

Financial Ombudsman Service Limited

MINUTES

MINUTES of the meeting of the directors, held at South Quay Plaza, 183 Marsh Wall, London E14 9SR on Tuesday 1 February 2011 at 9.30am

| | | |
|---------------|-----------------|-----------------------------------------------|
| Present | Chris Kelly | chairman |
| | Alan Cook | director |
| | Elaine Kempson | director |
| | Kate Lampard | director |
| | Julian Lee | director |
| | Maeve Sherlock | director |
| | Roger Sanders | director |
| In attendance | Natalie Ceeney | chief executive & chief ombudsman (CEO) |
| | Tony Boorman | decisions director |
| | Julia Cavanagh | performance & finance director |
| | Barbara Cheney | company secretary |
| | David Cresswell | director of communications & customer insight |
| | Stuart Curl | interim performance & finance director |
| | Simon Rouse | operations director |
| | David Thomas | corporate director |
| | Caroline Wayman | deputy decisions & legal director |
| | Jacquie Wiggett | HR & organisational development director |

The chairman welcomed Julia Cavanagh who had taken up her post as finance & performance director on 31 January 2011. On behalf of the board, he expressed his gratitude to Stuart Curl for being a very effective interim director for the past seven months.

1/1102 Minutes of meetings

- a) The minutes of the board meeting held on 15 December 2010 were approved as an accurate record of the meeting.
- b) The draft minutes of the nomination & remuneration committee meeting that was held on 19 January 2011 were noted.
- c) The draft minutes of the audit committee meeting that was held on 19 January 2011 were noted.

2/1102 Executive update

a) Payment protection insurance

The deputy decisions & legal director provided an update about the Judicial Review hearing that had taken place between 25 and 28 January. She added

that judgment was expected within the next four to six weeks. The board thanked the decisions director, the deputy decisions & legal director and their teams for all the hard work they had put into making extensive preparations for the hearing.

b) Regulatory reform & action

The decisions director confirmed that the report from the Treasury Select committee was due to be published later in the week. Discussions with Treasury officials were continuing about the next steps required before publication of the Bill later in the year.

The board noted the ongoing discussions between the Ombudsman Service and the FSA about how the new 'section 404' powers were to be used by the FSA, particularly where used for a single firm redress approach.

c) Litigation report

The board noted the litigation update and requested more details about the cases listed.

Action The legal director will ensure that more information is added to future litigation reports.

4/1102 Quarterly performance review

The board considered a number of papers that made up the quarter 3 performance review (October to December 2010).

It was noted that work towards achieving the key priorities for 2010/11 was generally on track, and that progress had been made against key indicators. The break-even financial position for the third quarter was noted (excluding the one off payment to an exiting contractor), although the board also noted that this would be under pressure in future months given firm behaviour over payment protection insurance (PPI) complaints.

The operations director reported that complaints about PPI had increased in recent weeks, from about 2,500 to 5-6,000 per week. This had inevitably put pressure on operational systems (which, until recently, had been achieving improved results). The impact of the operational pressure was being addressed, whilst maintaining service standards for complaints about all other issues, or continuing to improve them. He added that the benefits of team working were becoming apparent, although the pressure of the increasing numbers of PPI cases had obscured this to some extent.

The board discussed adjudicator productivity. The operations director reported that, by extending the induction process, he anticipated that new adjudicators would be fully up to speed within four months, in comparison to the current seven months. He added that, to improve efficiency and productivity, if an adjudicator left, the manager was encouraged to take the opportunity to consider a range of options and not just automatically recruit a like-for-like replacement.

The board went to discuss the attrition rate of staff during the probation period. The HR director agreed that it was higher than it had been in the past but she pointed out that performance management had been improved and a number of structural changes had been made.

Action The HR director will carry out a more detailed review of attrition and will compare it to the rate after the new extended induction process has been implemented.

The board went on to review the risk register and the changes that had been made since the last board meeting in December. The chairman of the audit committee reported that, at a special meeting in January, the committee had suggested a few adjustments. The CEO confirmed that risk was the subject of regular discussions at executive meetings and, increasingly, further down the organisation too. For example, key projects were risk driven and had their own risk registers. It was noted that the audit committee had carried out a 'deep dive' into value for money and that its next review would be of data security arrangements. In discussing data security, the operations director added that, until the organisation was fully e-enabled, the biggest data security risk related to bulk mail processing and other movement of paper, rather than from electronic systems.

It was agreed that

- reports about breaches of security would be incorporated into quarterly reports but any significant breaches would be reported to the board immediately
- the format of the quarterly performance report was a helpful way of presenting a wide range of information.

5/1102 Values

The CEO introduced a discussion about a review of the Service's values by explaining that they represented an important indication of what the organisation stands for, how it works, what is important to it and its aspirations. Clear values that really matter to staff could be used to drive the way in which they work and behave. They would also be used in the appraisal and recruitment processes to ensure that people who shared the same values were attracted to work for the Service.

David Cresswell and Jacquie Wiggett presented a shortened version of the workshop that they had conducted with a range of staff throughout the Service. In these sessions they had tried to understand what energised staff and made them proud to work for the Service. The board reviewed other organisations' values to assess how well they operated against them.

The output from the workshops had revealed some common themes which had been grouped under five headings. The CEO explained that it was important to use words suggested by staff to ensure their total engagement. 'Doing the right thing' had proved to be the most important value for staff in the workshops to date.

Board members expressed the following views

- they welcomed the approach being taken, and agreed the importance of having clear values to which staff could relate and which would drive behaviour
- it was important that the values had equal emphasis on consumers and firms
- they felt most drawn to values that started with 'we'

- there was debate about whether the wording should be passive (eg 'thoughtful' and 'reflective') or more active (eg 'speedy' or 'do what we say we'll do'). There were different views on the board
- The idea of having values which counterbalanced each other was very helpful

The executive thanked the board for its input which will be added to the feedback from the remaining workshops. It was noted that a final version would be discussed and agreed with the chairman before publication.

6/1102 2011/12 and beyond

The CEO introduced a forward looking draft plan from 2011/12 which included a summary of the aims of the plan, its context, what had been achieved so far, priorities & aspirations, the financial plan and the metrics to support delivery. She explained that this was an opportunity for the board to discuss the plan and provide input before it is signed off in March.

a) Priorities

The key priorities for 2011/12 had been grouped under five headings –

- deliver a trusted, fair and easy to use service – for everyone
- put knowledge and expertise at the heart of everything we do
- be flexible, reliable and effective
- operate a lean and efficient organisation
- share our experience and insight

The board agreed that these were the right priorities for the coming year. However, it was understood that PPI developments (ie if firms continued not to co-operate in the handling of cases) could have a serious and detrimental impact on plans. The board also agreed that emphasis should be placed in the priorities document on making full use of the ombudsman resource in terms of their capacity and intellect. It also wanted to ensure that there was sufficient capacity and flexibility at a senior level to respond to unexpected events. The decisions director agreed to incorporate these points into the priorities.

It was agreed that, underpinning all of these priorities, was the criticality of coming through the next year with the Service's reputation intact and with the cost basis on the correct footing.

There was a discussion about whether goals should be aspirational and stretching (with an understanding that achieving 90% would be very good) or set so that 100% was expected. It was accepted that goals should be stretching, and there was debate about the pros and cons of setting targets with a 90% achievement goal, vs. setting a smaller number of targets with a goal of 100% achievement.

The issue of management capacity was discussed. The CEO explained that the operational restructure that the operations director was implementing was a key driver to ensuring that there was sufficient management capacity in the operations area, and that other directors were similarly looking at their capacity. The executive was asked to consider this further, and to detail the decisions made about goal setting at the next board meeting.

b) Our plans for a changing world

The board reviewed an externally focussed draft plan which had been prepared for publication at the end of March. It contained plans for the next 12 to 24 months and beyond in the context of the outside world. It had been designed to establish the Service's position on a range of issues and to respond to varying comments that had been made at various times by stakeholders. It was noted that the annual review was a backward facing document that recorded achievements while this one looked forward. The board agreed that the tone, degree of detail and content were all exactly right.

Action Board members - send drafting comments to the director of communications & customer insight within seven days.

c) corporate scorecard

The outline structure of a draft corporate scorecard was presented to the board which was based on the five key priorities discussed earlier. The CEO suggested that the scorecard could also be split into sections about operational, financial, customer/quality and people metrics. She explained that the details would be added by the time it is presented to the board again in March. In the meantime she invited the board to comment on the content of the scorecard.

Action Board members – send comments to the CEO within seven days

d) savings & investment plan

A summary of savings that had been made and those that were anticipated in the current financial year were reviewed. It was noted that the resource strategy that was under way was expected to achieve significant savings. A summary of investments was also considered which would be financed by the savings that had been achieved. It was proposed that about half of the planned investment in 2011/12 should be used to enhance ombudsman resources and the development of e-enablement.

The board approved the investment of £7.9m in 2011/12.

7/1102 Board committee membership

Following the appointment of three non-executives by the FSA in January, the membership of the board committees was reviewed. Taking their experience and expertise into account, the board made the following appointments

- Janet Gaymer to the nomination & remuneration committee
- Alan Jenkins to the audit committee
- Pat Stafford to the quality committee

There were no other changes to the memberships of the board committees.

8/1102 European Second Electronic Money Directive

The board adopted the Electronic Money and Payment Services Instrument 2011 (FOS 2011/1, FSA 2011/7).

9/1102 Any other business

a) Board evaluation

The chairman reported that he would be commissioning an external evaluation of the board's performance and effectiveness.

b) Meetings – May and June

It was confirmed that

- the meeting in May had been brought forward to 10 May.
- the meeting in June would be an all day planning meeting which would be held in central London

There being no other business, the meeting ended at 2.20pm