

## Consultation on Empowering and Protecting Consumers

### Memorandum from the Financial Ombudsman Service

8 August 2011

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#### Summary

The Financial Ombudsman Service welcomes the consultation paper.

We write specifically in response to Question 17: *What are your views on whether redress schemes such as those established in electronic communications, financial services, energy and postal services should be extended to other sectors?*

As indicated in our response to the Ministry of Justice's consultation "*Solving disputes in the county courts*", we support the wider use of ombudsman schemes. We believe they have an important part to play in improving consumer empowerment and confidence, although there would be benefit in ensuring that any new ombudsman schemes are created as part of an integrated and aligned redress landscape which reflects the needs of consumers, rather than the regulatory framework.

#### About the Financial Ombudsman Service

The Financial Ombudsman Service was established under the Financial Services and Markets Act 2000. Its statutory function is to resolve, independently, quickly and with minimum formality, disputes between financial businesses and their customers, as an alternative to the courts. Our ombudsmen are required to decide each complaint on the basis of what they deem is fair and reasonable, taking in to account the law, rules and good practice in the industry. The ombudsman decides each case impartially on its individual facts and merits. We are free to consumers, funded by industry.

The Government has recently endorsed the basis of our model in its white paper "*A new approach to financial regulation: the blueprint for reform*". Specialist expertise allows the ombudsman service to resolve individual disputes effectively.

#### Key Facts

- The Financial Ombudsman Service is the largest ADR scheme in the world, and the model on which a number of other schemes have been based, in the UK and internationally.
- We handle over 200,000 cases a year – that represents 200,000 consumers who would otherwise have had the expense of going to court or been denied access to justice.
- Since we were set up in 2000 we have received over 1.2 million cases.
- Last year we handled 1,012,371 initial enquiries and complaints from consumers - around 4,000 each working day.
- Our average cost per case resolved over the last three years is between £500 and £640 – this is paid for by a levy on the financial firms we cover and a case fee of £500.
- The service is free to consumer and small business complainants.

- In 2010/11 we provided information and handled enquiries in 49 different languages and formats – from British Sign Language to Sinhala, mpeg to Braille.
- We handle a wide variety of complaints, from low to very high value claims – our award limit is currently £100,000 but is rising to £150,000 in 2012.
- 74% of people whose complaints we handled said they would recommend using the ombudsman service to family and friends.

## **The redress landscape**

The ombudsman model is working effectively to deliver dispute resolution and consumer redress (where appropriate) in an impartial, proportionate and effective manner. However, there is scope to do more to deliver an accessible, joined up and efficient ombudsman service to consumers.

The Financial Ombudsman Service, through its existing jurisdiction, is dealing with an increasingly wide range of consumer disputes across the economy – including in areas outside our traditional financial services remit. For example, we consider complaints concerning "connected travel insurance" policies, which are sold alongside the provision of a travel service, such as a packaged holiday. We also consider complaints concerning extended warranty insurance policies, which are sold to consumers alongside a wide range of products and services, including electronic and white goods and utility services. And the use of consumer credit and, more recently, electronic money means that we are increasingly involved in disputes about purchases across the whole economy.

This reflects fundamental changes in the way that businesses are operating, with fewer staying within traditional sectoral boundaries (such as financial services, telecommunications, property or legal services) and more seeking to provide a diverse portfolio of linked products and services. Yet ombudsman services continue to be structured within those traditional sectoral boundaries. This has meant both that an increasing number of businesses now come under the jurisdiction of more than one ombudsman scheme and that an increasing number of consumer disputes cannot be resolved by one ombudsman scheme alone. This can be confusing both for potential complainants and for businesses, and may act as a barrier to bringing a complaint to an ombudsman. Quite apart from the inadequacy of the resulting gaps and overlaps between ombudsman schemes, this is not good public service.

Therefore, to answer the consultation question, we believe that the scope of ombudsman schemes should be widened to fill the current gaps in coverage across the economy. However, we also believe that, in doing this, more should be done to integrate and align existing ombudsman schemes in order to address the increasing overlaps and gaps between them. This would in turn remove unnecessary duplication and improve operational effectiveness and efficiency.

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