meeting of the industry steering group (trade associations)

1 November 2011

Financial Ombudsman Service

present

from the Financial Ombudsman Service:
- Natalie Ceeney, chief executive & chief ombudsman
- Tony Boorman, principal ombudsman & decisions director
- Julia Cavanagh, finance and performance director

from the trade associations:
- Adrian Coles, Building Societies Association
- Maggie Craig, Association of British Insurers
- Eric Galbraith, British Insurance Brokers Association
- Stephen Gay, Association of Independent Financial Advisers
- Fiona Hoyle, Finance and Leasing Association
- Eric Leenders, British Bankers Association
- Tim May, Association of Private Client Investment Managers and Stockbrokers
- Paul Rodford, UK Cards
- Martin Shaw, Association of Financial Mutuals
- Paul Smee, Council of Mortgage Lenders

from the Financial Services Authority (FSA):
- Amir Ghani

welcome and introductions

The chief ombudsman welcomed the attendees and thanked them for coming. She noted that the purpose of the funding discussion was to inform the ombudsman service's discussions and decisions in the months prior to its budget for 2012/2013 being agreed. Before publishing the formal consultation document in January 2012, the ombudsman will also be meeting individually with the largest complaints-handling businesses and having discussions with the industry steering groups.

volumes and workload

The group noted that the ombudsman service's workload has grown significantly over the past decade – from 25,000 new cases in 2000/2001 to more than 206,000 new cases in 2010/2011. So far in 2011/2012 the total number of new cases has grown by 25% – meaning that, at mid-year point, there have been 56% more cases than planned.

The service's current working assumption was that the number of *non*-PPI cases would be similar in 2012/2013 (117,000 *plus* or *minus* 15%) and the number of PPI complaints would be around 60,000 cases (*plus* or *minus* 20%). The group discussed these early estimates.

On *non*-PPI work, there were a number of contradictory pressures – including the efforts that many businesses were taking to improve complaints-handling standards, the end of the "two-stage process", a reduction in charges-related cases and, crucially, the widely-anticipated tightening of economic conditions for many consumers and businesses. The group noted that increased debt problems could have a marked impact on complaint volumes. Overall it felt that the forecast for *non*-PPI cases should be increased somewhat to reflect these factors.

On PPI work, the group noted extensive pressures on financial businesses arising from the actions of consumer groups and claims-management companies. Regulatory action might also have an impact on case-referral volumes. Overall the group felt that a forecast of 60,000 PPI cases for 2012/2013 was unduly optimistic –a significantly higher figure was more likely.

cases resolved

The service has been working hard to reduce the length of time consumers and businesses need to wait for their case to be resolved, and at the mid-year point had resolved over 45% of *non*-PPI cases within three months of receipt. There has, however, been a significant increase, over the past three years, in the number of requests – by businesses and consumers – for final decisions by ombudsmen. This had led to the proportion of final decisions rising from 8% in 2008/2009 to over 15% today (excluding PPI). The group welcomed the commitment to reduce waiting times and felt that the current rate of ombudsman referrals was likely to continue.

developing the service – to improve *both* quality and efficiency

The chief ombudsman outlined some of the key developments over the past two years, to significantly raise in-house operational capability – including improving the IT infrastructure and re-tendering the contractor model. She noted that the service is currently working with some of the larger users, to agree how best to secure efficiency and timeliness improvements by *e-enabling* major elements of the service, and that the National Audit Office (NAO) is due to publish an independent report on the service's efficiency early next year.

It was noted that the ombudsman service has implemented a whole range of work this year, to put quality at the heart of the service provided – including the implementation of a new "reward structure" for staff, a new management structure which puts the professional leadership of our ombudsman at the heart of the operational model, stronger training, both for new joiners and existing staff, and an increase in the number of ombudsmen to lead some of this work.

staffing

The chief ombudsman noted how important it was for staff at the ombudsman service to have the right skills and expertise. She outlined the investment made in staff development over the past twelve months, which included setting up 'the Academy' for new adjudicators and piloting a new "accredited training programme" which has been developed with a University partner.

financial plans for 2012/2013 and reserves

The case fee and base levy has been frozen for three years now, which has been achieved by a range of cost-savings programmes. The service is at present forecast to finish the present year in "surplus", which may cover the significant investment costs for e-enablement and staff development next year – without needing to increase the levy or case fee. It was noted that for most of the service's ten-year history, we had a "reserves policy" equivalent to around £5m, but that this year we had raised an additional £25m to cope with increased volatility – not least in the context of PPI. In practice, the reserves have not been called upon – but it was too soon to predict what might be needed for next year. The group wanted to be assured that any reserves were necessary for the sound financial management of the service.

It was also noted that, given the large volume of PPI cases which were expected, and the financial challenge that this would involve, the ombudsman service would need to explore the options of differential fees in relation to PPI cases. The group noted this as a possibility – but would need to consider the impact and wider implications carefully.

fee structure in subsequent years

The chief ombudsman noted that the funding model for the service had grown incrementally over time. Given underlying cost pressures it was unlikely that the present £500 case fee could be maintained beyond next year. But she also noted that it would be timely to re-consider elements of the funding model, to recognise the different needs and concerns of the varying groups of fee payers. While there was much to commend the present model, the current case fee structure was clearly a concern for some smaller businesses and was cumbersome for larger groups. The group felt that it could be timely to re-consider elements of the present model and agreed to contribute to any review.
It was hoped that this would take place separately from the normal *plan and budget* consultation process.