant that, at the same time as managing PPI to its conclusion, we've also needed to transform the way we resolve complaints. Our challenge for 2018/2019 will be to build on our progress – at a time when, quite rightly, expectations of services like ours continue to grow. Once again, the feedback we're getting suggests our flexible approach is overwhelmingly well-received by financial services customers and businesses alike.

As always – but especially given the challenges ahead – I'm grateful for our stakeholders' readiness to engage with our proposals, and the diverse perspectives and insight they offer us. We'll keep talking as the picture evolves, and respond to the feedback we get when we set out our final plans and budget in March 2018.

I look forward to hearing your views.

Caroline Wayman
chief ombudsman & chief executive
13 December 2017

overview of our plans

- total complaints we expect to receive – **410,000**
  - including 250,000 PPI complaints
- total complaints we expect to resolve – **410,000**
  - including 250,000 PPI complaints
- total operating income – **£230.7 million**
- case fee – **£550**
- levy – **£24.5 million**

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2017/2018 – our year so far

In this chapter we set out the complaint volumes and trends we've seen in the first eight months of 2017/2018 – and explain the position in which we expect to end the financial year.

overall picture

Overall this year, we're on track to receive slightly more complaints than we'd initially anticipated – with the exception of packaged bank account complaints, which have fallen more quickly than expected. At this stage, we're expecting to receive and resolve slightly more complaints than we budgeted for.

new complaints

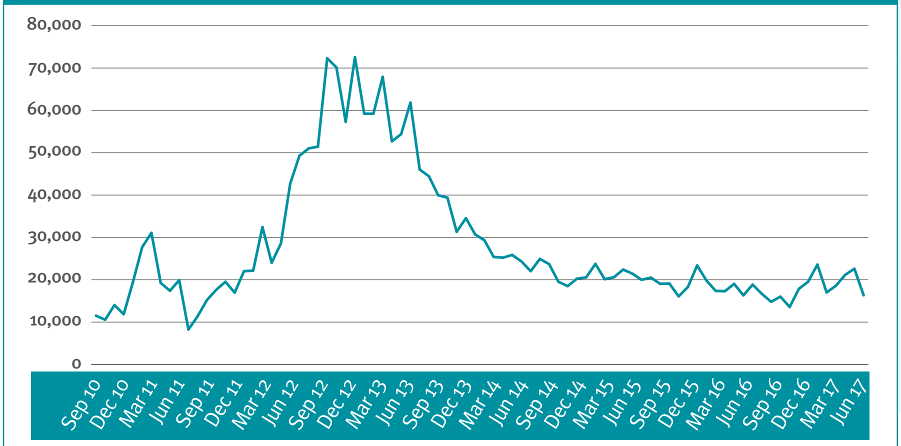
financial product or service	2016/2017 actual	2017/2018 budget	2017/2018 latest forecast
PPI	168,769	180,000	180,000
general casework *including*	120,818	125,000	130,000
banking and credit (except packaged bank accounts and short-term lending)	*68,192*	*73,500*	*76,000*
insurance (except PPI)	*38,155*	*37,000*	*40,000*
investments and pensions	*14,471*	*14,500*	*14,000*
packaged bank accounts	20,284	15,000	12,500
short-term lending (payday and instalment loans)	11,412	10,000	14,500
total	**321,283**	**330,000**	**337,000**

resolved complaints

financial product or service	2016/2017 actual	2017/2018 budget	2017/2018 latest forecast
PPI	190,967	280,000	280,000
general casework *including*	113,072	125,000	130,000
banking and credit (except packaged bank accounts and short-term lending)	*63,477*	*73,500*	*76,000*
insurance (except PPI)	*35,861*	*37,000*	*40,000*
investments and pensions	*13,734*	*14,500*	*14,000*
packaged bank accounts	23,677	15,000	12,500
short-term lending (payday and instalment loans)	8,665	10,000	14,500
total	**336,381**	**430,000**	**437,000**

There doesn't seem to be a single issue behind the rise in complaints we've seen in our general casework – and we'd be interested to hear our stakeholders' thoughts about this. It could, for example, reflect growing confidence among financial services customers in raising concerns, or increased awareness and accessibility of our service. In addition, the EU Payment Services Directive II (or "PSD2") will be reflected in UK financial regulations from 13 January 2018. It will mean businesses have to resolve certain types of complaints within 15 days, rather than the current eight weeks. And as a result, it's possible we'll see more complaints referred to us sooner – within the current financial year, rather than next.

consumer enquiries we've received about PPI



PPI

As we explained in March 2017 in our plans for the year ahead, regulatory developments around PPI have had an ongoing impact on our ability to move complaints forward. In particular, we consulted on our plans for 2017/2018 on the assumption that the FCA's new *Plevin* rules and guidance would be in force at the beginning of the financial year. However, in March 2017, the FCA announced that these wouldn't take effect until 29 August 2017 – which meant we needed to revise the operational and financial assumptions we'd made.

The new rules and guidance stem from the case of *Plevin v Paragon Personal Finance Ltd* – which means that people whose PPI wasn't mis-sold might be able to get a refund of some of the commission they paid on their policy. At the beginning of 2017/2018, *Plevin* was relevant to 140,000 of the 170,000 PPI complaints that were waiting for our answer. And although we were able to tell people involved whether we thought their PPI had been mis-sold, we weren't able to say if they were due *Plevin* compensation.

Meanwhile, we were working closely with businesses to ensure we'd got all the information we need about their PPI policies, so we could settle their customers' individual concerns about *Plevin* as quickly as possible. Since the *Plevin* rules and guidance came into effect on 29 August 2017 – a date that also marked the start of a two-year deadline for complaining about PPI – we've begun to give answers to the people who are waiting to hear from us.

We've also continued to engage with trade bodies representing smaller businesses, who we know have particular concerns and questions about PPI – as well as with organisations representing consumers, who've taken an active interest in these developments.

In the six months from 1 April 2017, we saw the first increase in new PPI complaints since 2013/2014 – a time when complaints were being referred to us at a rate of 12,000 a week. Even though we're receiving only a third of those volumes today, PPI still accounts for over half of all complaints we receive.

In general, we're upholding fewer PPI complaints than in previous years. This reflects the concerted effort we've made over the years to help financial businesses – as well as claims management companies, who are involved in a substantial proportion of the PPI complaints we receive – to understand what a fair outcome looks like, so they don't refer complaints to us unnecessarily.

During the time when the FCA was still consulting on its *Plevin* rules and guidance, some businesses suggested that they should be allowed to take back complaints affected by *Plevin* that had already been referred to us. In response, we explained that businesses would still have the option to review those complaints in light of the new rules. If we returned them, it could undermine the confidence of the customers involved, and they might be referred back to us anyway.

However, to recognise the fact the *Plevin* rules weren't in place when the complaints were originally referred to us, we'll be publishing only the volume – and not the uphold rate – of complaints affected by *Plevin* that we received by 29 August 2017, and that we resolve by 30 June 2018.

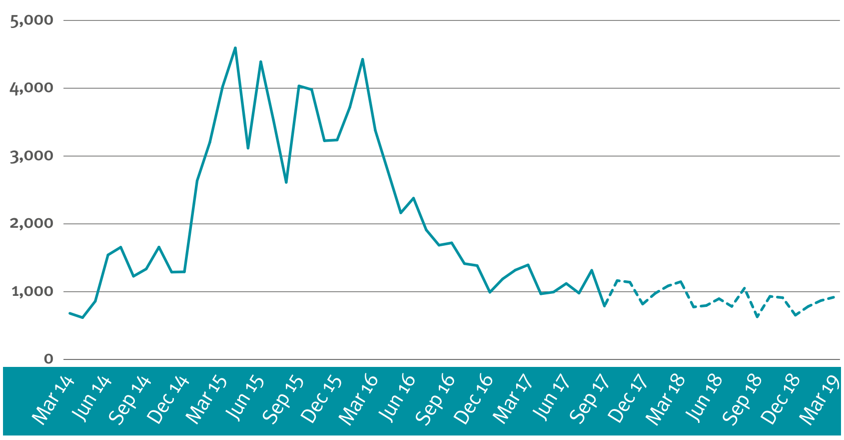
Based on current trends, we're on track to receive the 180,000 new PPI complaints we'd budgeted for this financial year. And we're continuing to forecast that we'll resolve 280,000 PPI complaints by the end of March 2018 – which includes both those that are affected by *Plevin* and those that aren't.

Because of the FCA's revised timetable for its *Plevin* rules and guidance, we'll need to resolve around 80% of these in the second half of this financial year. Understandably, this will be very challenging – and will depend on how a number of factors play out in the months ahead.

Our progress will be particularly dependent on:

- How far claims management companies – who are involved in the majority of PPI complaints – pursue complaints as far as they can through our service, even where it's clear they won't ultimately be upheld.
- How far businesses continue to cooperate with us in sharing information we need to settle the *Plevin* aspect of their customers' complaints – and agree with the answers we give.
- How far businesses apply the new *Plevin* rules and guidance consistently in the first instance – and satisfy their customers that they've got a fair answer.
- How well businesses manage their operations and answer PPI complaints in a timely way.

volumes of packaged bank account complaints



Because of these ongoing complexities, we'll need to review and revise our plans for 2018/2019 right up to the point we publish them next March. We expect these factors – along with a number of others – will have a bearing on the volumes of PPI complaints we receive and resolve into 2018/2019 and beyond. We've explained our current thinking about next year in chapter two – and would welcome our stakeholders' perspectives.

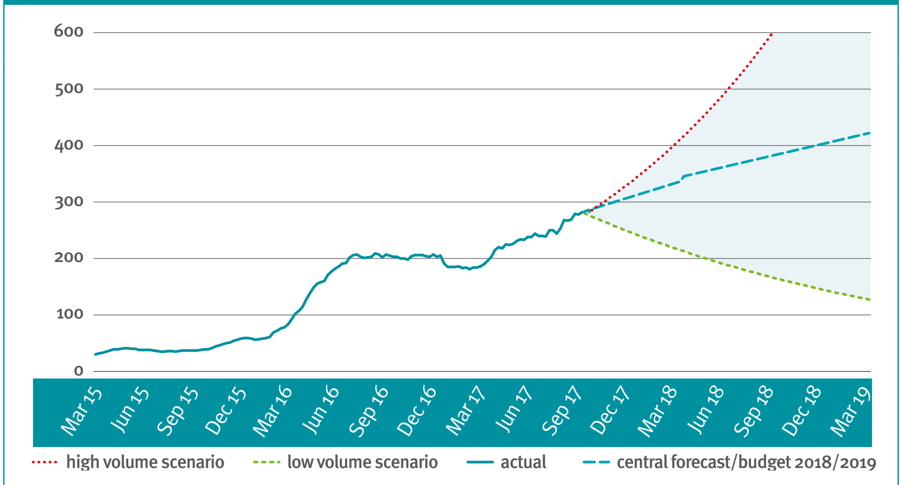
packaged bank accounts

A couple of years ago, the spike in complaints we received about packaged bank accounts suggested this could be an area where we'd see high volumes into the future. Most complaints were being referred by claims management companies, who argued these accounts – which offer a range of extra features – had been widely mis-sold.

We agreed in many cases that there were some problems with how accounts had been sold. However, we often decided that – on balance – this was unlikely to have made a difference to people's decision to take out their account, given the benefits it offered them (and which they'd often used). We worked closely with businesses to share our thinking and insight – so more of their customers received the right answer from them first time. And we told claims management companies that we wouldn't expect them to refer complaints to us where the people involved clearly hadn't lost out.

As a result of our stepping in proactively in this way, complaint volumes have fallen significantly. Compared with before, claims management companies are now involved only in about half as many of the cases we see – and the proportion we're upholding has fallen to around one in eight. At this stage, we think we'll actually get around 2,500 fewer complaints than we anticipated this year, and resolve as many as we receive.

volumes of short-term lending complaints



short-term lending

During recent years, we've seen a significant rise in complaints about short-term lending such as payday and instalment loans. Complaints about payday loans doubled to around 3,000 in 2015/2016, and tripled to over 10,000 in 2016/2017.

This increase has taken place in the context of significant regulatory action in this area – including a range of new tougher rules, and particular lenders being told to put right unfair practices.

By the end of 2017/2018, we think we'll have received and resolved around 4,500 more short-term lending complaints than we budgeted for. We're typically upholding around six in ten payday loan complaints – and we've noticed claims management companies are increasingly active in this area.

As we highlighted in our annual review in June 2017, many people who contact us have taken out a number of loans over an extended period of time – during which, at some point, their borrowing became unsustainable. On average, the number of loans involved is into double figures – and we've seen complaints involving over 100 loans.

Initially, most complaints we saw involved issues that predated the FCA's new rules. However, as time moves on, different issues can emerge. So we've continued to engage with lenders, and with the FCA where necessary, to flag issues with their complaints handling. In September 2017, the FCA wrote a "Dear CEO" letter to short-term lenders, telling them to ensure they were applying our approach.

banking and other types of credit

Over recent periods we've seen a steady increase in complaints about current accounts – in particular, complaints about account administration and customer service. We've continued to hear from people who are disputing transactions on their bank accounts, or believe they've been a victim of fraud. Given the distressing and potentially life-changing consequences for the people involved, we know this is an area of concern for many of our stakeholders.

As levels of borrowing have continued to grow – with a number of organisations, including the Bank of England, highlighting potential risks – we've also seen a rise in complaints in this area. This includes point-of-sale loans, hiring and leasing arrangements and motor finance. Following its call for input into high cost credit, the FCA has identified a number of areas of particular concern – and plans to consult on its proposals for addressing them in spring 2018.

Complaints about credit cards are also higher compared with the last year. Again, many of these complaints are about administration and customer service, or about claims made under Section 75 of the *Consumer Credit Act* following problems with purchases. People also continue to tell us they've been treated unfairly in relation to interest and charges, being in financial difficulty, and debt recovery.

In contrast to other areas of banking and credit, complaints about mortgages have fallen. This is probably a return to more typical levels, following a number of specific issues over the last couple of years that resulted in complaints being referred to us. We're also upholding fewer mortgage complaints – which we hope reflects the way we've worked with lenders, particularly following the FCA's *Mortgage Market Review*, to ensure borrowers are treated fairly.

insurance other than PPI

Over the last year we've seen a general increase in complaints about insurance. At the moment, the rise we'd seen in complaints about motor insurance looks to be levelling off – although, excluding PPI, they still account for the biggest proportion of insurance complaints as a whole. In contrast, we've seen complaints about travel insurance continue to rise.

In a similar way to previous years, insurance complaints tend to centre on disputes following a claim – such as disagreements over what's covered by the policy in question, or delays in paying out or putting things right. We also continue to see problems arising from the sale of insurance policies – for example, where policyholders have concerns about the information they were given, or equally where insurers say policyholders didn't give them accurate information.

investments and pensions

Although complaints about investments and pensions fluctuate, the numbers involved are relatively small. Complaints about most products and services remain steady – although we did see a small number of complaints relating to market changes following the UK's EU membership referendum.

Last year, our stakeholders suggested that we might see more complaints about annuities. It seems this is the case, with complaints having risen significantly over the last few months. Many of the people involved tell us they believe they should have been sold an enhanced annuity, because of their illness or lifestyle.

Following the 2015 pension freedoms, we've continued to hear from people who are disappointed they can't sell their annuity and take up a different arrangement. Overall, though, we've received relatively few complaints resulting from the pension freedoms – with most of the 1,000 or so we've seen relating to administration errors, delays and exit fees.

our performance

quick, fair and informal answers

We were set up to resolve complaints quickly, fairly and with minimum formality. We publish information each year in our annual review and directors' report and accounts about our progress towards the timeliness commitments we set ourselves.

Since July 2015 – when the EU Directive on Alternative Dispute Resolution (ADR) came into force – we've been the accredited provider of ADR for UK financial services. This means we have certain external standards to meet: in particular, that we should give our answer to all but the most complex complaints within 90 days. Every year we report to the FCA – our "competent authority" under the Directive – on our performance.

When we were first accredited by the FCA, we explained we were already meeting the expected standards in most areas – although in PPI, given the volumes of complaints involved, it was taking longer for us to give people our answer. We set out a detailed plan for resolving PPI complaints, which we've been updating since then. In autumn 2017 – by which time we'd made significant improvements to our timeliness in PPI – the FCA confirmed we were still meeting the standards required under the Directive.

However, we recognise that 90 days – three months – is still a long time for someone to wait for an answer. So in our plans for the year ahead, we set ourselves the higher bar of resolving half of all complaints in just half that time.

The exception is PPI complaints affected by *Plevin* – which, as we've explained we couldn't finally resolve for a significant part of the financial year, even though we'd given people our answer about whether their policy had been mis-sold. And as we've explained, there remain challenges ahead that could have an impact on our ability to move complaints forward in the future.

our finances

We consulted on our financial plans for 2017/2018 on the basis that the FCA's *Plevin* rules and guidance would come into effect in March 2017. Having been revised based on the new date of August 2017, some of our costs have been pushed into the future – for example, the cost of using extra contractor staff to help us flexibly manage an anticipated increase in complaints. Lower contractor costs, together with a release of some of our contingency budget, means we expect to end the current financial year having spent slightly less than we'd anticipated.

The delay in progressing *Plevin* complaints also means we haven't drawn on our reserves as significantly as we'd planned to. However, we'll do so heavily in the next financial year – in line with our long-term plans for managing and then winding down our PPI work, as we've explained in previous years. There's more detail about our budget for 2018/2019, including a summary of our accounts, in chapter three.

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our plans for 2018/2019

In this chapter we set out the volumes of complaints we expect to receive and resolve in 2018/2019 – based on the trends and developments we've identified. We also explain our plans for continuing to develop our service over the course of the next financial year.

overall picture

At this stage, we anticipate we'll see significantly more complaints about PPI and short-term lending, and a further decline in complaints about packaged bank accounts. At the same time, we expect our general casework – involving all other products and services – will remain steady in 2018/2019.

We plan to resolve the same number of complaints we receive. But as we explain later, our ability to do this will depend on a number of complex factors, which could develop in a range of ways over the course of the year.

new complaints

financial product or service	2016/2017 actual	2017/2018 latest forecast	2018/2019 consultation budget
PPI	168,769	180,000	250,000
general casework	120,818	130,000	130,000
including			
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short-term lending (payday and instalment loans)	8,665	14,500	20,000
total	**336,381**	**437,000**	**410,000**

complexity in PPI

At this point last year, we explained the uncertainties we were facing in planning for the future while the situation with PPI was still in flux. When we published our consultation, the FCA had just announced that it would give a further update in March 2017 on its response to *Plevin*.

Because we needed to make some plans for the future, we did so on the basis of the FCA's published timetable. In the event, its rules and guidance came into effect later than planned – which, as we've explained, had an impact on how far we could progress affected PPI complaints before this happened.

Compared with this time last year, we've now got more clarity. Before the FCA's *Plevin* rules and guidance came into force, we worked with businesses to get the information we needed to settle their customers' complaints about the issues involved. And we've already begun to contact people who've been waiting for our answer, to explain how things stand for them and whether they're due any money back.

But in other respects, the next stage of PPI is still unfolding. In the previous chapter, we explained the challenges to our meeting our targets for the current financial year. And in 2018/2019, the volumes of PPI complaints we receive – and how far we're able to progress and resolve them – will depend on a number of factors, that could each develop in a number of ways.

response to the PPI awareness campaign

On 29 August 2017 – the same day its *Plevin* rules and guidance came into effect – the FCA launched its consumer awareness campaign for PPI, and set a two-year deadline for making a PPI complaint. The FCA has since reported on the response to its campaign so far, and we've seen an uptick in the number of people contacting us.

Both we and the FCA have explained that people should act as soon as possible. But we can't say for sure how many people will choose to complain to businesses before the deadline – or at what point, and in what volumes, those complaints will actually reach us. For example, we might see demand for our service rise in line with the FCA's planned phases of activity. Equally, demand might be linked to wider media coverage, or weighted towards the beginning and very end of the campaign, or altogether less predictable.

In addition to those people complaining for the first time about PPI, people whose mis-sale complaints weren't upheld in the past may now choose to complain again – this time about the level of commission on their policy. We've previously not upheld around 250,000 complaints. But we don't know how many of these people will raise new, *Plevin*-related concerns with businesses, and how many complaints will eventually be referred to us.

It's possible too that the FCA's PPI awareness campaign will mean we see a rise in complaints about other products and services – as people are prompted to think about their finances more generally. This happened following the unsuccessful, but well-publicised judicial review brought against the FCA – and some stakeholders have suggested to us they think it likely we'll see a similar trend.

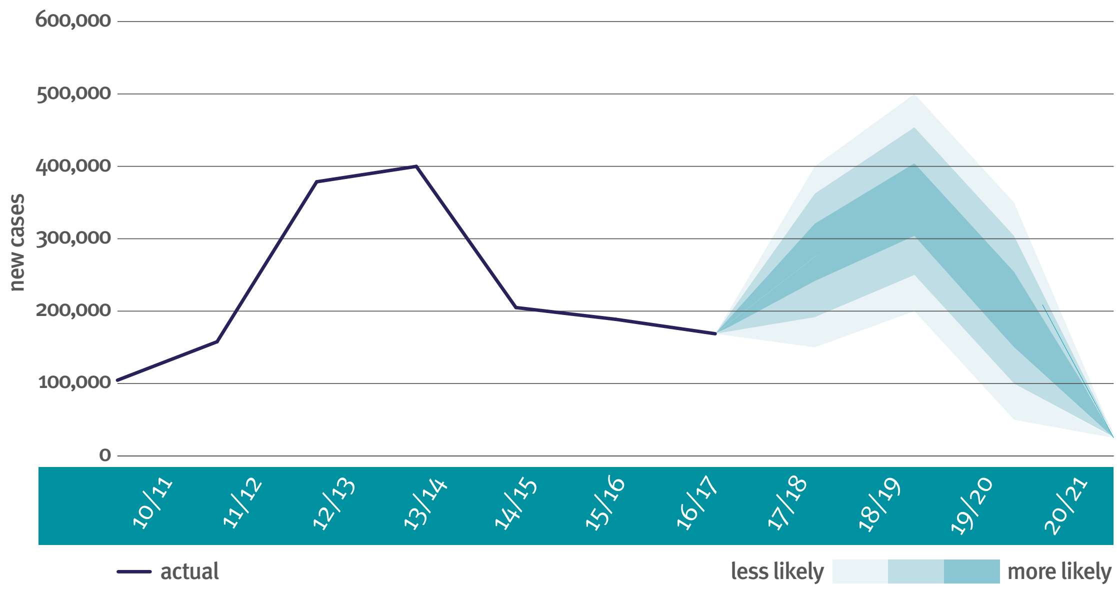
businesses' response

It's not yet clear how many complaints about PPI will be made over the next two years. And the volumes of complaints we need to get involved in will depend on the numbers that businesses resolve to their customers' satisfaction.

That's not to say all complaints that businesses don't uphold will be brought to us. But if people don't feel they trust the response they get from a business, or if there are delays in giving that response, it's more likely they'll ask us to step in. This applies whether people are complaining for the first or the second time. So the extent to which businesses' complaint handling is both fair and properly resourced will play a big part in our own future workload. From our conversations with businesses, we're aware that, like us, they're seeing growing complexity in the PPI complaints they're resolving.

In addition, when complaints are referred to us, we depend heavily on the cooperation of businesses to move them forward. After many years' experience – handling 1.8 million PPI complaints – we've got a strong track record of working with businesses, claims-management companies and consumers directly when resolving complaints on a mass scale. And we've already made progress in getting relevant information from businesses to help us resolve complaints affected by *Plevin*. However, there's a long road ahead – and if businesses don't embed our approach into their complaint handling, or don't provide us with information we need, this could delay our giving answers to their customers.

future PPI complaint volumes



claims management companies' response

The claims management market is currently facing significant changes. Proposals for the transfer of regulation to the FCA are being implemented through the Financial Guidance and Claims Bill, and a number of other changes are to come into force before then. It's not yet clear what the exact impact of these developments will be – for example, how many companies will stop taking on financial claims, or choose to leave the market completely.

In the shorter term, however, claims management companies are still involved in the majority of PPI complaints – and may be using the complaints deadline to generate new business. However, we don't yet know how successful they will be – and how pragmatic an approach they'll take to resolving any complaints they do take on.

In particular, if claims management companies refer cases to us that they should know we're unlikely to uphold, it could cause significant delays for everyone. Where we do need to get involved in complaints, we'll be relying on claims management companies – just as we do with businesses – to provide us with the information we need in a timely way.

our response to complexity in PPI

Compared with the beginning of the PPI mis-selling scandal, we're in a strong position to deal with high volumes of complaints, as well as high levels of volatility. As we explained last year, we've created effective working relationships with businesses and claims management companies – who should now understand what fair outcomes look like in PPI complaints, and the types of information needed to decide them.

However, as we've highlighted, things could develop in a range of ways. And at the moment, the questions we're facing are similar to those we faced last year.

For example, we could scale up our operations – anticipating that complaint volumes will be on the high side. But if those complaints didn't arise, or businesses dealt with everything themselves to their customers' satisfaction, we'd have resources in place that we didn't need – and would incur additional costs, further drawing on our reserves. On the other hand, if we assumed we'd see relatively few new PPI complaints, we'd risk being caught unprepared by a surge in demand. We then might not have the resources we'd need to gear up our operations

Having weighed up the different factors that could affect complaint volumes, we're proposing to make our plans on the basis we'll receive 250,000 PPI complaints, and be able to resolve the same number. But given the challenges outlined above, we'd welcome our stakeholders' views on whether our assessment is realistic.

trends and developments outside PPI

In chapter one, we set out some themes and trends in complaints we've been seeing over the last year. In view of these – and based on the rate we're currently receiving complaints – we expect to receive a similar number of complaints in our general casework in 2018/2019, with a rise in short-term lending complaints and a fall in complaints about packaged bank accounts. Like every year, we'd appreciate our stakeholders' perspectives on developments that might result in complaints to us – or that we at least need to account for in our planning.

For example, rules relating to PSD2 and "open banking" – due to come into force in January 2018 – will change the way people's money, and financial data, are handled. More broadly, customers' growing demand for personalisation and convenience – whether from new payment services to more tailored services and pricing – will inevitably come with new challenges, and may result in complaints.

We're also aware that financial businesses are working through a number of large-scale projects, including ring-fencing their retail operations, and responding to requirements under the *Immigration Act 2016*. Again, depending on how any customer concerns are managed upfront, we may be called in to resolve issues arising from these.

There are a number of other areas of regulatory focus over the coming year – which could prompt complaints that are eventually referred to us. As we highlighted in the previous chapter, the FCA will be taking the next steps in its investigation into the high-cost credit market – including the provision of overdrafts. Given current levels of unsecured borrowing look to be growing, we may see more complaints in this area. And the Payment Systems Regulator (PSR) has recently reported businesses' response to fraud and scams experienced by their customers – an area where we've continued to see complaints, and the methods involved have continued to evolve.

The FCA has also been looking into access to insurance – at a time when the fairness of insurance pricing more generally has increasingly been called into question.

In addition, the Insurance Distribution Directive (IDD), revised Markets in Financial Instruments Directive ("MiFID 2"), and General Data Protection Regulation (GDPR) – which will have an impact across the financial services sector – will be brought into UK law in 2018. We'd welcome our stakeholders' views on how these developments, and others, might affect our work.

developing our service

Over the last couple of years, we've made significant changes to our service – and during 2017/2018 we've continued to extend our new operating model across the different areas of our work. This time last year, we explained how we'd seen improvements in financial services customers' and businesses' satisfaction with their experience with us – reflecting the increased flexibility and speed with which we're able to resolve the problems they ask us to sort out.

Since then, we've continued to prioritise building our case handlers' knowledge of specific financial products and services, and their expertise in investigating and fairly resolving disputes. As part of this, we've continued to focus on the quality and consistency of what we do. And we've also drawn on expertise from charity partners and the Money Advice Trust – helping us ensure we're doing all we can to help where the people involved in complaints are vulnerable or experiencing challenging circumstances.

Once again this year, the investment we've made in our service is reflected in the views of the people who rely on us: around half of people who didn't get the answer they'd hoped for still say they're satisfied with our service. And financial businesses have continued to tell us the benefits that increased flexibility is having for them and their customers. We're grateful to our stakeholders – on both sides of financial complaints – for the support they've given us from the outset.

To support these changes, we've needed to invest in our knowledge-management infrastructure – which, in 2017/2018, has involved continuing to embed our knowledge networks and online knowledge platform. Together, these mean our case handlers can access the information they need to resolve individual complaints. They also help us ensure we're resolving complaints consistently fairly, and mean we can identify potentially widespread issues and trends across our casework. Knowing how essential our knowledge is to our stakeholders' confidence in our service, we plan to further embed and improve these resources in 2018/2019.

In addition, we've made a number of steps forward this year in our IT. We've made significant headway in the process of upgrading our existing case-handling system to a new customer-centric system. And as part of developing our digital capabilities, we've continued to build and test our online portal, so both parties to a complaint can share information and interact with us online. We aim to launch this in the next financial year. Taken together, these improvements will help us provide a more efficient and accessible service for financial businesses and their customers.

We'll continue to develop our IT in 2018/2019 – and at the same time ensure our data security measures remain robust. Like many organisations, we've also been preparing for GDPR – which will come into force in May 2018, giving people significant additional rights over the way organisations use their personal information.

Looking further ahead, we'll be working through the implications of the proposed transfer of claims management regulation to the FCA. Primarily for us, it will mean our service – rather than the Legal Ombudsman – will be responsible for looking into complaints about these companies. In 2018/2019 we'll continue our conversations with relevant stakeholders about this – including giving careful consideration to how we'll avoid any potential conflict of interest that might arise. We'll also take part in discussions around the possibility of businesses larger than micro-enterprises having access to our service. Although both these potential changes are still playing out, we're confident we'll be able to manage any increase in demand without compromising the level of service we provide.

being cost-effective

As we've managed a challenging caseload this year – and at the same time invested in developing our service – we've continued to look for ways to operate in a more efficient, sustainable way. This is something we'll focus on again in 2018/2019 – especially in view of the complexity we face.

For example, growing our people's knowledge across a wide range of financial services means we can respond flexibly to demand on our service. Over previous years, we've also made use of a contractor workforce – something we plan to increase in the next financial year, to help us manage the uncertainty of our PPI workload.

As our lease in Independent House was scheduled to end this year, we made the decision to locate this new additional workforce in a new office in Coventry's Friargate development. This means, as well as making an immediate cost saving, we've now got a presence outside London. We've also continued to lease some of our office space in Tower Hamlets to the Housing Ombudsman.

As in previous years, we've continued to make savings by renegotiating contracts.

There's more detail about our anticipated 2018/2019 budget and funding plans in the next chapter.

3

our proposed budget for 2018/2019

Based on the demand that we anticipate in 2018/2019, we expect that our total operating income will be £230.7 million, and our total expenditure will be £293.1 million. This chapter gives more detail about our budget and our plans for funding our service.

funding our service

A decade after we were set up, the mass mis-selling of PPI had an unprecedented impact on our operations. The funding plans we put in place to meet this challenge necessarily had to be long-term – and to reflect our commitment to fairness and stability. Looking back, those plans have helped us manage uncertainty – and mean the businesses responsible for the most mis-selling have shouldered most of the cost of sorting it out.

Though there are still challenges ahead, the end of PPI now looks to be in sight. It's also the case that, while we've again frozen our levy and kept our case fees at the same level for six consecutive years, this isn't sustainable indefinitely. And as we've been developing our service, we know we'll need a funding model that's better-suited to the more streamlined and flexible way we're now resolving complaints. For these reasons, we've continued to carefully consider how our service might be fairly paid for in the future.

However, in light of the complexities we've highlighted, it's clear the need for certainty and stability is particularly important at this point. And because the picture is still unfolding, it's likely that any changes we did make would need to be reviewed in the not-too-distant future. So at this stage, we don't think 2018/2019 is the time to change our funding model. But to ensure we're ready for when the time is right, we'll continue to model different options for our funding, and keep talking to our stakeholders as we do so.

This year we expect our operating costs to rise by around 14%. This relates to additional expenditure on contractor staff to help us deal with PPI. And as we begin to work through our remaining, and more complex, non-Plevin PPI complaints, there will be less scope for resolving "cohorts" of cases, and making the associated economies of scale. As we've mentioned, we'll continue to invest in developing our service. As we draw on our reserves as planned, our service won't cost financial businesses any more in the next financial year than it did in this current one.

In view of the developments that are still playing out, we'll need to continue to refine these plans until we publish our final budget in March 2018.

our proposed budget

£m	2016/2017	2017/2018		2018/2019
	actual	budget	latest forecast	provisional budget
income	**£m**	**£m**	**£m**	**£m**
case fees	60.2	71.2	76.9	79.8
group fees	144.1	143.8	143.8	124.3
levies and other income	27.4	27.0	27.0	26.6
total operating income	**231.6**	**241.9**	**247.7**	**230.7**
net movement in deferred income	5.7	8.6	7.9	0.0
total income	**237.3**	**250.6**	**255.5**	**230.7**
expenditure				
staff and staff-related costs	160.7	156.2	158.5	162.9
contractor staff	38.9	48.7	45.7	75.0
consultancy support	4.9	5.9	6.7	5.0
professional fees	1.1	1.5	1.5	1.4
IT costs	8.0	9.0	8.5	8.9
premises and facilities	25.2	25.0	25.1	22.2
other costs	1.4	1.3	1.3	1.2
depreciation	7.5	5.4	5.1	5.9
bad-debt write-off	-0.2	0.5	0.1	0.4
contingencies	0.0	10.0	4.0	10.0
total expenditure	**247.5**	**263.5**	**256.3**	**293.1**
operating surplus/(deficit)	**(15.9)**	**(21.6)**	**(8.7)**	**(62.4)**
financial surplus/(deficit)	**(10.2)**	**(13.0)**	**(0.8)**	**(62.4)**
reserves and deferred income at end of year (£m)	**233**	**208**	**224**	**162**
closing FTE	**3,594**	**3,807**	**3,979**	**4,048**
total new cases	**321,283**	**330,000**	**337,000**	**410,000**
total case resolutions	**336,381**	**430,000**	**437,000**	**410,000**
cost per case resolution	£736	£612	£586	£714

our case fees

For both our compulsory and voluntary jurisdictions, the level of the case fee is set by us and approved by the FCA. Businesses outside the group-fee arrangement aren't charged a fee for the first 25 cases each year. But every complaint we receive about a business counts towards their allowance – and for the 26th case onwards, we charge £550 once the complaint is resolved.

In practice, a small number of large business groups account for the vast majority of complaints we deal with – and nine in ten of the businesses we receive complaints about each year don't end up paying any case fees. As we highlighted earlier, case fees have been at this level since 2013. In view of inflationary pressures – and the need to consider what's a fair and realistic funding arrangement as PPI comes to an end – it's unlikely we'll be able to keep costs frozen in the future. But for 2018/2019, we plan to keep our case fee at £550, the PPI supplementary case fee at £0, and the number of "free" cases at 25.

group-account fee

Since April 2013, we've run a group-account arrangement for the largest business groups – where they pay quarterly in advance based on expected volumes of complaints. If the numbers turn out to be significantly different, there may be some adjustment at the end of the year.

Because large volumes of complaints are involved, this arrangement results in lower administrative costs, increased efficiency and a steadier cash flow. We don't propose to extend the group-account arrangement further in 2018/2019, and we plan to keep the number of cases before a case fee is charged at 125 per business group.

compulsory jurisdiction levy

The FCA will consult separately in spring 2018 on the levies it collects from all the businesses it regulates – including levies for our service, the Financial Services Compensation Scheme, the Money Advice Service, and the FCA itself.

Broadly, allocating the levy relating to our service involves:

- dividing the total levy 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*
- dividing the levy for each industry block among businesses in that block according to a tariff rate (relevant to that sector) intended to reflect the scale of each business's activities.

We plan to freeze the levy at last year's level – £24.5 million – in 2018/2019.

voluntary jurisdiction levy and case fees

Our voluntary jurisdiction covers businesses that don't come under our compulsory jurisdiction but have chosen to be covered by the ombudsman. The levy is set by us and approved by the FCA – and, as with our compulsory jurisdiction, the income we receive is ring-fenced for this jurisdiction only.

The levy rates we propose for 2018/2019 are the same as last year – set out in annex b. In line with our compulsory jurisdiction, we're proposing to freeze the case fee for our voluntary jurisdiction at £550 and keep the number of free cases at 25.

managing our reserves

To help us manage the long-term costs of sorting out mass PPI mis-selling, we charged a supplementary fee for PPI complaints between 2012 and 2014. This is still reflected in our current high level of reserves. In response to previous consultations, our stakeholders have continued to support our maintaining our reserves – rather than returning any while there's still uncertainty about the future.

Because of the delays we've experienced in 2017/2018 in progressing PPI complaints affected by *Plevin*, we haven't drawn on our reserves as much as we'd planned to. However, as we now begin to move these PPI complaints forward, we plan to use an anticipated £62.4 million of our reserves in 2018/2019, compared with £0.8 million in the current year.

Based on our current assumptions, we expect our reserves to last until we've managed PPI to its conclusion. However, as we've explained above, there are a number of different scenarios for how many PPI complaints we'll receive and when. For example, if we don't receive as many new PPI complaints as expected, we won't get as much income from case fees. And if this happened, we'd run down our reserves more quickly. We'll keep the position under review – and consult with our stakeholders when we need to reconsider our approach to our funding.

our 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. If we make the progress we aim to in the remaining months of 2017/2018, we expect that our unit cost will be approximately £586 – lower than the £612 we'd initially expected. We anticipate that our unit cost will rise to £714 in 2018/2019 – reflecting the increasing costs of managing PPI complaints, as our remaining cases grow more complex and there are fewer opportunities to benefit from economies of scale. This complexity is something some of our business stakeholders have told us they've identified in their own caseloads.

A

annex A – historic and future complaint volumes

B

annex B – draft FEES instrument

FEES MANUAL (FINANCIAL OMBUDSMAN SERVICE CASE FEES 2018/19) INSTRUMENT 2018

Powers exercised by the Financial Ombudsman Service

A. The Financial Ombudsman Service Limited:

(1) makes and amends the scheme rules relating to the payment of fees under the Compulsory Jurisdiction; and
(2) fixes and varies the standard terms for Voluntary Jurisdiction participants relating to the payment of fees under the Voluntary Jurisdiction,

as set out in the Annex to this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000:

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

B. The making and amendment of these scheme rules and fixing and variation of these standard terms by the Financial Ombudsman Service Limited is subject to the consent and approval of the Financial Conduct Authority.

Approval by the Financial Conduct Authority

C. The Financial Conduct Authority consents to the making and amendment of the scheme rules and approves the fixing and variation of the standard terms by the Financial Ombudsman Service Limited.

Commencement

D. This instrument comes into force on [1 April 2018].

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 2018/19) Instrument 2018.

By order of the Board of the Financial Ombudsman Service Limited
[DATE]

Annex

Amendments to the Fees manual (FEES)

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

Amend the following as shown.

5 Annex 2R **Annual Levy Payable in Relation to the Voluntary Jurisdiction ~~2017/18~~ 2018/19**

Voluntary jurisdiction – annual levy for VJ participants				
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 [**Note:** Transitional provisions apply – see *FEES* TP 13]	per £1,000 of relevant annual gross premium income	£0.103	£100
3V	*VJ participants* undertaking life insurance activities [**Note:** Transitional provisions apply – see *FEES* TP 13]	per £1,000 of relevant adjusted annual gross premium income	£0.025	£100
6V	Intermediaries	n/a	n/a	£75
7V	Freight-forwarding companies	n/a	n/a	£75

8V	National Savings & Investments	n/a	n/a	£10,000
9V	Post Office Limited	n/a	n/a	£2,000
10V	Persons not covered by 1V to 9V undertaking activities which are: (a) *regulated activities*; or (b) *payment services*; would be if they were carried on from an establishment in the *United Kingdom*	n/a	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 11 Part 3	£0.15 per £1000	£75
13V	Persons not covered by 1V to 9V undertaking activities which are CBTL activities or would be if they were carried on from an establishment in the *United Kingdom*	n/a	n/a	£75
14V	Persons not covered by 1V to 9V providing *credit information*, under the *Small and Medium Sized Business (Credit Information) Regulations* or providing *specified information* under the *Small and Medium Business (Finance Platforms) Regulations* or would be if it was carried on from an establishment in the *United Kingdom*	n/a	n/a	£75

5 Annex 3R Case Fees Payable for ~~2017/18~~ 2018/19

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*: 3i BIFM Investments Limited Oak Pension Asset Management Limited Barclays Asset Management Limited Barclays Bank Plc Barclays Bank Trust Company Limited Barclays Capital Securities Limited Barclays Insurance (Dublin) Designated Activity Company Barclays Insurance (Dublin) Limited Barclays Insurance Services Company Limited Barclays Mercantile Business Finance Limited Barclays Private Clients International Limited Barclays Sharedealing Barclays Stockbrokers Limited Barclays Trust Company Limited Clydesdale Financial Services Limited Firstplus Financial Group Plc Gerrard Financial Planning Ltd Gerrard Investment Management Limited Solution Personal Finance Limited Standard Life Bank Plc Woolwich Plan Managers Limited
2	HSBC Group, comprising the following *firms*: CL Residential Limited HFC Bank Limited HSBC Alternative Investments Limited HSBC Bank Malta plc HSBC Bank plc

	HSBC France HSBC Global Asset Management FCP (France) HSBC Global Asset Management (France) HSBC Global Asset Management (UK) Limited HSBC Hervet HSBC International Financial Advisers (UK) Limited HSBC Investment Funds HSBC Life (Europe) Limited HSBC Life (UK) Limited HSBC Private Bank (Luxembourg) S.A. HSBC Private Bank (UK) Limited HSBC Securities (USA) Inc HSBC SPECIALIST INVESTMENT FUNDS HSBC Trinkaus & Burkhardt AG HSBC Trust Company (UK) Ltd John Lewis Financial Services Limited Marks & Spencer Financial Services plc Marks & Spencer Savings and Investments Ltd Marks & Spencer Unit Trust Management Limited The Hongkong and Shanghai Banking Corporation Limited
3	Lloyds Banking Group, comprising the following *firms*: Aberdeen Investment Solutions Limited AMC Bank Ltd Bank of Scotland (Ireland) Limited Bank of Scotland Plc Black Horse Limited Cheltenham & Gloucester plc Clerical Medical Financial Services Limited Clerical Medical Investment Fund Managers Ltd Clerical Medical Investment Group Limited Clerical Medical Managed Funds Limited CLERICAL MEDICAL OPEN ENDED INVESTMENT COMPANY Halifax Assurance (Ireland) Limited Halifax Assurance Ireland Ltd

	Halifax Financial Brokers Limited Halifax General Insurance Services Limited Halifax Insurance (Ireland) Limited Halifax Insurance Ireland Ltd Halifax Investment Services Ltd Halifax Life Limited Halifax Share Dealing Limited HBOS Investment Fund Managers Limited Insight Investment Global Investment Funds Invista Real Estate Investment Management Ltd IWeb (UK) Limited LDC (Managers) Limited Legacy Renewal Company Limited Lex Autolease Ltd Lex Vehicle Leasing Ltd Lloyds Development Capital (Holdings) Limited Lloyds Bank Plc Lloyds TSB Financial Advisers Limited Lloyds Bank General Insurance Limited Lloyds Bank Insurance Services Limited Lloyds TSB Investments Limited Lloyds Bank Private Banking Limited Pensions Management (SWF) Limited Scottish Widows Administration Services Limited Scottish Widows Annuities Limited Scottish Widows Bank Plc Scottish Widows Fund Management Limited Scottish Widows Limited Scottish Widows plc Scottish Widows Unit Funds Limited Scottish Widows Unit Trust Managers Limited St Andrew's Insurance plc St Andrew's Life Assurance Plc SW Funding plc The Elms Financial Services Ltd

	The Mortgage Business Plc Uberior Fund Manager Ltd
4	RBS/NatWest Group, comprising the following *firms*: Aberdeen Infrastructure Asset Managers Limited Adam & Company Investment Management Ltd Adam & Company Plc Coutts & Company Coutts Finance Company Lombard Finance Ltd Lombard North Central Plc National Westminster Bank Plc National Westminster Home Loans Limited RBOS (UK) Limited RBS Asset Management (ACD) Ltd RBS Asset Management Ltd RBS Collective Investment Funds Limited RBS Equities (UK) Limited RBS Investment Executive Limited The Royal Bank of Scotland Group Independent Financial Services Limited The Royal Bank of Scotland N.V. The Royal Bank of Scotland Plc Topaz Finance Limited Ulster Bank Ireland Designated Activity Company Ulster Bank Ireland Limited Ulster Bank Ltd
5	Aviva Group, comprising the following *firms*: Aviva (Peak No. 1) UK Limited Aviva Annuity UK Limited Aviva Equity Release UK Limited Aviva Health UK Limited Aviva Insurance Limited Aviva Insurance Services UK Limited Aviva Insurance UK Limited Aviva International Insurance Limited

	Aviva Investors Global Services Limited Aviva Investors London Limited Aviva Investors Pensions Limited Aviva Investors UK Fund Services Limited Aviva Investors UK Funds Limited Aviva Life & Pensions UK Limited Aviva Life Services UK Limited Aviva Pension Trustees UK Limited Aviva Wrap UK Limited CGU Bonus Limited CGU Underwriting Limited Commercial Union Life Assurance Company Limited Gresham Insurance Company Limited Hamilton Life Assurance Company Limited Hamilton Insurance Company Limited Norwich Union Life (RBS) Limited Orn Capital LLP Scottish Boiler and General Insurance Company Ltd The Ocean Marine Insurance Company Limited World Auxiliary Insurance Corporation Limited Friends Annuities Limited Friends Life and Pensions Limited Friends Life FPLMA Limited Friends Life Investment Solutions Limited Friends Life Limited Friends Life Marketing Limited Friends Life Services Limited Friends Provident International Limited Optimum Investment Management Limited Sesame Limited
6	Direct Line Group, comprising the following *firms*: Churchill Insurance Company Limited UK Insurance Limited UK Insurance Business Solutions Limited

7	Nationwide Building Society Group comprising the following *firms*: Cheshire Building Society Derbyshire Building Society Derbyshire Home Loans Ltd Dunfermline Building Society (in building society special administration) E-Mex Home Funding Limited Nationwide Building Society Nationwide Independent Financial Services Limited Portman Building Society The Mortgage Works (UK) Plc UCB Home Loans Corporation Ltd
8	Santander Group, comprising the following *firms*: Abbey National Treasury Services Plc Abbey Stockbrokers Limited Cater Allen Limited Santander Cards UK Limited Santander Consumer (UK) Plc Santander UK Plc Santander ISA Managers Limited Hyundai Capital UK Limited

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) 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 [~~180,000~~ <u>250,000</u>] x the 'proportion X'} – {£0 x 125}
	(2) in respect of closed *chargeable cases (PPI)* – £550 x [~~280,000~~ <u>250,000</u>] x the 'proportion Y'
	(3) in respect of closed *chargeable cases (general)*– {£550 x [~~150,000~~ <u>160,000</u>] x the 'proportion Z'} – {£550 x 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 (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 {[~~180,000~~ <u>250,000</u>] 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 {[~~150,000~~ <u>160,000</u>] 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 {[~~150,000~~ 160,000] 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%].

Financial
Ombudsman
Service

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