

# Financial Ombudsman Service Limited

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## MINUTES

MINUTES of the meeting of the directors, held at Exchange Tower, 1 Harbour Exchange, E14 9SR on Wednesday, 22 October 2014, at 09.00

Present	Nick Montagu (NM)	chairman
	Gwyn Burr (GB)	director
	Alan Jenkins (AJ)	director
	Julian Lee (JL)	director
	Maeve Sherlock (MS)	director
	Pat Stafford (PS)	director
In attendance	Caroline Wayman (CW)	chief executive and chief ombudsman
	Julia Cavanagh (JC)	finance and performance director
	Chris McDermott (CMcD)	operations director
	Richard Thompson (RT)	principal ombudsman
	Garry Wilkinson (GW)	director of new services
	Paul Mills (PM)	head of governance and risk
	Alison Hoyland (AH)	board secretary & head of CEO's office (minutes)

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### Apologies for absence

There were no apologies for absence.

### 1-4/1410 Board minutes

The Board approved the note of the meeting held on 16 September 2014.

### Matters arising

Matters arising were picked up in the substantive business before the Board.

### Chairman's opening remarks

The chairman provided an update on the ombudsman business in which he had been engaged since the last Board meeting, including:

- a meeting with the FCA chairman at the end of September, as part of a regular cycle of chair-to-chair level engagement;
- the search for a new non-executive director and chair of the audit committee, which had reached the shortlisting stage; and
- staff engagement activities, including his opening addresses at an event organised by the ombudsman service's women's network as part of Black History month, and a long service event to recognise colleagues who had been with the ombudsman for ten years or more.

### Chief ombudsman and chief executive's update

The chief executive updated the Board on a number of organisational developments since the last meeting, including:

- her appearance before the Treasury Select Committee earlier in the month;
- the latest position in relation to the implementation of the ADR directive; and
- the current status of litigation cases of note.

**5/1410 Service performance and forward forecast**

**fos/14/10/05**

Overall performance in the first half of the year had been good, with some areas showing signs of improvement in the last quarter, for example, customer satisfaction was higher than at the start of the year, as was business satisfaction.

In general casework, customers continued to receive timely responses to their complaints. In PPI, while waiting times were understandably longer, the steps being taken to get answers out to people more quickly were proving effective and feedback suggested that customers appreciated the efforts being taken to keep them informed during the process about the timescales in the meantime. People in severe financial or other difficulty were told to get in touch if a longer wait would be particularly difficult for them. More broadly, the progress of the oldest cases across all casework remained a priority, although the Board recognised the challenges, not least those outside the ombudsman's control.

While staff engagement and retention remained high, there had been signs of increasing attrition more recently (mainly people leaving for career opportunities elsewhere). The demands of the current caseload and assumptions about workloads over the next year or so highlighted the need for a continued investment in keeping trained and experienced staff.

In anticipation of the discussion later in the agenda on the service development work, the Board acknowledged that adapting to changing customer needs and providing more responsive services would be key to a more productive, effective and efficient service, one better able to meet the needs of all its customers in a more meaningful and relevant way.

The financial position remained consistent with operational performance, though costs had been lower than anticipated, mainly because of lower in-year recruitment costs, a smaller call on the contingency and a number of efficiency savings elsewhere. The Board noted the forward view, where the operational outlook remained consistent with the budget forecast, while the financial outlook took account of the reduction in costs in the first half of the year, and likely lower than anticipated expenditure in the second half of the year.

While lower costs and efficiency gains in 2014/15 were commendable, the Board acknowledged that the forward view continued to anticipate higher costs, though the timescales remained uncertain. The PPI pathway remained unclear – while new case volumes had been falling, they had stabilised more recently to a rate of about 4,000 per week – and it was not yet clear when the service might expect to be able to scale down its PPI operations. Inevitably, the case-mix was also becoming more complex over time, and so more costly to resolve. Further, the full costs of modernising and improving the service, to make sure it was able to continue to meet customer needs, including in a post-PPI world, had also yet to be realised.

**6/1410 2015/16 plan and budget**

**fos/14/10/06**

As usual, the annual cycle for setting the plan and budget began in October with a Board review of the early assumptions for the following financial year. A review of the assumptions at this stage would help inform any further analysis needed ahead of discussions with the FCA's oversight committee in mid-November, and ahead of a more detailed review by the Board later in November.

As the discussion under the previous item on performance and the operational and financial outlook for the remainder of 2014/15 had highlighted, management of the

PPI caseload would continue to be central to setting the budget, and a multi-year view would remain a necessity. While the current planning around expected volumes in PPI included the assumption that incoming case numbers would fall, by how much and how quickly remained uncertain. Many key factors were external ones outside the ombudsman's control, such as business behaviour (including that of CMCs) and any regulatory action. Declining volumes aside, incoming cases (and cases in progress) included fewer straightforward ones that were quicker to resolve, and more that were complex and correspondingly harder to resolve. This further supported the expectation that the operational challenge of managing the PPI caseload would remain for some time yet.

While the service could reasonably expect fewer PPI cases in 2015/16 compared to the year before, the Board agreed that it would be prudent at this stage to continue to refine assumptions on likely PPI volumes in 2015/16, testing a range of scenarios with the industry and others, including the FCA, as part of the usual pre-consultation discussions. It would use this insight to take a final view on PPI numbers for consultation in January, alongside the analyses on the associated operational and cost implications.

The operating environment in relation to general casework was less uncertain, and the plans currently anticipated a modest increase only in overall volumes on the year before. These assumptions would also be tested in pre-consultation discussions, in particular in relation to areas like packaged bank accounts, where volumes had risen initially (reflecting a period of media attention), and then stabilised more recently.

The Board noted the timetable and next steps leading up to the consultation in January and beyond, when it would be asked to agree the plan & budget in the light of consultation feedback, ahead of submission for approval by the FCA in March.

**7/1410 File review**

**fos/14/10/07**

The Board reviewed the results from the annual case file review which the Board, executive team, and staff from across the service had undertaken. These annual reviews provided a valuable opportunity to see at close hand how individual cases had been handled and the 'quality' of the service provided. The review focussed on the 'customer service' element of the quality assessment framework. The exercise also sought views on the overall handling of each case and on ways in which the ombudsman service might change what it did to enhance or improve the service it provided.

The Board discussed the themes which had emerged from the review, including around the importance of really listening to customers (consumers and businesses) to better understand what had gone wrong in their view, and so get to the crux of the complaint. There was general consistency between reviewers on how well they thought the cases had been handled, and on where they thought service improvement efforts should be focussed.

Reassuringly, the plans for developing and improving the service were very much aligned with the file review findings, and a number of initiatives and new ways of working were already under way and starting to deliver notable improvements to service delivery.

**8/1410 Service development**

**fos/14/10/08**

The work to develop and modernise the service was progressing well. A number of initiatives and pilots were under way to test new ways of working and the extent to which new approaches could be applied across other areas of casework, and so form the basis of a new operating model. At the heart of these initiatives was a

desire to get to the root cause of people's problems at the outset and provide appropriate answers in much quicker timeframes. The work so far had shown that while not all complaints were capable of being dealt with simply and quickly, a significant proportion were, once a greater emphasis was placed on listening to what people had to say at the start and on ready access to the right experience and knowledge. Such an approach made it easier to diagnose the problem more quickly and take immediate steps to help sort things out, rather than much later down the line, having gone down a process-driven path.

These new ways of working also stood up to scrutiny when tested against the file review cases - alternative scenarios for which indicated that a different approach would more likely have resulted in a better outcome, in terms of a quicker answer, one that more appropriately addressed the real issue at hand, or both.

Further pilots were being planned, as were enhancements to the ways people could access the service. The Board expected to see an increase in the pace of progress to introduce a new model and new services over the next couple of years, with practical changes being implemented now, not least where pilots had proved effective and had demonstrated the value of new ways of working.

The programme would continue to be managed and coordinated under a structured service development programme. The overarching plan, setting out the interdependencies between the component parts and the associated timelines, would come to the Board in the New Year, as part of the next update on how the service development work was progressing.

In the meantime, staff engagement activities were focussed on the future strategy and on helping to provide clarity on the type of service the ombudsman wanted to be and the part staff could play to help deliver the vision.

**9/1410**

**Risk**

**fos/14/10/09**

At its meeting in May, the Board had undertaken its annual exercise to review the corporate risks and had identified the following four broad categories into which the main risks and challenges were likely to fall:

- losing relevance and meaningfulness (unable to continue to meet customer needs);
- being impacted by external factors (for example, those of a regulatory, political or societal nature);
- being impacted by internal factors (for example, those of a financial, operational or people-related nature); and
- failing to manage the programme of work to develop and improve the service.

Since then, the executive had been developing the initial assessment further and working up a more detailed analysis of the risks and the mitigating steps being taken. They had concluded that the internal risks should be split to distinguish those of a service delivery nature and those which were more about systems and controls. Risks associated with the service development programme would mostly be picked up under the 'relevance' risk, and that any remaining aspects would be picked up between the others.

As part of further work on the presentation of the register, a new approach to how risks were rated, which placed greater emphasis on the impact of the risk, had been adopted. The risk management framework was also in the process of being further strengthened and enhanced to ensure appropriate executive and Board level oversight.

The Board agreed the 'new-look' register was a great improvement on the previous template, and made for much easier navigation. It was content too, that the four themes captured the main risks facing the service, although it identified a number of places where it would be helpful to include more specific and explicit examples, as well

as some additional mitigating actions (which, in turn, might alter the risk rating). It also thought that it would be prudent to consider how loss of reputation might best be managed under a separate standalone risk (accepting that there was a 'reputational' undercurrent to all of the four risk areas).

The new scoring methodology was also welcomed as a much more effective means of ensuring that an appropriate balance was struck between the day-to-day focus on 'likely but low impact' risks and the need to keep a close eye on the risks that had the potential to impact the service significantly, even if they were relatively unlikely to occur.

The risk management framework was shaping up well, although the Board thought that efforts to ensure that suitable risk management approaches were in place across the organisation should be pursued within a shorter timescale than currently envisaged. It also asked that the Board risk assurance framework include a programme of 'deep dives' where each quarter the Board undertook an in-depth review of one of the risk areas.

### **Any other business**

There being no other business, the meeting ended at 13.45.