

Financial Ombudsman Service Limited

MINUTES

MINUTES of the meeting of the directors, held at Exchange Tower, 1 Harbour Exchange, E14 9SR on Wednesday, 27 July 2016 at 09.00

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| Present | Nick Montagu | chairman |
| | Gerard Connell | director |
| | Alan Jenkins | director |
| | Maeve Sherlock | director |
| | Gill Whitehead | director |
| Apologies | Pat Stafford | director |
| In attendance | Caroline Wayman | chief executive and chief ombudsman |
| | Julia Cavanagh | chief finance officer |
| | Chris McDermott | chief operating officer |
| | David Cresswell | director of strategy |
| | Annette Lovell | director of engagement |
| | Charlie Sweeney | lead ombudsman & director of casework (for items 4 & 5) |
| | Tim Archer | director of casework (for item 7) |
| | Talal Barkatali | head of strategic finance (for item 7) |
| | Tracy Campbell | head of property (for item 8) |
| | Alison Hoyland | board secretary & head of CEO's office (minutes) |

Apologies for absence

Apologies were received from Pat Stafford

1-4/1607 Board minutes

The Board approved the note of the meeting held on 27 April, subject to some small amendments to the note on the service development update to reflect more fully the points that had been made in the discussion.

The Board also noted updates on the June audit committee and the board sub-committee held in July at which the directors' report and financial statements had been signed off.

Matters arising

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

Chairman's update

The ombudsman service business in which the chairman had been involved included:

- The approval of ombudsman appointments, which the Board noted.
- A meeting with insurers, as part of a regular round of meetings with industry stakeholders.
- A meeting with the FCA chairman, John Griffith-Jones, as part of a regular round of meetings with the regulator.
- A meeting with Richard Thomas, author of the board commissioned report into the impact of PPI mis-selling on the work of the ombudsman service

4/1607 Chief ombudsman and chief executive's update

The main developments since the last meeting would be picked up in the Board

business, but other matters to note included:

- Richard Thomas' board commissioned report into the impact of PPI mis-selling on the work of the ombudsman service, which the board agreed for publication alongside a management response to his recommendations.
- A drop in session the service had held in parliament for MPs and their staff and which the new Economic Secretary, John Kirby MP, had taken the time to come along to;
- Caroline's appearance on BBC breakfast the previous day talking about holiday and travel issues which the service had covered in its latest edition of ombudsman news.
- The agenda for the Board's September away days, which the Board agreed looked to cover the right areas for its strategic planning. Against the backdrop of significant changes in the external environment, including the UK's vote to leave the EU, it was agreed that the away day would need to think about the implications for the service which included the economic conditions and what this meant for the types of cases the service might see and the volumes.

5/1607 Q1 performance review and forward forecast

fos/16/07/05

The performance dashboard for the first quarter reported on how the service had been doing against its 2016/17 commitments which were more stretching across a range of measures, compared to those set in 2015/16, reflecting the service's desire to continue to improve and provide a first rate service to its customers.

The service had had a really strong start to the year, only very narrowly missing its target for the first quarter for overall case resolutions by 18 cases – a significant achievement considering the continuing challenges in progressing the PPI cases affected by the Plevin Supreme Court case. Pleasingly, customer satisfaction was also at a record high and the financial position remained strong, with savings realised in staff and contingency costs.

There were a few areas of pressure - volumes of new general casework cases were above forecast, with just short of 5,000 more cases coming in than anticipated. The higher volumes had contributed to slightly longer waiting times for cases to be allocated to an adjudicator, and in turn for customers to get an answer.

The service was fully alive to the points of pressure and had an operational plan in place to respond. In the longer term, these volume and resourcing pressures were much less likely to cause a disruption when the service's multi-skilled model was fully operational and it was able to allocate resources more responsively and flexibly.

On PPI, the Board noted the planning assumptions that were being made for when the service might expect to be able to start progressing the Plevin-affected cases. These assumptions were very much dependent on the timing of the expected rules and guidance from the FCA for Plevin-affected cases and a timebar - and then in turn on how businesses, consumers and claims management companies responded.

The Board commended the strong start, not least against the background of the challenges in PPI, and noted the revised forecast for incoming general casework cases, which now envisaged the service receiving 115,000 new cases, up from its original forecast of 106,000 cases.

6/1607 Annual risk review

fos/16/07/06

The Board noted the work that had been undertaken to embed a culture of risk management across the service and the significant progress that had been made in doing so. The chair of the audit committee provided further assurance in this regard and noted the support he was providing to the head of governance and risk to ensure the service had a robust and effective framework in place. Attention was now turning to risk management at the local level – and ensuring robust area-specific frameworks and consistency between these and the key corporate risks.

The most recent development in risk oversight had included the addition of more detail on the underlying risks to each of the key corporate risks. The additional detail provided an overall risk rating, showed the movement between quarters and provided a brief summary of the mitigating actions that were being taken.

The Board welcomed these changes, alongside other changes that had been made following the annual risk review analysis undertaken by the executive team. These changes included the assimilation of how the service could ensure that it remained relevant and meaningful into the other key corporate risks which tracked external impacts, service delivery and implementing new ways of working and service improvements.

7/1607 Service development update

fos/16/07/07

A key feature of the service development update – which had been picked up across a number of papers before the Board, including the chief executive’s update and the performance report - was staff engagement. As the Board had noted at its April meeting, there were people challenges and risks associated with change, in terms both of the inevitable uncertainty change brought for people and of managing the disappointment for those who had been unsuccessful in applications for new roles.

Various sources were helping identify how staff were feeling, including:

- internal ‘finger on the pulse’ temperature checks;
- the staff consultative committee;
- staff employee networks;
- direct feedback; and
- external platforms and fora.

The picture was complex and reflected the range of feelings and responses to which change inevitably gave rise. Many were undaunted and up for doing new things in new ways, while others naturally had questions.

It was important that people felt listened to – and that senior management were responsive to genuine concern – engagement efforts would, therefore, continue to be focussed on providing a range of channels for people to have their say and on supporting people to see their future at the service.

In the context of the discussion on general levels of engagement, the Board noted that there had also been some commentary on external fora that had touched on the quality and consistency of decisions being made in the new investigation teams (this was also expected to be picked up in an on-line media article in the next day or so). Fairness – providing answers that were fair and felt fair – was at the heart of the new ways of working. Performance in the new investigation pods was, therefore, subject to scrutiny against this critical measure in the same way as casework performance had always been. The results so far had been very encouraging, with performance measures on track and customer satisfaction exceeding levels elsewhere.

Similarly, analysis showed sustained quality and no anomalies in case outcomes in the investigation pods. While the new ways of working were bedding in, additional checks were being done to compare outcomes with those cases handled outside of the investigation pods. Further, one of the new investigation pods would also be responsible for helping to identify and develop the service’s approach to cases, as well as overseeing and checking the quality and consistency of the work.

The Board restated its unequivocal support for the new ways of working and for the steps being taken to develop a service that was still relevant and responsive to customers. While change would inevitably be difficult for some, board and executive colleagues should remain alive to feedback and how people were feeling, and the steps being taken to facilitate this were welcome.

As part of the Board assurance framework, the service presented annual reports on health and safety, its efforts to act as an environmentally responsible organisation and its approach to managing its property.

Health and safety

The Board noted the report and the assurance it gave on the service's continuing commitment to health and safety and the well-being of staff.

The environment

The Board noted the report and the assurance it gave on the service's continuing commitment to sustainability and minimising its impact on the environment.

Property update

The Board noted the report and the assurance it gave on the service's commitment to the cost effective management of its property through its continual assessment of its operational plans for the coming years and ensuring its arrangements were flexible and responsive to changing levels of demand and future space requirements.

As part of its governance activities, the Board and executive undertook an annual effectiveness review to evaluate how the Board was performing and identify any improvements to how it worked. The review this year was run 'internally' by way of anonymous questionnaires: next year the review would be undertaken externally in keeping with best practice which suggested that this should be done every three years.

This year's annual evaluation comprised:

1. Surveys on the Board, audit committee, remuneration committee and the chairman
2. One to one conversations between Board members and the chairman and senior independent director.

The survey results indicated a high level of satisfaction across the piece, with executive and Board members closely aligned in their views. The findings were unequivocal with colleagues agreeing that the Board was well run and effective.

In discussing those areas that had been identified for further consideration, the Board made the following observations:

The size and composition of the Board

- The Board and executive were open to the prospect of adding to the Board's number. Newer Board members had settled in, and there would soon be the opportunity to test a Board of 7 with the recruitment of an additional member to replace Maeve Sherlock (subject to the FCA's agreement, given its role in appointing the service's board, the plan here was to take on a new non-executive director during Maeve's last term, so that their time could overlap).
- As in previous years, some had raised concerns about the lack of ethnic diversity on the Board, and this year some also questioned the lack of representation from the devolved nations amongst the current membership. The Board agreed, therefore, that it would want to consider the approach for its next recruitment round and how it could best ensure it attracted a pool of candidates from as diverse a field as possible.

The frequency of board and committee meetings

- The timing of meetings was largely tied to fixed points, such as the annual plan and budget cycle, and while this meant longer gaps between some meetings, there was no

appetite to increase the number of Board meetings. The Board and executive were content that the current arrangements for keeping the Board updated on key developments between meetings worked well. Maeve Sherlock, in her capacity as senior independent director, was meeting with Board members and the executive and would flag any further ideas for the best use of Board member time between meetings and for keeping in touch.

Strategic focus and assurance

The balance between the Board's oversight and strategic focus and the time it spent on matters of operational detail was about right. Where Board scrutiny did get into the detail of things, this was usually felt to be necessary to get the requisite assurance. Care should continue to be taken to ensure that the balance here was maintained. For its part, the executive would ensure that 'need to know' information was contained in main papers and prevent the need for detailed scrutiny of annexes.

The respective roles of Board, the committees and the executive

- One or two responses to the surveys indicated a desire to review terms of reference and the respective areas of responsibility of the Board, the executive and the committees. This had also been a feature of audit committee discussions in June on the role of that committee. A substantive discussion would come to a future Board.

There being no further business, the meeting ended at 13.30