



annual review

and report & financial statements
1 April 2003 to 31 March 2004

... an independent service for resolving financial complaints



key facts about the Financial Ombudsman Service

- We were set up under the Financial Services and Markets Act 2000 to help settle individual disputes between consumers and financial firms – fairly, informally and quickly.
- We can consider complaints about a wide range of financial matters – from insurance and mortgages to pensions and investments.
- We are completely independent – just as a judge would be, if a complaint went to court instead of to us.
- Our service is free to consumers.
- Consumers must complain to the firm first, before we can look at their case.
- Consumers do not have to accept any decision we make – they are always free to go to court instead. But if a consumer accepts an ombudsman's decision, it is binding on both the consumer and the firm.
- We do not write the rules for financial firms – or punish and fine firms if rules are broken. That is the job of the regulator.
- Our service is confidential – we do not publish the names of those firms and consumers whose complaints we handle.
- We cannot give personal advice about financial matters or debt problems. But we actively share our knowledge and experience with the outside world – to help consumers and firms settle problems themselves and to help prevent the need for complaints in the first place.



..... contents

2	chairman's foreword
4	chief ombudsman's report
19	key facts and figures
27	our customers and stakeholders
38	overview of complaint trends
54	annual report of the independent assessor
57	report & financial statements
86	organisation chart
87	the board
88	our aims and ethos
back cover	how to contact us

The photos in this *annual review* were taken during the year by staff at the Financial Ombudsman Service, showing colleagues at work and images of the Isle of Dogs, East London, where we are based.

chairman's foreword



Demand for our assistance in resolving disputes continues to grow. Following on from a 44% rise in demand in 2002/03, we experienced a 57% increase in the number of complaints reaching us this year. This increase was driven largely by waves of publicity about mortgage endowment mis-selling, split capital investment trusts and so-called 'precipice bonds'.

Coping with this level of demand has been a major challenge, which we have met by – among other measures – carrying out a major exercise to recruit and train over two hundred new staff during the course of the year – as well as identifying new, more effective ways of managing the increasing workload. But in addition to ensuring that the organisation has the right level of resources to meet its more immediate commitments, the board has focused on developing our ability to predict future demand, as far as this is possible, so that we can plan capacity accordingly. This involves working closely with the industry to garner intelligence on likely complaint trends. Increased dialogue with firms about their own caseloads, and about the number of complaints likely to come to us, also gives us greater opportunity to work together with the industry, helping firms to resolve disputes at the earliest possible stage.

Despite the huge growth in our workload, our performance measures reveal, generally, a positive picture. We are meeting the majority of our timeliness commitments and registering an 80% overall customer satisfaction rating. But we are not complacent. Any organisation facing such rapid growth needs to be constantly vigilant, so that quality does not suffer and standards remain high. Our internal processes keep the quality of our work under review and show us where steps may be necessary to improve matters. As a result of these processes, for example, we identified – and made provision to deal with – an isolated batch of cases that we considered unacceptable according to our quality standards. In January 2004, we commissioned a formal review led by Professor Elaine Kempson from Bristol University. The review involves examining the organisation's infrastructure, to ensure that our values – *to be independent, balanced and competent in the service we provide, and to act with integrity* – are supported and re-enforced by the systems we use, and are embedded in the people we employ.

It is important for us to understand how our stakeholders see us and to respond to their concerns. We regularly undertake formal surveys to seek the views of complainants, of industry groups and of our staff. But this year, in addition, we set up a system to facilitate regular reporting to the board on a range of issues arising from both formal and informal contact with stakeholders across industry and consumer groups. The management team are committed to responding to – and following through – the issues raised, and this *annual review* provides some examples of how this initiative is working.

This year the Financial Secretary to HM Treasury, Ruth Kelly, launched a review of the Financial Services and Markets Act 2000. In response, we have been working with the Financial Services Authority (FSA) to review aspects of the relationship between the FSA and the ombudsman service in dealing with cases that have wider implications. To ensure that the public consultation to which this review will lead really does listen to stakeholder concerns, an independent oversight panel was set up, chaired by Colin Harris, Chairman of the Mortgage Code Compliance Board. Membership of the panel reflects a balance of industry and consumer views. The consultation will be an important part of our work in 2004/05.

The coming year will present us with new challenges, including the widening of our jurisdiction to cover mortgage and insurance brokers, when these sectors come into the FSA's regulatory remit. It is also possible that we shall be asked to take on a range of consumer credit complaints.

As we gear up to handle these future challenges, it may be timely to remind ourselves – and our stakeholders – of our fundamental purpose. We are not a regulator. Nor are we a consumer champion or a trade body. Our task is to resolve fairly – from a completely independent stance – disputes between consumers and financial services companies. It is a task that is always likely to be complicated and demanding. We intend to carry it out successfully by sticking firmly to our values.



Sue Slipman OBE

June 2004

chief ombudsman's report



By any measure, this year has been one of exceptional activity for the Financial Ombudsman Service. During the year we received – and resolved – more complaints than ever before. In the four years since we brought our predecessor dispute-resolution schemes together under one roof, we have seen our workload almost quadruple. This year alone, the number of new complaints reaching the ombudsman service increased by 57% on the previous year (which itself saw a 44% annual increase).

This significant rise has been driven by the flood of mortgage endowment complaints – from under 15,000 last year to over 50,000 this year. Neither we nor the financial services industry – which we consult on our workload estimates – had forecast a surge on such a major scale. It has meant that this has been a year of dealing with big numbers and big operational challenges.

.....dealing with the volume

Following public consultation at the start of 2003, our budget for the financial year 2003/04 was originally set on the basis that we could expect to receive a total of 60,000 new cases during the year – including 20,000 complaints about mortgage endowment mis-selling.

However, during the late summer of 2003 we saw a doubling in the volume of mortgage endowment complaints reaching us. This pushed up the average number of new cases from around 1,000 new cases a week to almost 2,000 a week – and led us to look again at our estimates for the year as a whole. And in September 2003 we published an updated half-yearly *plan & budget*, to take account of this mid-year upsurge in complaints.



These revised mid-year estimates proved accurate. We forecast in September 2003 that by the end of the financial year (31 March 2004) we would have received 98,000 new complaints in total, 50,000 of which would be mortgage endowment cases. The actual figures for the year turned out to be 97,901 new complaints, of which 51,917 were mortgage endowment-related.

In operational terms, this substantial increase in complaints during the year – driven largely by waves of publicity about mortgage endowment mis-selling, split-capital investment trusts ('splits') and so called 'precipice' (or high income) bonds – required an immediate action plan on our part, to deal with our rapidly increasing workload.

We introduced a range of initiatives, including:

- adopting new case-handling procedures;
- taking a more flexible approach to managing caseloads;
- finding new ways of moving and re-allocating resources; *and*
- recruiting almost a hundred more new staff, in addition to the hundred already recruited since the revised budget for the year 2003/04 was agreed in April 2003.

We also kept in close contact with our key stakeholders – including the Financial Services Authority (FSA) and consumer and industry bodies – to discuss the budgetary impact and operational ramifications of our increased workload.

As a result of these measures, we were able to resolve a record number of complaints during the year – completing 76,704 cases (a 36% increase on the number we settled in the previous year). We expect an even greater increase in the number of cases we resolve next year, when staff recruited during the past twelve months or so complete their intensive training and become fully productive. This should enable us to reduce substantially the amount of work-in-progress, which we monitor especially closely when unexpected surges of new complaints result in our having to re-allocate and maximise resources.



Continued flexible working, together with the economies of scale involved in dealing with large volumes of mortgage endowment complaints, resulted in a reduction in our unit cost – the benchmark against which we judge our cost-effectiveness in handling complaints. The unit cost fell during the year to £473, having been £518 last year and £684 the year before that. However, when the current wave of mortgage endowment complaints eventually subsides and our work returns to handling a more balanced range of disputes, there are likely to be fewer opportunities to benefit from the economies of scale we have experienced in recent years. This means that we are unlikely to see the continued downward trend in our unit cost.

The chapter, *key facts and figures*, on page 19 of this review gives more details of the types of new complaint we received during the year, the outcome of the complaints we resolved, and our productivity over the year.

..... maintaining quality

timeliness

External feedback confirms, not unsurprisingly, that consumers expect us to resolve their complaints as speedily as possible. In last year's *annual review* I set out our new targets for the time it takes us to resolve complaints. These targets are to complete 45% of cases within three months, 80% within six months and 90% within nine months.

During the year, although we narrowly missed our six-month target – resolving 79% of complaints within 180 days – we slightly exceeded the three-month target, resolving 47% of complaints within 90 days. We met our nine-month target and resolved 91% of complaints within that timescale. Our board received a schedule of cases that we were not able to resolve within twelve months.

The quickest and most effective dispute-resolution tools available to us are usually mediation and conciliation. By taking a fresh look at the facts and suggesting common ground, we aim to bring together the two sides of a complaint and resolve matters at the earliest stages with an informal,



mutual settlement. This can reduce the need for lengthy and time-consuming investigations and formal decisions by an ombudsman. The average time taken during the year to resolve a complaint by 'guided mediation' was four months.

Resolving disputes can take much longer if either the consumer or the firm requests a more formal review – especially if the dispute involves a substantial amount of paperwork, complex facts and entrenched attitudes. Cases where a detailed review is needed in order to settle a dispute – involving a final decision by an ombudsman – take nine months on average.

There is more information about the number of complaints we resolve at the different stages of our complaints-handling process on page 22 of this review, in the chapter *key facts and figures*.

monitoring quality

We have in place a system of internal processes to monitor, on an ongoing basis, the quality of our work. Internal quality reviews – which include random sampling by management – analyse casework against specific criteria: accuracy, timeliness, thoroughness, reasonableness of outcome, and whether the customer was kept fully informed about progress.

Our customer satisfaction research provides another important input into our quality assurance work. We carry out monthly surveys to record the views of those who have used our service. We then measure this external feedback against the customer service benchmarks that we use in our internal quality monitoring.

During the year, we also carried out research to gauge the views of the firms we deal with – asking for their views on the way we handle complaints and the extent to which we accommodate their particular needs and concerns. The results of these customer satisfaction surveys are summarised in the chapter, *our customers and stakeholders*.



being accessible

We decide each complaint on its individual facts, not on who has presented their case best. The ombudsman service is here for people from all backgrounds. The process of bringing a complaint to us should not discourage consumers who believe they have a genuine grievance. And no-one should feel disadvantaged because of language or other difficulties.

Increasingly, people prefer to talk through their complaint with us over the phone, rather than to write us long formal letters of complaint. Over half of the consumers who bring complaints to us now register their complaint by phoning our consumer helpline (**0845 080 1800**). This is also more efficient for us, because we can guide people to focus on the key facts of the case. In addition, people are increasingly using our website to download and complete our complaint form – and to access information about the complaints procedure. Around 75,000 people are now logging on to www.financial-ombudsman.org.uk each month.

During the year we handled phone calls and provided information in 23 languages other than English. And we continue to respond to increasing demand for help and information in formats such as Braille, large print and on audiotape.

It is important to us that people with different needs should not face any barriers to using our service. This is why our monthly consumer satisfaction surveys include demographic questions, tracking which types of consumers are using our service and what they think of it. There are more details about this on page 27 of this review – in the chapter, *our customers and stakeholders*.

..... mortgage endowments

Our landscape has been dominated this year by mortgage endowment complaints. This probably reflects the position for many retail financial services firms. In order to deal with the 50,000 new mortgage endowment cases we have received this year – around half the total number of our new complaints – we have had to review and streamline our arrangements.

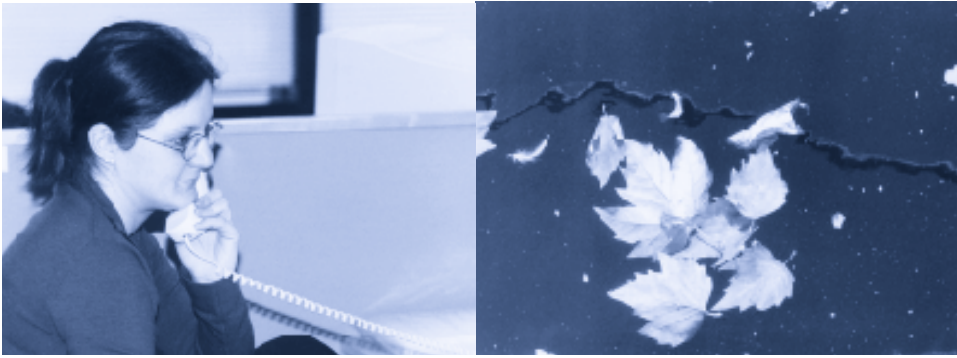


For example, simply coping with the vast increase in the amount of paperwork accompanying the growth in complaints has been a major challenge. We have developed new ways of managing casework, with teams of support staff carrying out more of the administrative aspects, leaving adjudicators more time to concentrate on making decisions.

To benefit from the economies of scale involved in handling large numbers of essentially similar complaints, we set up a special team during the year to work solely on mortgage endowment complaints – rather than on the range of disputes handled by the other teams. This team developed streamlined procedures with the largest firms, to make the exchange of data quicker and more effective at all stages in the process. We are now building on this work and expanding the mortgage endowment team substantially, so that the processes that this team has developed can be applied to the further 50,000 or so mortgage endowment complaints that we now expect to receive in 2004/05.

While we continue to focus resources – in the short term – on handling large volumes of mortgage endowment complaints, we also need to keep an eye, for planning purposes, on what might happen *after* next year. A major issue affecting mortgage endowment disputes will be the ‘time-barring’ of complaints, as the time-limits for complaining start to expire. These time-limits usually involve consumers having to complain within three years of becoming aware of the problem. This generally means three years from receiving what is known as a ‘red’ re-projection letter from the insurer – warning of a *high risk* that the policy will not produce enough, when it matures, to repay the target amount.

Many consumers are generally unaware of these time-limits – and of the fact that time is running out if they want to complain. However, the changes to the FSA’s time-limit rules – announced in May 2004 – now mean that people will be given a clear warning of the date on which their right to complain will expire. This should considerably ease the problem that would have faced us, in having to ‘time-bar’ many thousands of complaints from consumers who would otherwise have been unaware of the time-limits.



We may, therefore, expect to see increasing numbers of people with mortgage endowment complaints during the second half of 2004 – as consumers receive warnings about imminent deadlines for complaining. This concentration of complaints may pose further operational challenges, first for the industry and then for us. However, as the time-limits pass, and all those who wish to complain have done so, the wave of mortgage endowment cases should eventually subside – and our work patterns will need to change yet again.

When our work returns to handling a more balanced range of disputes, and – we may hope – a reduced number of complaints, there will be fewer financial benefits from economies of scale. This means that our unit cost, which has decreased significantly in recent years, may stabilise rather than continue to reduce.

..... ‘splits’

During the year there has been significant interest in our handling of complaints involving split capital investment trusts and zero dividend preference shares – ‘splits’ and ‘zeros’. Following my appearance before the Treasury Select Committee in October 2002, as part of its enquiry into ‘splits’, we have kept the Committee updated on our work on the 4,800 individual ‘splits’ complaints that we have now received.

Our work proceeds in tandem with the FSA’s wider investigations and we liaise closely with the regulator, to ensure that our different focuses of work within the same area can feed into and complement each other. I am satisfied that the separate but interlocking issues of regulation and redress can be dealt with appropriately and effectively in this way.

There is a more detailed overview of the work we have done in relation to ‘splits’ complaints on page 43 of this review, in the chapter *overview of complaint trends*.



..... Equitable Life

Issues surrounding Equitable Life have also continued to come under intense media and parliamentary scrutiny during the year. While other investigations and enquiries – notably those carried out by Lord Penrose and the Parliamentary Ombudsman – have been ongoing, we have continued with our own work on the complaints we have received alleging mis-selling and maladministration by Equitable.

The majority of these complaints are linked to ‘lead’ cases. This is the procedure we use if we receive a substantial volume of cases that appear to involve essentially similar issues. By focusing initially on what we term ‘lead’ cases – a handful of apparently typical complaints – we are able to establish the key general principles and save duplicated effort for all concerned.

We have a page dedicated to frequently asked questions (FAQs) about Equitable Life on our website (www.financial-ombudsman.org.uk/faq/equitable.htm). We update the page regularly so that people can check developments and progress, especially on the ‘lead’ cases. A number of the legal opinions that have been sought on issues relating to Equitable and redress are also available from this web page.

..... ‘precipice bonds’

Our forecasting of complaint volumes for future years is, inevitably, an art rather than a precise science. It includes a budget contingency in case we need to handle a sudden, unpredicted flood of complaints on some topic about which we had not previously received complaints in any number.

Until two years ago, we had received only a few complaints about what have now been dubbed ‘precipice bonds’ – investment-linked products where promised high levels of income can put the capital at serious risk. In the year ended 31 March 2003, we received around 2,500 complaints about these products – which had been sold in great numbers in the late 1990s, as interest rates on ‘traditional’ savings started to fall. This year, the number of ‘precipice bond’ complaints we have received has risen to 6,000.



This includes complaints both about the financial firms that launched and marketed these products – and about intermediary firms that gave advice on them to customers. We have liaised closely with the FSA, where our work on individual cases complements the wider regulatory investigations being carried out by the regulator.

There is a more detailed overview of our work in relation to ‘precipice bonds’ in the chapter, *overview of complaint trends*, on page 40 of this review.

..... the ‘N2 + 2 review’

In November 2003 – two years after the date when the Financial Services and Markets Act 2000 came into force (the date widely known as ‘N2’) – the Financial Secretary to HM Treasury, Ruth Kelly, announced details of the so-called ‘N2 + 2 review’. Ruth Kelly confirmed that part of this review would include the Financial Ombudsman Service and the FSA, and would look at how the ombudsman process interacts with the FSA’s regulatory framework. The review would also consider the case for amending the process of appeal against ombudsman decisions.

These issues – generally referred to as the ‘wider implications’ and ‘appeals’ issues – have been the subject of debate throughout the year by firms, trade bodies and consumer groups, each tending to express individual and frequently divergent views on these matters.

Following Ruth Kelly’s announcement, we and the FSA appointed a group of expert stakeholders to oversee the scope, terms and conduct of the consultation process on ‘wider implications’ and appeals. This group – the Review Oversight Group – met regularly during the first few months of 2004. Chaired by Colin Harris, chairman of the Mortgage Code Compliance Board, the other members are: Matthew Bullock of the Financial Services Practitioner Panel; John Howard of the Financial Services Consumer Panel; Roger Sanders of the Small Business Practitioner Panel; and Diana Wright, personal finance writer for the *Sunday Times*.



Preliminary consultation with trade bodies and consumer groups was carried out in the early spring of 2004, prior to the launch of a full public consultation. The overall 'N2 + 2 review' is expected to be completed by November 2004. Ruth Kelly indicated at the launch of the review that the importance of the ombudsman to consumer protection is such that any changes to the regulatory structure should be made only after careful consideration and consultation.

..... extending our jurisdiction

mortgage and insurance intermediaries

In our last *annual review*, I reported that we had opened the door to applications from mortgage and insurance intermediaries interested in joining our *voluntary* jurisdiction *before* the start of statutory regulation by the FSA – when these sectors will automatically be covered by our *compulsory* jurisdiction.

Over 300 firms have now joined our voluntary jurisdiction. By signing up with us at an early stage, these firms are making a positive customer service commitment, as well as gaining valuable experience of what being covered by the ombudsman service involves, so they will face less change when they become FSA-regulated. Firms joining our voluntary jurisdiction during the year have been able to benefit from our full range of services for firms – including training on complaints handling, access to seminars and workshops, and support and guidance from our technical advice desk.

Firms in our voluntary jurisdiction will also benefit from a change we have introduced to our funding arrangements, whereby we will not charge a case fee for the first two complaints we receive each year about a firm.

The dates are approaching when the FSA will begin regulating mortgage and insurance intermediaries – 31 October 2004 for mortgage brokers and 14 January 2005 for insurance brokers – and we have focused on the logistical preparations for dealing with some 20,000 of these firms that are then likely to come into our compulsory jurisdiction.



Although the extension of our compulsory jurisdiction means the number of firms we cover is set to triple, we do not expect to receive a significant number of additional complaints as a result of this wider coverage. We have based this expectation on the complaints-handling experience of the Mortgage Code Compliance Board and the General Insurance Standards Council – and also on our own experience in receiving no complaints about the vast majority of smaller firms that we already cover. (The chart on page 33 of this review shows that almost 80% of firms covered by the ombudsman service had no complaints against them referred to us.)

This, in itself, presents us with a communications challenge, in terms of keeping in touch with a large number of firms who will never – or only very rarely – have any direct contact with us. We recognise that smaller firms, currently preparing for regulation for the first time, have a lot on their plate. Many see the ombudsman as, at best, just another ‘necessary evil’ of regulation – not something to be engaged with actively, unless absolutely necessary. Unfortunately, the perceptions that these firms have of us are more likely to be based on industry hearsay and ‘urban myth’ than on the real facts.

Feedback from the many industry conferences and trade shows we take part in, together with our experience at the broker roadshows we organise around the country, certainly suggests that most smaller firms view the ombudsman as peripheral to their core business concerns – unless and until a customer actually lodges a complaint against them.

consumer credit

In December 2003, as part of its review of the regulation of the consumer credit sector, the Department of Trade and Industry (DTI) published proposals to introduce a statutory complaints-handling body as an alternative to the courts (which currently is the only recourse for many people with consumer credit disputes). One of the models suggested as an ‘alternative dispute-resolution’ scheme for consumer credit complaints is an ombudsman-type arrangement, and it has been suggested that the jurisdiction of the Financial Ombudsman Service could be widened further so that we could cover these complaints.



We already cover complaints about consumer credit provided by banks and building societies. But we do not cover disputes involving store cards or ‘non-bank’ credit. As far back as my first *annual review* as chief ombudsman (the review for the year 1999/2000), I highlighted our long-term objective of providing seamless, comprehensive coverage as the ombudsman scheme for financial services. We already cover disputes involving firms that, together, provide around 75% of all consumer credit by value. However, the majority of everyday smaller-scale consumer credit arrangements involve a wide range of firms that we do not cover. And for many of the consumers involved in these particular arrangements, the implications when things go wrong are proportionately just as grave as for those consumers who are currently able to come to the ombudsman service.

For these reasons, we view very positively the idea of extending our jurisdiction to cover consumer credit activities. We are in constructive dialogue with the DTI and the Office of Fair Trading about the proposals. We have also been in dialogue with consumer bodies and trade associations in this field. There are a number of practical issues to be resolved – such as the importance of consumer credit firms having proper in-house complaints-handling procedures as the first stage of the dispute-resolution procedure. And a decision is needed about which of the tens of thousands of firms currently holding consumer credit licences – from credit card companies to debt consolidation agencies – should be covered by the proposed dispute-resolution scheme, possibly with coverage being phased in over time.

We would also be concerned to ensure that any role we might be asked to take on in relation to consumer credit disputes should reflect our established position as an ombudsman scheme. We are not a regulator, nor are we a consumer champion nor a trade body. Building on principles established by our predecessor ombudsman schemes, we have well-developed arrangements for our operations and governance. In particular, we do not believe it would be appropriate, as an ombudsman scheme, to take on any quasi-regulatory functions involving issues that have a wider market effect.



..... checks and counter-checks

As an organisation that has grown very rapidly and that deals every day with thousands of pieces of correspondence and makes hundreds of decisions on complaints, we recognise that things can and do go wrong. When we look at complaints, a key consideration is the way in which the firms concerned have taken steps to try and put things right. In just the same way, we believe an important test by which we should ourselves be judged is the way in which we recognise and deal with any shortcomings – and learn the lessons from them.

This is why, just like the firms whose complaints we handle, we have our own formal complaints procedures to deal with expressions of dissatisfaction with our service. And a small specialist team of complaints handlers – our service quality team – handles all complaints about us that we cannot easily sort out straightaway.

Where our service quality team cannot resolve a complaint, it can be referred to our own ‘watchdog’ – the Independent Assessor. Last year, the Independent Assessor, Michael Barnes, carried out a review of 121 complaints about the service we provided. We accepted his recommendations in all 28 cases where he said we should pay compensation. The Independent Assessor provides our board with an annual report, detailing the range of issues referred to him and highlighting where we may need to look again at our procedures. His full report is included in this *annual review* on page 54.

The stresses and strains of having to cope with a caseload that has grown so massively in such a short space of time will inevitably have some impact on our ability to deal with every piece of correspondence – and every decision – to the highest standards that we and our customers should expect.

In recognition of concerns about the possible effect of the huge volume of work on our quality standards, we are committed to rigorous monitoring of our output. Building on various internal review processes and quality checks that we already have in place, in January 2004 our board commissioned Professor Elaine Kempson of the Personal Finance Research Centre at Bristol University to carry out an independent assessment of our process and output in terms of quality, consistency and value.



The range of new initiatives introduced to deal with the near four-fold increase in mortgage endowment complaints, in particular, has required close monitoring to ensure standards are not compromised by the need for more effective processing of cases. As part of these internal review processes, a specific number of instances were identified where cases were not being handled in accordance with our normal procedures. We have instituted a review of all the cases involved, to take steps to rectify matters where necessary.

This is a timely reminder for us of the importance of rigorous checks and counter-checks, to ensure we arrive at an appropriate decision, having followed the right procedure.

..... talking and listening

Our work gives us a unique insight into how complaints arise and how they might be avoided. There are valuable lessons from this for both the financial services industry and for consumers – and we carry out a wide range of activities to share our experience and knowledge with the outside world. During the year we took part in over 650 activities involving external stakeholders. These activities included organising roadshows and conferences, and providing complaints-handling training for firms and consumer advisers. There are more details about our external liaison and communications activities on page 35 in the chapter, *our customers and stakeholders*.

We recognise that people's personal experience of our service is inevitably influenced by the outcome of their own complaint – and this means we cannot always please everyone. However, seeking the views of those who have used our service is an essential part of finding out where we can improve, and we bear in mind our stakeholders' comments and concerns when we formulate our policy and operational approach. There are some examples of this on page 37.



The *annual review* is, of course, a particularly appropriate opportunity to canvass the opinions of all those with an interest in our service. I hope that readers will continue to give my colleagues and me helpful feedback on where we need to do things better in future – or even on where we may already be getting things just about right.

Finally, I would like to express my particular thanks this year to all the staff of the ombudsman service, who have shown admirable fortitude in the face of a major increase in workload. While I hope that our incentive scheme has to some extent reflected the sheer hard work and effort put in by staff during a particularly challenging year, I recognise that this is only modest recompense for the many extra evening and weekend hours put in to keep up with the relentless tide of complaints. The board and I are grateful and fortunate to have been able to rely on the continued dedication of our staff.

Walter Merricks

June 2004



key facts and figures

..... dealing with complaints at the initial stage

Our customer contact division provides a 'single point of entry' for all consumer enquiries – by phone, letter and email. During the year we handled **548,338** 'front line' enquiries – a **19% increase** on the previous year (following a similar 19% increase the year before).

front-line enquiries from consumers	year ended 31 March 2004	year ended 31 March 2003	year ended 31 March 2002
phone enquiries	291,892	265,554	242,168
written enquiries	256,446	196,786	146,071
total	548,338	462,340	388,239
complaints referred on to our adjudicators	97,901	62,170	43,330

Where consumers contact us *before* raising their complaint directly with the firm, our customer contact division forwards the complaint to the firm and asks it to investigate the matter under its formal complaints procedure. We remind consumers that they can ask us to get involved directly if the firm has not been able to resolve their complaint usually within eight weeks.

Our customer contact division also gives general advice and guidance to consumers with enquiries. At this early stage, we try to nip straightforward problems in the bud – before they become full-blown disputes. For example, where a problem stems from a simple administrative error or misunderstanding between the customer and the firm, it might only take us a few phone calls to sort matters out.

An increasing number of consumers are getting the information they want directly from our website, rather than phoning or writing to us. Around 75,000 people are now visiting www.financial-ombudsman.org.uk each month (a 25% annual increase) – and one in five people who log on to our website download our complaint form. A third of people who logged on to our website were first-time visitors.

Where further work is needed to resolve complaints, our customer contact division acts as the gateway to our specialist case-handling teams of adjudicators.

..... complaints referred on to our adjudicators

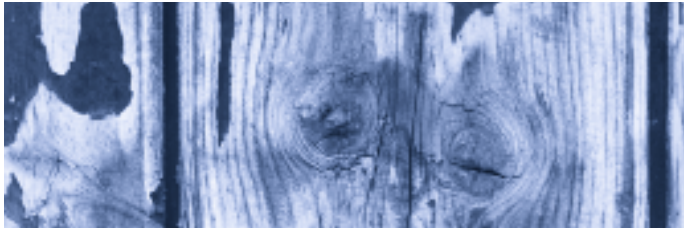
In the year ended 31 March 2004, our customer contact division referred **97,901** new cases to our adjudicators for more detailed dispute-resolution work – a **57% increase** on the previous year.

new cases by type of complaint	year ended 31 March 2004	year ended 31 March 2003
endowment policies linked to mortgages	51,917	13,570
other 'packaged' investment products <i>including complaints about</i>	10,627	6,917
■ single-premium investment bonds (including 'precipice' bonds)	7,222	2,631
■ investment ISAs	1,537	1,581
■ PEPs	693	855
■ unit trusts	306	585
whole-of-life policies and non mortgage-linked endowments	5,442	5,009
personal pension plans <i>including complaints about</i>	5,303	7,233
■ personal pensions	3,470	4,907
■ guaranteed annuity contracts	280	223
■ income draw-down	212	189
■ purchased life annuities	168	223
■ small self-administered schemes and executive pension plans	144	162
■ stakeholder pensions	65	115
mortgage loans <i>including complaints about</i>	3,220	9,438
■ dual variable-rate mortgages	146	6,535
motor insurance	2,727	2,372
current accounts	2,106	1,602
'splits' and 'zeros' (in relation to investment trusts)	1,673	2,233
buildings insurance	1,549	1,285
travel insurance	1,453	1,088
credit cards	1,444	864
contents insurance	1,154	1,009
loans other than mortgages <i>including complaints about</i>	1,116	933
■ unsecured loans	770	695



■ second charges	229	174
■ home income plans	117	64
other banking services <i>including complaints about</i>	1,106	1,485
■ cheque clearance	368	239
■ money transfer	223	111
■ cash machines	128	114
■ safe custody	43	20
portfolio and fund management	921	1,044
permanent health insurance (PHI)	872	792
other types of general insurance <i>including complaints about</i>	868	892
■ commercial policies	242	298
■ pet insurance	134	72
■ caravan insurance	78	52
savings and deposit accounts <i>including complaints about</i>	806	748
■ cash ISAs	117	102
■ TESSAs	86	109
■ re-discovered passbooks and dormant accounts	61	76
loan protection insurance	802	803
free-standing additional voluntary contribution (FSAVC) schemes	704	887
critical illness insurance	582	492
stockbroking	432	503
extended warranty insurance	328	254
private medical insurance	294	302
legal expenses insurance	271	239
personal accident insurance	129	130
derivatives <i>including complaints about</i>	55	46
■ spread-betting	37	35
■ options	14	10
total number of new cases	97,901	62,170

The chapter, *overview of complaints trends*, on page 38 of this review, gives more details and background information about the main types of new cases we received during the year.



..... resolved cases

During the year, we resolved **76,704** cases – a **36% increase** on the previous year. In dealing with each case, we use our extensive knowledge and experience of dispute resolution to decide the approach that we believe will be the most appropriate in the individual circumstances – and the most likely to settle the complaint quickly and fairly.

Generally, the approach we take will begin with an assessment of each case, to see whether we can resolve the complaint using ‘guided mediation’. Mediation is often quicker and more efficient than a formal investigation, which can sometimes be quite a drawn-out process. If we cannot resolve a complaint by mediation, we may need to take a more formal approach. This could mean issuing an adjudication – setting out our recommendations about whether the complaint should be upheld. In most cases, both sides accept these recommendations. But either side can ask instead for a review and final decision by an ombudsman.

The chart on the opposite page shows the number of complaints we have resolved at the different stages of our complaints-handling process.

outcome of cases
resolved at the different stages of
our dispute resolution process

**year ended
31 March 2004**
number of cases

**year ended
31 March 2003**
number of cases

resolved at the assessment stage
(generally involving mediation
and conciliation)

32,136 (42%)

22,312 (40%)

resolved after investigation
by an adjudicator

38,263 (50%)

27,857 (49%)

In 3% of cases, the complaint
was found to be outside
our jurisdiction.

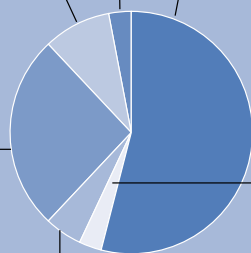
In 54% of cases, the
adjudicator found that
the firm had treated
the customer's
complaint fairly.

In 9% of cases, the customer
withdrew their complaint.

In 3% of cases, the adjudicator
found that the firm had generally
treated the customer's complaint
fairly – but the firm still agreed
a goodwill payment.

In 26% of cases, the
adjudicator found that
the firm had *not* treated
the customer's complaint fairly.

In 5% of cases, the adjudicator
acknowledged that the firm
had made an offer to the
customer, but negotiated
an improved settlement.



resolved by the final decision
of an ombudsman

6,305 (8%)

6,290 (11%)

In 6% of cases, the complaint
was found to be outside
our jurisdiction.

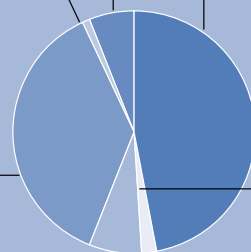
In 47% of cases, the ombudsman
found that the firm had treated
the customer's complaint fairly.

In 1% of cases, the customer
withdrew their complaint.

In 2% of cases, the ombudsman
found that the firm had generally
treated the customer's complaint
fairly – but the firm still agreed
a goodwill payment.

In 37% of cases, the
ombudsman found that
the firm had *not* treated
the customer's complaint fairly.

In 7% of cases, the ombudsman
acknowledged that the firm
had made an offer to the
customer, but negotiated
an improved settlement.



total cases resolved

76,704

56,459



..... our budget and productivity

The Financial Ombudsman Service is funded by an annual levy that is paid by firms covered by the service – and by a case fee that we charge firms for each individual complaint. Our budget is calculated on the basis of workload forecasts, which we consult publicly in our *plan & budget* – published each year in January before the start of the new financial year.

In January 2003, when we first consulted on our budget for the financial year 2003/04, we estimated that the number of new complaints we would receive during the year would be only slightly higher than in the previous year. In fact, as explained in the chief ombudsman's report on page 4, the volume of new complaints increased by 57% on the previous year – almost wholly because of the surge in complaints about mortgage endowments.

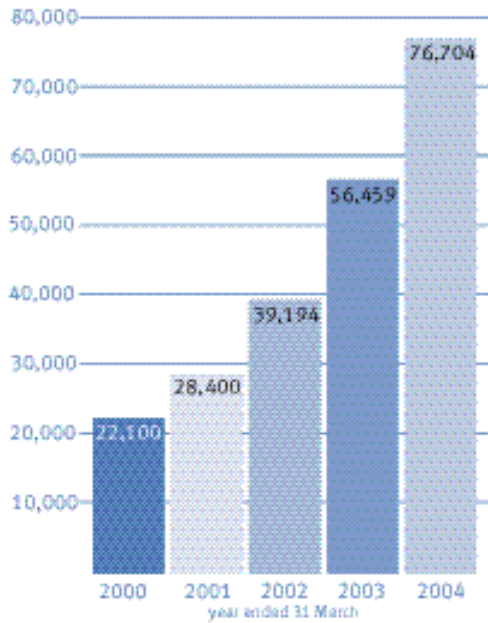
To keep up with the substantial increase in new complaints, we needed to increase our complaints-handling capacity to ensure we met our published timeliness targets and kept our work-in-progress at acceptable levels. The additional case fees from the increased number of cases we closed resulted in our income for 2003/04 rising to £41 million – £6.4 million more than we had forecast in the budget. This means that 68% of our funding during the year was raised through case fees and 32% through the levy – whereas our budget had assumed that income from case fees would raise 65% of our total funding and the levy, 35%.

Our total expenditure for the year was £36.5 million – £1.8 million more than our budget. This increase in costs resulted almost wholly from our needing to recruit additional staff during the year, to deal with the increased volume of new complaints. At the end of the financial year (March 2004) we had 725 employees, compared with the budget figure of 583.

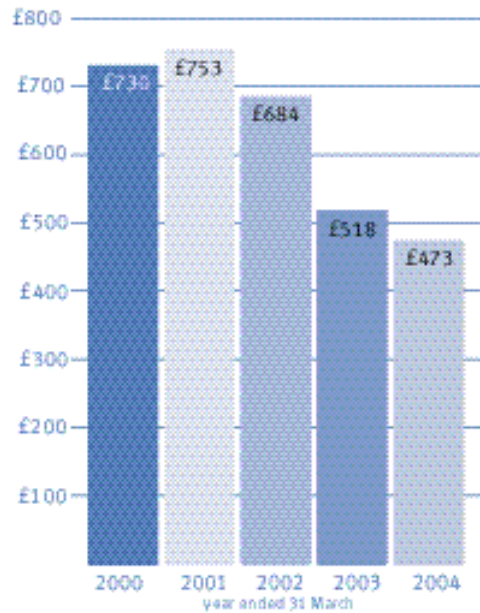
Our unit cost for the year – the average cost of handling a complaint at the ombudsman service – was £473, compared with the budget estimate of £541 and £518 in the financial year 2002/03. Our unit cost has fallen by £257 since 1999/2000, when we brought the separate ombudsman and complaints-handling schemes together under one roof. This 35% decrease in costs over the last four years has resulted from improved efficiency in our case-handling procedures and from economies of scale – spreading our fixed costs over a greater number of cases. However, there will be fewer opportunities to benefit from economies of scale when the wave of mortgage endowment complaints eventually subsides and our work returns to handling a more balanced range of disputes. This means that our unit cost is likely to stabilise rather than continue to reduce.

Our rate of productivity (which we define as the average number of cases resolved weekly by each adjudicator) was slightly higher than the figure we had forecast in the budget. We had assumed a small fall in productivity – compared with the figure achieved in the financial year 2002/03. This was because we had not expected to be able to sustain the exceptional level of productivity which had resulted in the previous year from economies of scale, case-handling improvements and staff overtime.

number of cases resolved



our unit cost*

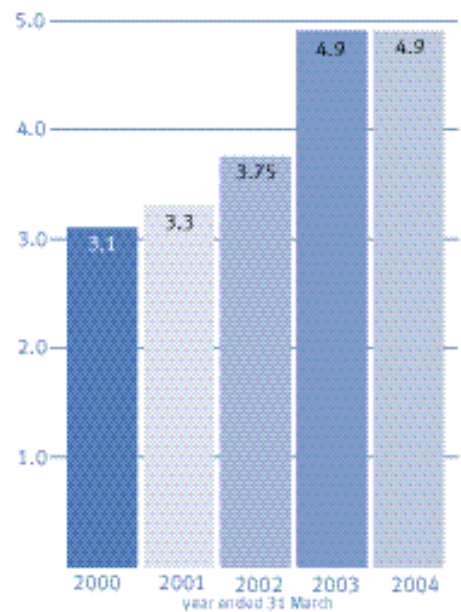


*Our unit cost is calculated by dividing our total costs (before financing charges and any bad debt provision) by the number of cases we complete.

However, because of the unexpectedly large number of mortgage endowment complaints – which are often less complex and quicker to resolve than certain other complaints – and as a result of many additional hours of overtime (for which our adjudicators are rewarded through our incentive scheme, rather than through direct extra pay), we were able to maintain the same rate of productivity as in the previous year.

Offering staff an incentive scheme as part of our reward and remuneration strategy – with performance awards where agreed targets are exceeded – has helped us to meet service delivery targets in the face of significant increases in workload. It has also helped maintain a level of productivity which we suggested in last year’s *annual review* might not be sustainable in the long term. Our incentive scheme costs around 7% of our staff-related costs – and provides a more targeted, measurable and cost-effective reward system than paying overtime.

average number of cases resolved weekly by each adjudicator



our income and expenditure (summary)	actual year ended 31 March 2004 £ million	budget year ended 31 March 2004 £ million	actual year ended 31 March 2003 £ million	actual year ended 31 March 2002 £ million
income				
annual levy	13.1	11.9	14.7	0.0
case fees	27.4	22.7	21.1	3.5
former schemes' service charges	0	0	0	23.8
other income	0.5	0	0.4	0.2
total income	41.0	34.6	36.2	27.5
expenditure				
staff-related costs	26.6	24.4	20.5	18.6
other costs	6.8	6.5	6.6	6.1
financing charges	0.2	0.6	0.4	0.7
depreciation	2.9	3.2	2.5	1.8
total expenditure	36.5	34.7	30.0	27.2
exceptional item – write-off of establishment costs	0	0	2.9	0
surplus/(deficit)	4.5	(0.1)	3.3	0.3

The surplus for the year of £4.5 million has been added to our reserves. Our policy on the amount of financial reserves we keep – agreed after consultation with the financial services industry – is not to exceed 5% of our expected annual expenditure. We will return any amount over this to firms, by reducing the amount of the annual levy in the following year. This means that in the financial year 2005/06 we expect to reduce the annual levy by approximately £4 million, after allowing for the planned deficit in the year 2004/05.

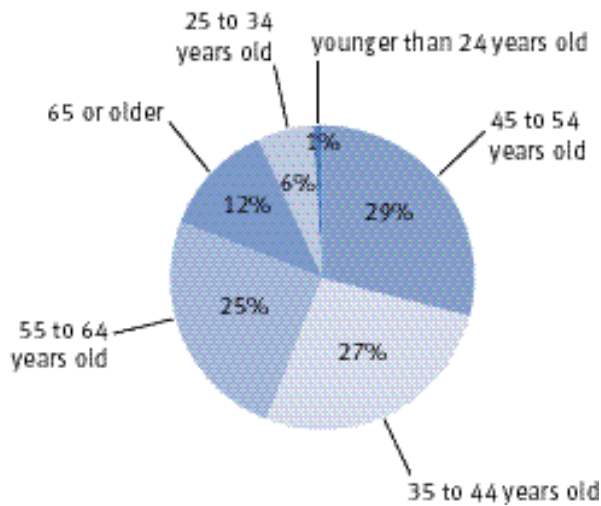
The detailed financial statements start on page 57 of this review.



our customers and stakeholders

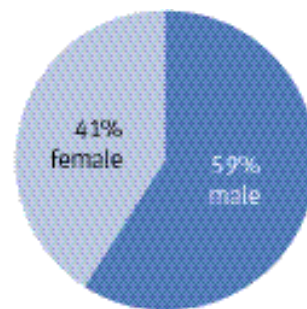
..... what type of consumer uses the ombudsman service?

how old are consumers who complain to the ombudsman service?



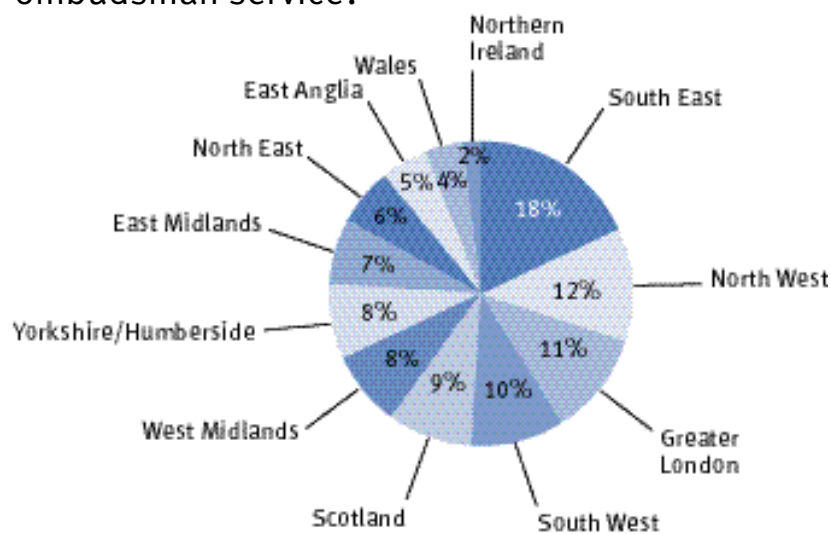
Our 'average' customer is between 35 and 54 years old. Over half the people who use our service are in this age bracket. This reflects the fact that people in this age group tend to have wider levels of ownership of financial and investment products. Most mortgage endowment complaints we have received this year involve consumers in this age bracket, who took out mortgages in the 1980s and early 90s.

... and what gender are they?



Accounts we receive relates to policies and accounts held jointly. With joint accounts, the first-named holder of the account is frequently male – and this is the name that our system records. This may result in some bias in the data we record about the gender of people who complain to us.

where do consumers live who complain to the ombudsman service?



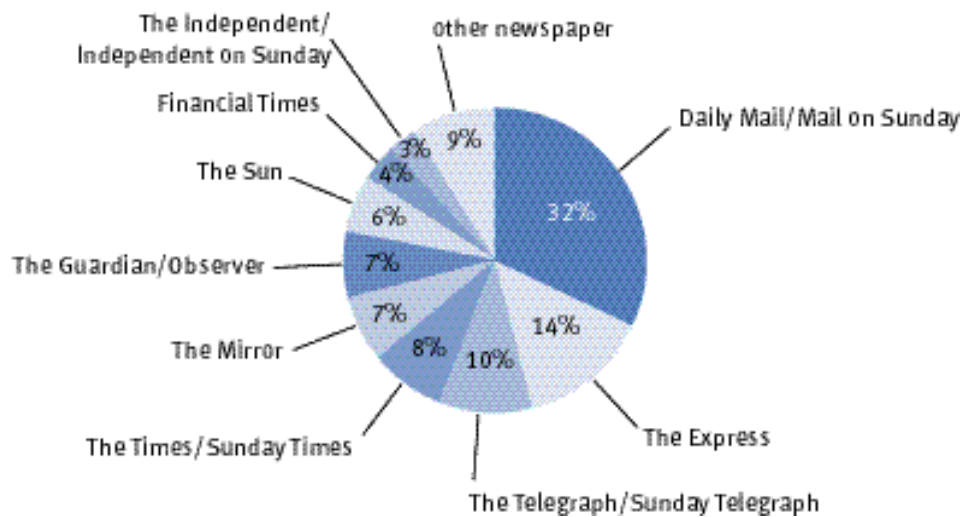
We do not have reliable external data to help us compare the levels of ownership of financial products across the different regions of the UK with the levels of complaints we receive from people living in those regions. However, we regularly compare regional population figures for the UK with our figures that show where consumers who complain to us come from. This helps us target where we may need to focus outreach work in raising awareness of our services.

Our research shows that the regional location of those using our service broadly reflects the spread of the population across the UK as a whole. The proportion of regional consumers who complained to the ombudsman during the year differed by more than one percentage point from the regional population figures in just four

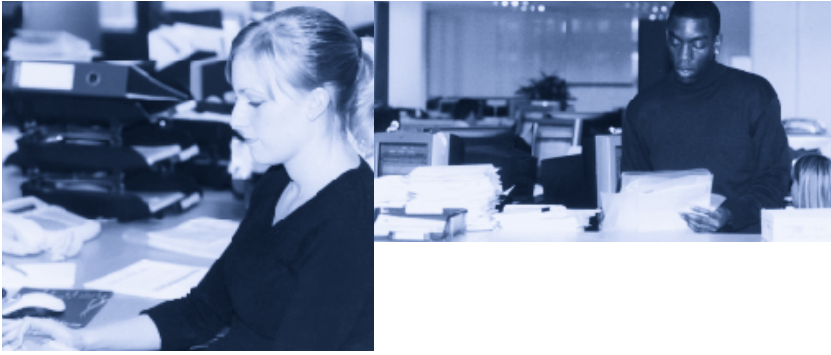
regions. People from East Anglia comprise 9% of the population but 5% of our customers (4% of our customers in the previous year). Conversely, people from the South West comprise 8% of the population but 10% of our customers (11% in the previous year). 6% of our customers came from the North East, where 4% of the UK population lives. And 18% (22% in the previous year) of people who used our service came from the South East (home to 14% of the UK population).

Compared with the figures for last year, there was an increase in the proportion of consumers bringing complaints to the ombudsman service from Northern Ireland, Scotland, the North East and North West, the East Midlands and East Anglia. Complaints from London and the South East and the South West fell slightly. These figures may to some extent reflect the different regional focus of our external liaison activities during the year.

which newspapers are read by consumers who complain to the ombudsman service?



Knowing which newspapers are read by consumers who bring their complaints to the ombudsman gives us an insight into the socio-economic make-up of our customers. It also helps us plan how we can get messages across more effectively to the people who do – and don't – know about and use the ombudsman service. We have collected this information as part of our consumer research during the year. The figures show what the consumers who have used our service tell us they read.



how do consumers who complain to the ombudsman rate the service we provide?

- we keep consumers well informed about progress on their complaint



- we explain clearly the reasons behind our decisions



- we resolve complaints within an acceptable length of time



- our staff remain polite at all times



- people who use our service are likely to recommend it to friends and family with a financial complaint



Each month, we send a consumer satisfaction survey to a random selection of around 400 people whose complaints we have dealt with, asking a range of questions about their experience of our service. The feedback we receive from these monthly surveys tells us what consumers want and expect from us – and where we need to focus our priorities in terms of the service we provide. The bar chart above shows how consumers who have completed the survey rated our service – measured against a number of customer service benchmarks.

We also calculate an annual baseline figure, so that we can measure and compare, year on year, the general level of satisfaction of consumers who use our service. This year, 80% of consumers' views of our service were generally positive (76% in the previous year). This small increase results largely from improved satisfaction with the way in which we try to manage expectations and keep consumers informed about progress on their case.



..... consumer diversity

15% of consumers using our service describe themselves as having some form of disability (12% in the previous year) – predominantly hearing impairment and mobility difficulties. There is strong demand for our publications in Braille, large print and on audiotape – and we use Typetalk and sign-language on request. This is part of our commitment to be flexible and accommodate consumers' needs wherever we can.

Our consumer surveys indicate that around 4% of people who use our service define themselves as 'minority ethnic'. During the year, we have carried out research to try to find out how this figure compares with the general levels of ownership of financial and investment products among people from minority ethnic communities. Unfortunately, however, there appears to be little data available in this area.

For people who are not comfortable using English, we provide information and handle phone calls in other languages – and have done so during the year in 23 languages, ranging from Arabic to Welsh. During the year, we also distributed language packs to Members of Parliament – for use when advising constituents – as well as to consumer advice centres across the UK. These packs contain factsheets about the ombudsman service in the UK's ten most widely-used ethnic languages.

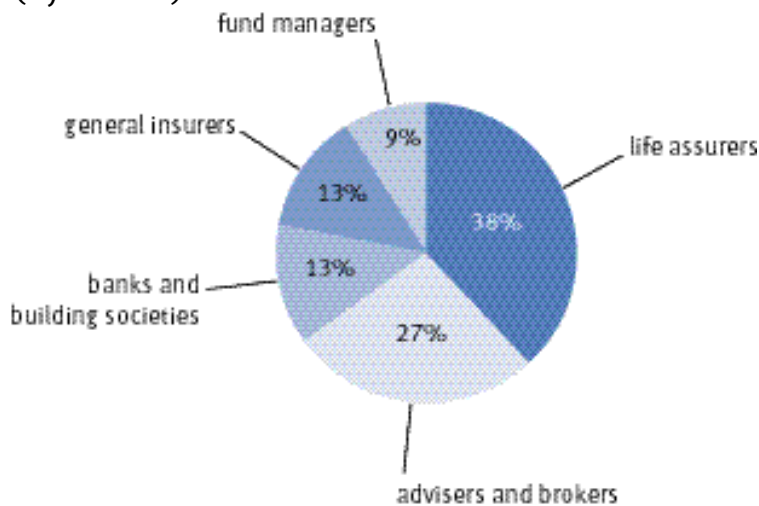


..... what type of financial firm do consumers complain about to the ombudsman service?

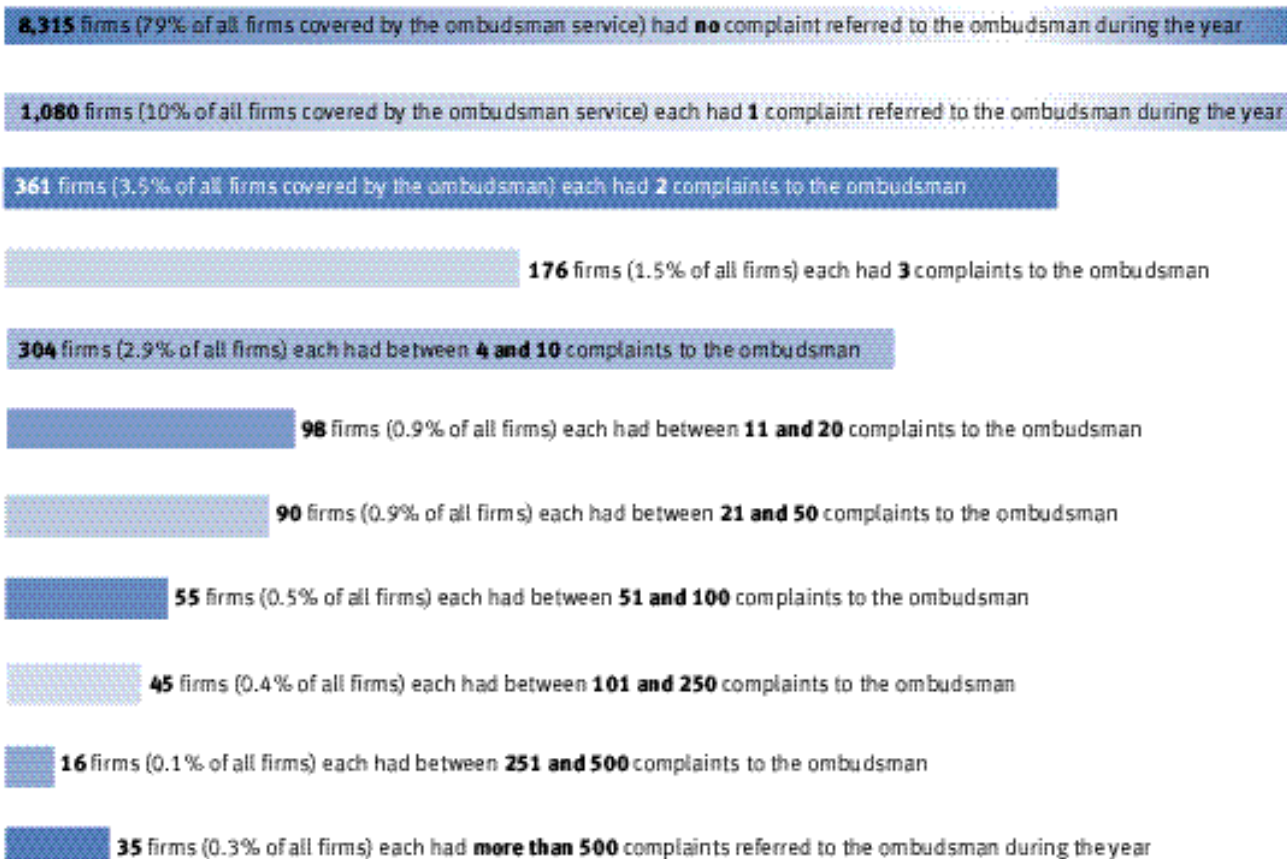
This chart shows how the complaints we have dealt with during the year are spread across the different sectors of the financial services industry. We are aware that the complaints patterns we identify do not necessarily reflect the *current* marketplace in financial services. This is because many of the complaints we receive relate to advice, sales and marketing that took place some time in the past – especially complaints involving investments, where problems may only start to emerge a number of years later.

In fact, the spread of the complaints we have received this year across the different industry sectors probably gives a truer picture of how the marketing and distribution of retail financial services – especially in relation to products such as endowment mortgages – operated between five and 15 years ago.

firms complained about (by sector)



how often do financial firms have complaints about them referred to the ombudsman service?



This chart shows that almost 80% of the financial firms that are covered by the ombudsman service had no complaints against them brought to us by their customers – and so these firms have little or no direct contact with us. 1,441 firms – 14% of all firms covered by the ombudsman – had only one or two complaints against them referred to us during the year. (From April 2004, firms will be charged no case fees for the *first two* complaints during the year.) At the other end of the scale, 20 of the UK's largest financial services providers accounted for 51% of the total number of complaints we received.

how do firms that have complaints against them brought to the ombudsman rate the service we provide?

During the year we carried out research to gauge the views of the firms we deal with on how we handle complaints and accommodate their particular needs and concerns.

■ we uphold a reasonable proportion of complaints against firms



■ our decisions are generally fair



■ we provide firms with a better alternative to going to court



■ we have a good reputation among financial firms



■ our letters and adjudications are clear and concise



■ we keep firms up-to-date with news and information



■ firms feel able to challenge the views expressed by our case-handling staff



■ our case-handling staff are sufficiently knowledgeable



how we get our messages across

year ended 31 March 2004

roadshows	We held 14 roadshows across the UK – from Cardiff to Glasgow, Maidstone to Newcastle.
tradeshows and consumer events	We took our exhibition stand to 27 tradeshows and consumer events – from <i>Business Start-Up</i> at the NEC to <i>Mortgage Business Expo</i> at Olympia.
conferences	We organised 10 of our <i>workingtogether</i> conferences in London, Leeds, Manchester and Belfast.
speeches and presentations	We spoke at 90 seminars, conferences <i>etc.</i>
visits and workshops for consumer advisers	We visited 66 consumer advice organisations nationwide, such as trading standards departments and citizens advice bureaux.
visits and training for firms	We visited 271 financial services providers – from local credit unions to international investment banks.
industry meetings and seminars	We took part in 178 meetings for groups of financial services practitioners – including our industry liaison forums (attended by trade bodies and industry representatives).
media enquiries	We handled over 3,000 enquiries from newspapers, magazines and TV/radio stations.
MPs	We responded to 389 letters and enquiries from MPs – as well as sending our factsheet (in a range of ethnic languages) to constituency offices across the UK.
website hits	75,000 people a month logged on to www.financial-ombudsman.org.uk
publications	We printed and distributed over a million copies of our publications (including our leaflet, <i>your complaint and the ombudsman</i> , and 10 editions of our newsletter, <i>ombudsman news</i>).
our technical advice desk (general guidance and advice on ombudsman practice and procedures – for professional complaints-handlers in firms and the consumer advice sector)	Our technical advice desk handled 18,823 enquiries, comprising: <ul style="list-style-type: none"> ■ 15,444 calls from financial services practitioners ■ 2,576 enquiries from consumer advisers ■ 803 calls from trade associations, researchers, official bodies <i>etc.</i>



..... how feedback we receive influences our policy and procedures

We have a range of mechanisms in place – from roadshows to our website – to help us get our messages across to our different stakeholders. And we also need processes in place to help us tune into, and respond to, the views and concerns of our stakeholders. These processes involve our executive team keeping under constant review the way we engage with, and report back to, all those with an interest in our work – at events ranging from our industry liaison forums (regular formal meetings with practitioners and trade body representatives) to workshops with groups of consumer advisers. A special committee of board members also meets quarterly to review our ‘stakeholder dialogue’ processes and our communications strategy.

Some of the issues which we identify as being of concern to stakeholders involve sensitive regulatory policy matters. We take these forward on what is necessarily a confidential basis with the FSA and other regulators, as well as with individual firms. The handling of these types of issues – and the way we can (or cannot) ‘report back’ to the parties concerned *and* to the wider world – form what has become known as the ‘wider implications’ process (see page 37).

Here are just a few examples of where feedback from stakeholders during the year has led to our reviewing and changing our policy and procedures.

feedback	how we picked up on the feedback	action we took as a result of the feedback	how we reported back to stakeholders
perceived unfairness of the case fee for smaller firms	regular contact with IFAs at roadshows <i>etc</i>	following discussion with trade bodies and subsequent public consultation, we introduced a new approach to the case fee system: <i>not charging</i> firms case fees for the <i>first two</i> complaints referred to the ombudsman service each year	<ul style="list-style-type: none"> ■ our <i>plan & budget</i> – and related publicity ■ liaison visits to firms ■ conferences and events
the ‘15-year long-stop’ being used by firms to prevent consumers from complaining to the ombudsman	consumer bodies	clarification of the position: the ombudsman service has its <i>own</i> rules on time limits (which do not include a ‘15-year long-stop’)	<ul style="list-style-type: none"> ■ ‘endowment forum’ for trade bodies and consumer groups (Dec 2003) ■ <i>ombudsman news</i> updates – issues 33 & 34
details of complaints contacts at firms not up-to-date on our database	queries from firms	project to review ongoing accuracy of data – and to chase firms to tell us about changes of personnel/contact details	<ul style="list-style-type: none"> ■ liaison visits to firms ■ messages to the industry through our technical advice desk
insurance and mortgage brokers unprepared for statutory complaints-handling and the ombudsman	<ul style="list-style-type: none"> ■ trade press ■ queries from firms 	<ul style="list-style-type: none"> ■ liaison with relevant trade bodies – speaking at their seminars and conferences ■ running our own roadshows for intermediaries around the UK 	special issue of <i>ombudsman news</i> – introducing new firms to the ombudsman



overview of complaint trends

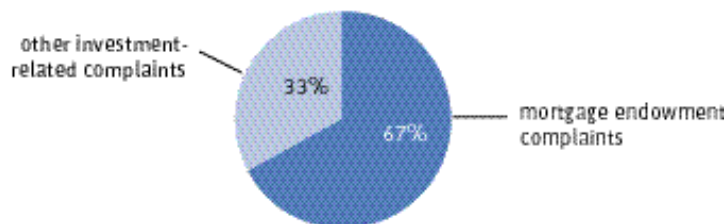


Given the very wide-ranging nature of the complaints we handle – from pet insurance to spread-betting – we have not included individual case studies in this *annual review*. The limited space in this publication means we could not give a fair and representative overview of all aspects of our work.

However, we include case studies in our monthly newsletter, *ombudsman news*, which gives regular feedback on changing complaint trends, as well as commentary and briefing on our approach to different types of complaint. We hope that firms find *ombudsman news* a helpful source of reference – and that they will take its contents into account when considering how to handle complaints. To join the *ombudsman news* mailing list, please contact our communications team (*phone* 020 7964 0092). All issues of *ombudsman news* are also available online on our website.

This chapter gives an overview of the main areas of our complaints work – and covers the key developments in the year, relating to the types of complaint that we deal with most frequently.

..... mortgage endowment complaints



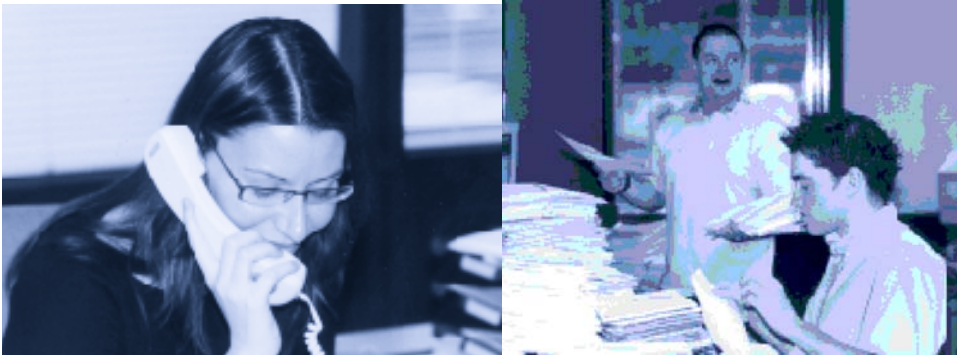
Inevitably the major feature of the year was the practical challenge of dealing with the unprecedented inflow of new mortgage endowment complaints. In his report on page 4, the chief ombudsman describes the operational impact of dealing with the near four-fold increase in these complaints.

Most customers who complain to us about their endowment mortgage say they were under the impression that the policy was certain to provide sufficient funds to settle their mortgage at the end of the planned term. Some customers remain dissatisfied even where the firm has offered them a settlement in accordance with regulatory guidance issued by the Financial Services Authority (FSA) – often referred to as ‘RU89’. The customer feels that the firm should abide by its ‘guarantee’.

In general, however, we do not find many cases where there is clear evidence that a guarantee was given. We gave one example in issue 30 of *ombudsman news* (August 2003). In other cases, we give customers reassurance that the offer made by the firm is fair. Increasingly, we are able to do this without formally taking on the case.

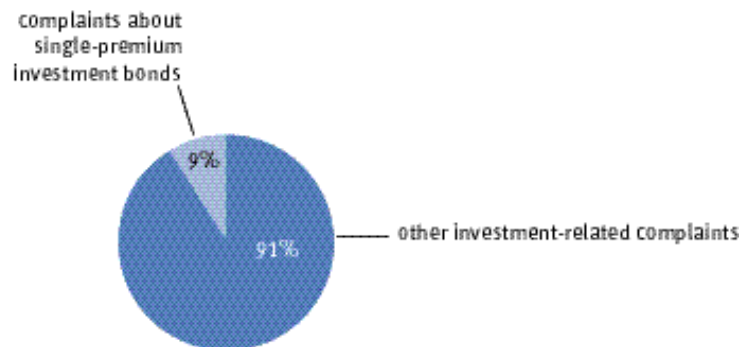
In December 2003, the Financial Ombudsman Service and the FSA hosted a mortgage endowment forum to discuss issues and concerns with representatives of consumer and industry bodies. A major part of our discussions focused on reports that some firms were refusing to investigate complaints about mortgage endowment policies that had been sold more than 15 years before the consumer first complained. The FSA confirmed that the ‘15-year rule’ relates to action taken in the courts. It does not prevent the ombudsman from considering complaints about events that took place over 15 years ago. The FSA stressed that the complaint-handling rules do not permit any firm to refuse to investigate complaints, and it confirmed that it would be contacting those firms that had cited the ‘15-year rule’ as a reason to reject complaints.

Some firms had expressed concern that, in a number of instances, full records of a sale may no longer exist. We acknowledged at the endowment forum that both sides could have limited documentary evidence about a disputed sale. We explained that this was why our consideration of these cases turned on whether an endowment policy was suitable for the consumer involved at the time the policy was sold – based on information that could reasonably have been established at that time. We do not base our view on what consumers *now* think of that sale, or on their current circumstances or what they could now afford.



During the year we also had several discussions with firms about more general issues associated with the handling of so-called pre-‘A Day’ cases – complaints about mortgage endowments sold before the Financial Services Act 1986 came into force in 1988. Although sales at that time were not subject to regulation, there were legal responsibilities on those conducting sales. We have continued to point firms to issue 14 of *ombudsman news* (February 2002), where we set out our basic approach to this type of mortgage endowment complaint.

..... single-premium investment bonds



Of the 7,222 complaints we received this year about single-premium investment bonds, the vast majority involved bonds that were linked to stock market performance and promised high income. These high-income bonds are sometimes technically called ‘structured capital at risk’ products (or ‘SCARPS’) – but they are generally referred to as ‘precipice bonds’.

This year saw a significant increase in the number of consumers complaining that they had been mis-sold 'precipice bonds'. The complaints relate to bonds bought following face-to-face meetings with advisers, or as a result of general mail-shots, direct advertising or personalised letters. The complaints are generally that the level of risk attached to the bonds was higher than the consumers say they initially agreed and understood – and that this higher risk only became apparent when the bonds matured, revealing a substantial loss, or when annual statements indicated likely losses.

We do not uphold complaints simply because the consumer has made a loss on an investment. However, it is often the prospect of a large and unexpected loss that raises the consumer's awareness of a potential mis-sale.

Where the investment was *not* bought following a face-to-face meeting with a financial adviser, we have to decide whether the consumer could reasonably believe that advice had been given to them. If we find that this was so, we then have to consider whether the firm advised the consumer to invest in a product that was appropriate for their particular needs and requirements.

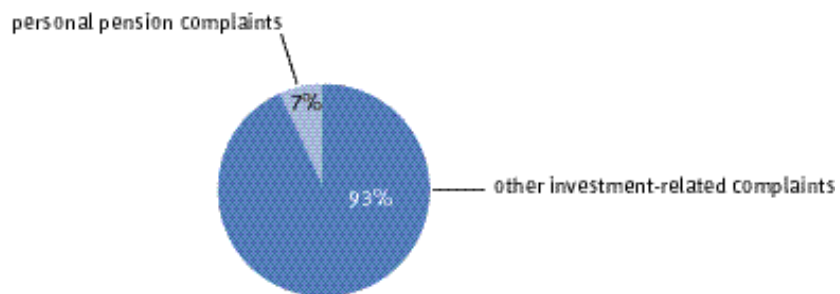
Firms have to disclose the details of any investment they recommend – but full disclosure of product details does not automatically mean that the bond recommended was a suitable investment for a particular investor. If advice was given, the adviser had to ensure that the investor's attitude to risk was properly assessed and not simply recorded as matching the risk rating attached to the product.

'Precipice bonds' are complex financial products – with returns linked to the performance of particular shares or stock market indices – and they are not easy for the layman to understand. Financial advisers should therefore have used their skills and knowledge to assess properly the risk attached to the bonds. The ombudsman needs to be satisfied that the consumer's willingness to accept the level of risk was properly and reasonably assessed, to ensure they were sold a suitable investment.



Where we have upheld complaints involving ‘precipice bonds’, we have usually done so for one of two reasons. Either, the adviser failed to establish that the consumer’s particular requirements and circumstances supported taking significant risks with the capital invested. Or, the adviser was over-optimistic about future market performance, which led to an understatement of the true level of risk that is always attached to a short-term, equity-based investment.

..... personal pension complaints



Complaints about personal pensions continue to form one of the largest areas of complaint to the Financial Ombudsman Service – although the number of complaints in this category fell by a quarter this year.

As with other investment-based complaints that we receive, the trigger that prompts concern that a personal pension may have been mis-sold is generally when consumers receive a valuation statement – or when there is a drop in the amount of income received. Such events can be the first indication the consumers get that a degree of financial risk was involved – so their concerns cannot be dismissed simply as complaints about disappointing performance.

In considering these complaints, we look at whether, when giving advice, the adviser paid sufficient attention to their client's circumstances and objectives. The consumer might have received the advice when they first bought the policy, or at a later date when, for example, they were considering buying an annuity, or taking a cash withdrawal from an income draw-down policy.

Income draw-down policies were introduced in 1995, so have now been in existence for long enough for a small but steady stream of complaints about mis-selling to reach us. When we look at whether advice to invest in one of these policies was suitable, we take into account the level of income that the consumer would need, in order to meet their normal living expenses and maintain a minimum standard of living. In some cases, depending on the potential fund size, this leads us to conclude that the consumer could not afford to take the risk associated with this type of policy. Features such as the availability of cash withdrawal – and the fact that the balance of the fund can be preserved for potential beneficiaries to the policyholder's estate – do not automatically make a draw-down policy a suitable investment.

..... 'splits'

By 31 March 2004, we had received around 4,800 complaints in total, involving split capital investment trusts and zero dividend preference shares – 'splits' and 'zeros'.

About half of these complaints are against the sponsors of particular 'splits' companies. Some of these complaints are outside our jurisdiction because, in the circumstances of the particular cases, there was no customer relationship between the complainant and the 'splits' company sponsor.



Where the complaints are within our jurisdiction, we have put them into groups according to the circumstances and the 'splits' company sponsor involved. We are pursuing one or more 'lead' cases for each of these groups. Large amounts are at stake and the cases are hard fought. They will take some time to resolve.

Meanwhile, the FSA is pursuing its own investigations into the allegation that there was collusion among 'splits' company sponsors. That might or might not lead to some compensation arrangements for particular classes of investors. Meanwhile, and with the agreement of the FSA, we are pressing on with the cases we have in hand.

The other half of the 'splits'-related complaints are against intermediaries – ranging from independent financial advisers to portfolio managers. Our decisions in these cases must be based on what the firm should have done in the light of the information available to it at the time it provided the service to its customer.

These cases throw up complexities for the ombudsman service beyond those raised by the complicated nature of 'splits' themselves. This is because many cases involve a combination of issues that are specific to the individual case, as well as issues that are specific to the individual 'splits'.

Case-specific issues are ones that can only be investigated and assessed in the circumstances of each individual case. They include the risk profile of the complainant – and, in portfolio management cases, the agreed profile for the managed portfolio.

'Splits'-specific issues are ones that can only be investigated and assessed collectively, to ensure a consistent outcome between one case and another involving the same 'split' at the same period. They include the actual risk profile of the different types of shares in each of the 'splits', and the extent to which information about this was available to financial firms.

The conclusions on 'splits'-specific issues can vary over time, for a combination of reasons. First – the actual risk profile of the different types of shares in each 'split' can vary over time. Second – the extent of the information available to financial firms can vary over time. Third – the extent of the information available at a particular date can also differ depending on the role fulfilled by the financial firm. So, for example, at a particular date information may be available to a firm that acts also as a 'splits' investment manager, but not to a firm that acts as an intermediary.

Any 'splits'-specific information that we identify when considering individual cases is then fed into the collective investigation and assessment. And the 'splits'-specific conclusions that we come to have to be fed back to inform the outcomes of the individual cases.

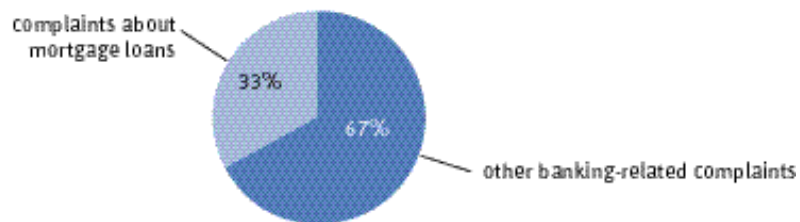
That would be complicated enough even if each individual case involved a service provided on a single date for a single type of share in one 'split'. But, for example, portfolio management is a continuing service provided over a period of time. And each portfolio may contain a number of 'splits' shares of different types or in different 'splits' companies – or both of these.

So the management of the two-way flow of information between the case-specific issues and the 'splits' specific issues is an extremely complex task – which is over and above the complex issues raised by the investigation and assessment of the case-specific issues and the 'splits'-specific issues themselves.

We are pressing on with our work as fast as we can, consistent with due process and a realistic use of resources. Of course, the time all this is taking is unwelcome to the consumers who have brought complaints to us, but we are doing our best to keep them informed of what is happening.



..... complaints about mortgage loans



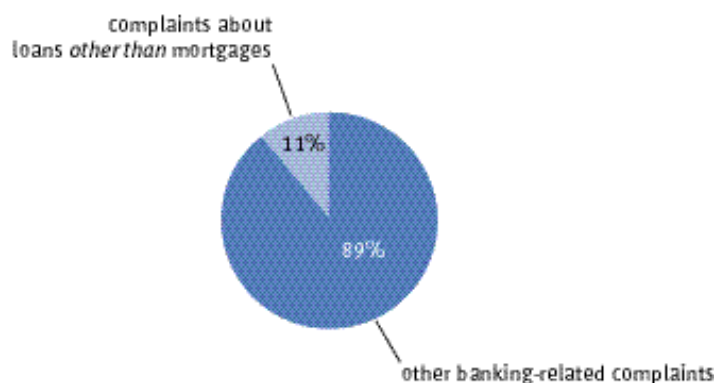
In last year's review we described a surge of complaints about dual-variable mortgage rates. This has now dried up. As in earlier years, the largest group of mortgage complaints during the year has related to early repayment charges linked to special rates (fixed or discounted). However, we are receiving fewer of these complaints now that there are fewer 'overhanging' early repayment charges (which lock the borrower into the standard variable rate for a period after the special rate has expired).

Other typical mortgage complaints include ones where the lender has given the borrower the wrong repayment figure – so that the borrower ends up owing more than expected – or where the mortgage term has changed in a way the borrower did not expect when taking out a further advance.

Although the number involved has not been great, we have begun to see complaints this year about so-called 'shared-appreciation' mortgages. With these mortgages, the lender had agreed to charge no interest (or low interest) in return for a share in the increase in value of the property.

Property values shot up faster than either lenders or borrowers had expected. Borrowers complained that lenders made extra profit, while lenders said they had securitised the mortgages and the extra profit had not gone to them. In most cases, we did not uphold the complaints – because the documents were extremely clear and had been fully explained to the borrowers, usually by their own solicitors.

.....complaints about other loans



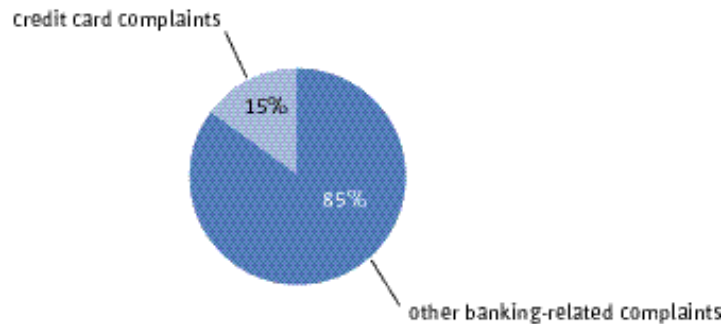
Loan complaints come from both ends of the spectrum. For every complaint we get that the lender should not have *provided* the loan because of the borrower's circumstances, we get another that a lender has *refused* a loan because of the borrower's circumstances. We do not interfere with the lender's commercial judgement if it is exercised legitimately.

During the year we have, however, seen a small but worrying number of cases where customers had a series of consolidation loans. An overdraft was turned into a loan account. The overdraft crept up again. A new, larger loan account was created to repay the original loan plus the new overdraft – and so on. Not surprisingly, some of these customers get into arrears and financial difficulties. Some lenders treat their borrowers sympathetically, as the Banking Code requires – others do not.

Most loan complaints are from personal customers. But some are from small businesses, often relating to complex financial products with significant early repayment charges. The clarity of the documentation provided by different lenders is extremely variable.



..... credit card complaints

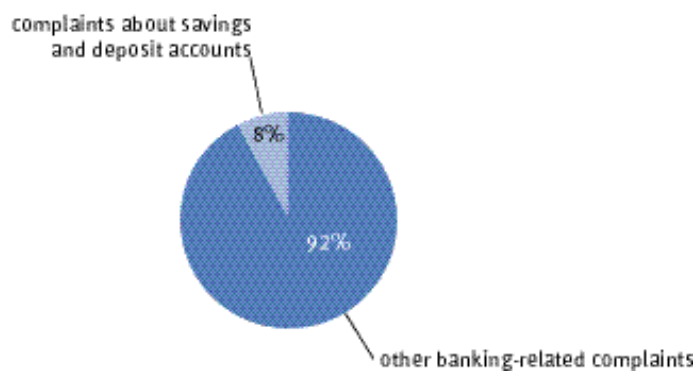


Despite media concerns about ‘identity theft’, we have so far seen few cases of this – in relation either to credit cards or other banking products. Where these problems arise, the firms concerned presumably resolve them to the consumers’ satisfaction, so that the cases are not brought to the ombudsman service as unresolved disputes.

However, we are now seeing a significant number of cases involving what card issuers claim is ‘first party’ fraud – where the card holder colludes in an arrangement to defraud the financial firm that issued the credit card.

We still await a High Court decision on whether section 75 of the Consumer Credit Act 1974 – which makes the card issuer jointly liable with the supplier of the goods/services, without limit – applies to transactions abroad. Meanwhile, we continue to apply across the board the good banking practice employed by most firms of accepting liability for transactions abroad up to the amount of the credit provided.

..... complaints about savings and deposit accounts



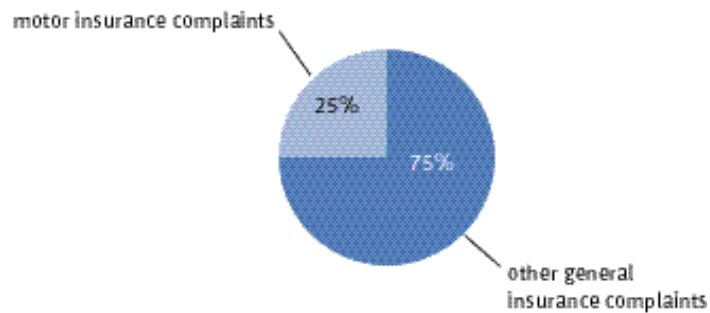
The vast majority of disputes about savings and deposit accounts involve complaints that the rate of interest paid is unfair, often by comparison either with some other account provided by the same financial firm or with movement in general interest rates.

Some of the answers are to be found in the Banking Code. But the requirements have changed considerably over the years. So we have summarised them, and other issues relating to such complaints, in a new technical briefing note on our website.

The new edition of the Banking Code that came into effect in March 2003 contained significant improvements in this area. But we continue to believe it would be better if firms were to send personal notifications of interest rate changes, unless the account balance is below some agreed limit. We will continue to press for that in the next review of the Banking Code, which has just got underway.



..... motor insurance complaints

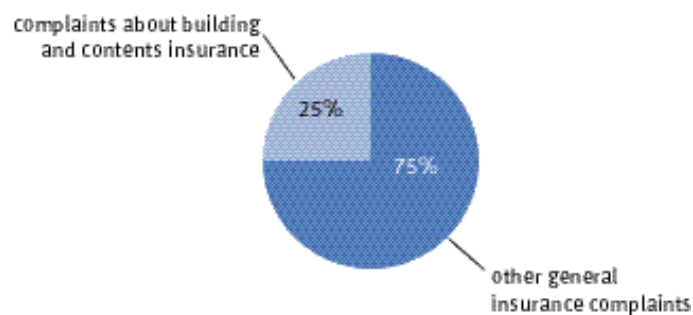


This year saw another increase in the number of motor insurance complaints – up 15% on the previous year. Three topics dominated our work – motor valuations, repairs and the ‘keys in car’ exclusion.

Many motor insurance policies have a ‘keys in car’ exclusion – a clause that excludes from cover any claims for theft where the driver left the car unlocked with the keys in the ignition (or on the seat). In last year’s *annual review* we referred to the problems that arise from this exclusion and we highlighted in *ombudsman news* our general approach to this issue. However, we continue to see complaints where insurers appear to us to have applied this exclusion without good reason.

Our approach to the valuing of written-off cars is also well known in the insurance industry – and was most recently set out in issue 22 of *ombudsman news* (November 2002). Yet we still receive complaints where – again for no good reason, as far as we can see – instead of following this approach, the insurer has offered the policyholder less than the relevant price suggested by the motor industry guides.

..... complaints about building and contents insurance



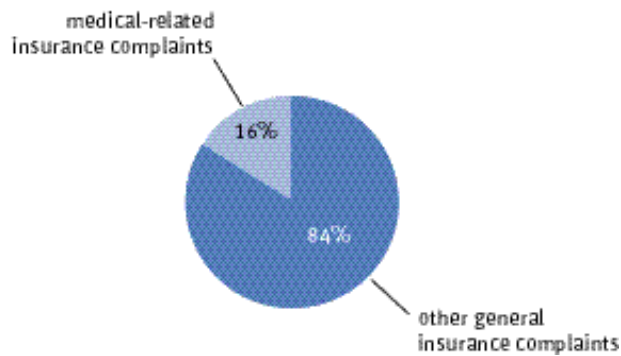
Under some policies, if repairs are needed in connection with a claim, the insurer appoints a repairer to carry out any necessary work. Disputes about the quality of repairs carried out in these circumstances are becoming a growing feature of the complaints we deal with involving building and contents insurance. They also feature regularly in motor insurance disputes.

Insurers' marketing material often stresses the advantages to customers of having the insurer take care of arrangements for any repairs. The high standards and professional service that the repair firm appointed by the insurer will provide are emphasised. This can naturally lead to customers having high – and sometimes unrealistic – expectations. If insurers had an effective means of overseeing the quality of the repairers they appoint, then it seems to us that there would be far fewer complaints of this type.



With the increase in house prices, we have seen a steady increase in the number of disputes involving amounts in excess of £100,000 – the maximum amount, under our rules, that we can direct a firm to pay in redress. A major fire, or even significant subsidence work, can readily give rise to costs well in excess of this limit. The total number of these cases remains very small, as part of our overall caseload, and firms have generally responded positively in any cases where we have recommended that they should pay redress above this limit. We will, however, keep this matter under careful review.

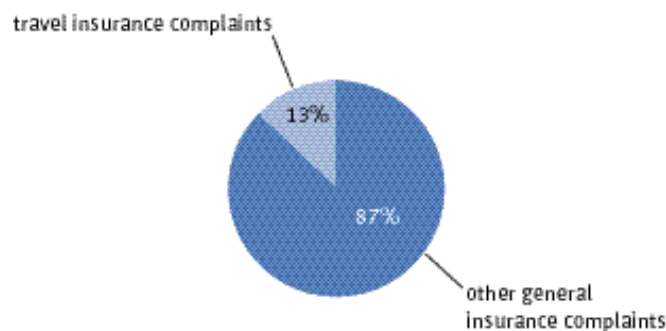
..... **medical-related insurance complaints**



This category of complaint includes disputes about medical expenses insurance, as well as those involving critical illness and permanent health/income-protection policies. Typically, these disputes involve our having to consider carefully the policyholder’s reported medical condition in the context of the policy terms. So, for example, we might need to determine whether someone is genuinely unable to carry out their occupation because of ill-health, or to decide whether a set of medical and other reports suggest that a policyholder has a valid claim under the ‘heart attack section’ of their critical illness policy.

The most common cause of medical-related insurance complaints other than individual medical issues is 'non-disclosure'. If a customer does not disclose an illness or treatment when applying for insurance, the insurer may be justified in rejecting any claim. We have set out detailed guidance on our general approach to this issue in *ombudsman news*. We have also contributed to the work being carried out by the Association of British Insurers (ABI) to help improve the quality of application forms for many of these policies.

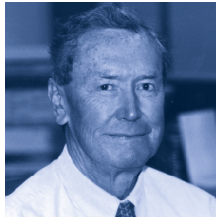
..... travel insurance complaints



Travel insurance complaints rose by a significant amount – a 33% rise compared with the previous year. A rise in numbers had, to some extent, been expected because of increased travel restrictions arising from terrorism and from SARS. In the event, however, most of the increase resulted from routine claims-related matters. In particular, much of our caseload focused on the long-standing issues of how insurers apply exclusion clauses relating to 'pre-existing conditions' – for example, in situations where the policyholder's circumstances change between taking out the policy and actually travelling.

the independent assessor

annual report to the board of the Financial Ombudsman Service



The Independent Assessor's role is to carry out a final review of the service provided by the Financial Ombudsman Service, in cases where the complainant remains dissatisfied, after having referred the matter to our service quality team. Under his terms of reference, the Independent Assessor can consider complaints about our investigative process and the behaviour of our staff. However, disagreements about the merits of decisions are expressly excluded from his jurisdiction. The Independent Assessor is authorised to make findings and recommendations for redress in cases where he believes it is justified.

During the year ended 31 March 2004, I dealt with a total of 367 referrals – an increase of 78% compared with the 206 complaints referred to me in 2002/03.

In 121 of the cases, I carried out a full review of the ombudsman service's file – an increase of 50% on the previous year. Of the remaining 246 cases:

- 129 involved enquiries, rather than actual complaints;
- 101 had been referred to me too early in the process – usually before the service quality team at the Financial Ombudsman Service had been given the chance to resolve the matter;
- 13 were outside my jurisdiction, either because they were 'out of time' or because they were outside the jurisdiction of the Financial Ombudsman Service; *and*
- 3 involved the consumer deciding not to proceed further with their complaint.

In 43 of the 121 cases I investigated, I upheld the complaint (either wholly or in part) and in 28 of the cases I recommended that the ombudsman service should pay compensation. I should, however, make clear that in nine of these cases the service quality team had already upheld the complaint, either apologising or offering compensation. In these cases, I considered that the apology or the amount of compensation offered did not provide appropriate redress.

In the 28 cases where I recommended compensation, the amounts ranged from £50 to £900. Most involved sums of between £100 and £250, but in four cases the amount of compensation I recommended was between £500 and £900. All the recommendations I made were accepted by the ombudsman service.

The sharp increase in the number of cases referred to me during the year is, in the main, probably a direct reflection of the increase in the Financial Ombudsman Service's own caseload – but it may also be the result of growing awareness of my role as Independent Assessor.

The most common cause of complaint is delay, followed by other service-related issues, such as failure to keep the complainant fully informed. In three cases, ombudsman service staff were unable to locate the relevant file in their archives. This led me to recommend compensation – on the grounds that the complainants were left with a sense of dissatisfaction about the process, since my investigations were restricted to reviewing re-constructed files, from which some original correspondence and documents were missing.

Six of the complaints that I upheld related to the way decisions on jurisdiction were taken. Four complaints had initially been accepted for investigation by the ombudsman service, but months later (and in one case, nearly a year later) the service had decided that the complaint was, in fact, outside its jurisdiction. In the other two cases, the complaints were considered early on to be outside the jurisdiction of the service. However, it seemed to me that the complainants had put forward good reasons for their complaints being within the jurisdiction, so I suggested that the ombudsman service should consider reviewing these cases.

Where there may be some doubt about jurisdiction, it is clearly better for the complaint to be accepted for assessment, rather than rejected prematurely. However, consumers understandably become concerned where months pass – during which they assume their complaints are being investigated – and they are then suddenly informed that their case is, in fact, not one that the ombudsman service can deal with. I understand that the ombudsman service is aware of the need to avoid this happening – and has arranged for experienced staff to be available to assess any cases where jurisdiction is in doubt, when those complaints are first considered in the customer contact division.

I received a number of complaints of bias or unfairness during the year, some of them in relation to the ombudsman's final decision. If a complaint is not upheld, it is natural that some complainants will consider that they have not been treated fairly and may complain about this. My terms of reference specifically preclude me from questioning the merits of decisions, and I have to be very careful that I do not stray into that area. But if it seems to me that the complainant's position has not been fairly or accurately described in the final decision, I do take the view that this is something I should draw attention to – quite separately from any relevance it may or may not have to the merits of the decision.

The number of complaints reaching me remains a tiny fraction (approximately 0.2%) of the overall caseload of the Financial Ombudsman Service. I must therefore conclude with the 'health warning' that – although my work can identify isolated problems – care should be taken in applying any conclusions drawn from my work to the generality of the ombudsman service casework. Comfort can at least be taken from the fact that the Independent Assessor is, so far, certainly not being overwhelmed by the volume of complaints about the Financial Ombudsman Service.



Michael Barnes CBE

April 2004

report and financial statements

Financial Ombudsman Service Limited

(a company limited by guarantee)

company registration no. 3725015

directors

Sue Slipman OBE – *chairman*

Brian Landers – *deputy chairman*

Lawrence Churchill

Robert Crawford

Ed Hucks

Roger Jefferies

Sir Christopher Kelly KCB

Kate Lampard

Helena Wiesner

company secretary

Barbara Cheney

registered office

South Quay Plaza II

183 Marsh Wall

London

E14 9SR

bankers

Lloyds TSB Bank Plc

London

auditors

Deloitte & Touche LLP

London

directors' report

The directors of the Financial Ombudsman Service Limited present their report for the year ended 31 March 2004, together with audited financial statements of the company for the same period.

principal activities

The principal activity of the Financial Ombudsman Service is the provision of an informal dispute resolution service for consumers and providers of financial products. It was created as part of the government's legislation for the financial services market, and derives its statutory authority from the Financial Services and Markets Act 2000. The company was incorporated in 1999, to consolidate into a single statutory body the complaints-handling and ombudsman services formerly provided by a number of statutory and voluntary schemes.

The company received its powers as the 'scheme operator' provided for in Schedule 17 of the Financial Services and Markets Act 2000 through the enactment of secondary legislation on 1 December 2001.

financial results

The company presents its results for the year to 31 March 2004. During this year the company had an operating surplus after tax of £4,533,453 (2003: £3,265,175), which was transferred to reserves. The surplus was largely due to the exceptional number of cases resolved during the year. Our reserves policy, agreed in consultation with the financial services industry, is to keep reserves at 5% of our expected annual expenditure. Accordingly, in 2005/06, we expect to be able to reduce the annual levy charged to firms by approximately £4 million.

The company derives its income from firms covered by the ombudsman service, partly from an annual levy and partly from case fees, which become payable when chargeable cases are closed. The amount of the annual levy paid by each firm depends on its size and the industry sector. Consumers do not pay to bring a complaint to the ombudsman, and the company receives no government funding.

*directors' report (continued)***directors**

The Financial Services Authority appoints all members of the board, and HM Treasury also approves the appointment of the chairman. Directors are appointed for a period of up to four years and they may be reappointed for a further term, which must not exceed six years in total. The directors of the Financial Ombudsman Service, the expiry dates of their contracts and attendances at board meetings during the year were as follows:

director	contract expires	attendance
Sue Slipman OBE	22 February 2006	9/9
Brian Landers	22 February 2005*	9/9
Lawrence Churchill	22 February 2005**	8/9
Robert Crawford	22 February 2005*	8/9
Ed Hucks	22 February 2005**	8/9
Roger Jefferies	22 February 2005**	9/9
Sir Christopher Kelly KCB	22 February 2005**	9/9
Kate Lampard	22 February 2005**	8/9
Helena Wiesner	22 February 2005*	8/9

* Expiry of second, and final, term

** Expiry of first term

No director has any interests in the transactions of the company. In the event of the winding-up or dissolution of the company, each director's responsibility for payment of the company's debts and liabilities is limited to £1.

fixed assets

The movements in fixed assets during the year are set out in note 13 to the accounts.

supplier payment policy

The Financial Ombudsman Service's policy is to pay all suppliers within 30 days of date of invoice.

directors' report (continued)

employment policies

The Financial Ombudsman Service continues to monitor its recruitment policy to ensure it provides equal opportunities and fair treatment in all aspects of employment, and does not tolerate any form of harassment either by or against employees. There are opportunities for staff to work part-time, flexible hours, to job-share and to work from home. The service provides a comprehensive training programme involving internal and external courses. A modular qualification for adjudicators has been developed internally to enhance adjudicators' skills, and includes case-handling, product knowledge and management modules.

diversity

The Financial Ombudsman Service is fully committed to a policy of treating all employees and job applicants equally. All selection and recruitment decisions, both internal and external, and the progression of employees within the company are based on merit and not on any consideration of race, colour, religion, disability, nationality, ethnic origin, sex, sexual orientation, age, part-time hours or marital status.

The Financial Ombudsman Service complies as far as possible with the contents and aims of the *Code of Good Practice on the Employment of Disabled People* issued by the Employment Service. The company:

- has ensured that there is full disabled access to its offices and all its facilities;
- considers all applicants for vacancies on merit. Where necessary, special arrangements are made for interviewing disabled applicants;
- raises awareness amongst staff of the assistance needed by their disabled colleagues at work; *and*
- reviews its policy annually and makes changes as required by legislation and best practice.

employee consultation

Senior members of staff meet a representative group of staff, the Employee Communications Forum, every month. The purposes of the meetings are:

- to give all staff an opportunity to raise questions, make suggestions or air matters of concern, through their representative on the forum; *and*
- to allow managers to consult staff on proposals prior to implementation and keep staff informed of the development of the Financial Ombudsman Service.

Additionally, a staff satisfaction survey was carried out during the year. Full results and analyses were circulated to staff together with details of follow-up action.

directors' report (continued)

corporate governance

The directors are committed to high standards of best practice in corporate governance. While not bound by the provisions of the *Combined Code for Corporate Governance*, the Financial Ombudsman Service aims to ensure that it complies with best practice in all relevant areas.

The board now consists of the chairman, the deputy chairman and seven other directors, all of whom are non-executive directors. Members of the board are appointed in the public interest and represent a wide range of business, financial and consumer expertise, further details of which may be found in the biographies on page 87. The board has no involvement in considering individual complaints. The rôle of the board is to ensure that the ombudsman service is properly resourced and is able to carry out its functions effectively, impartially and independently – free from any control or influence by those whose disputes are resolved by the ombudsman service.

The board met nine times during the year. Detailed papers were circulated in advance of each meeting to ensure that the directors were able to make informed decisions at meetings. The company secretary attended and minuted all meetings of the board and its committees. The directors believe they have full and timely access to all relevant information required to carry out their functions. Registers of directors' and ombudsmen's interests are also maintained. The board meeting in June 2003 was held away from the office over a period of two days to give the directors an opportunity to review their strategic vision, direction, structure and their responsibilities.

Decisions taken by the board include:

- the appointment of the ombudsmen and the Independent Assessor;
- the making of rules in respect of the scheme's voluntary jurisdiction, subject to the approval of the Financial Services Authority (FSA);
- the making of rules relating to the levying of case fees, subject to the approval of the FSA; *and*
- the approval of and recommendation to the FSA of the annual budget.

directors' report (continued)

committees

The board appointed a stakeholder dialogue committee in July 2003 and a remuneration committee in March 2004. Details of the board committees are as follows:

audit committee

The audit committee met three times during the year. Its remit is to:

- make recommendations to the board in respect of the external auditors' appointment;
- review the draft report and financial statements before submission to the board;
- discuss with the auditors issues arising from the external audit;
- receive reports from the internal auditors;
- ensure compliance with all requirements governing financial reporting; *and*
- review risk management controls.

Members of the audit committee were (with attendance at meetings shown in brackets):

Brian Landers – chairman (3/3)

Robert Crawford (3/3)

Ed Hucks (3/3)

Roger Jefferies (3/3)

The committee reviewed and approved the financial statements and external auditors' report. It considered various internal audit reports and agreed an internal audit plan for the coming year. A risk management model was developed with the full board, with the assistance of the internal auditors.

stakeholder dialogue committee

The stakeholder dialogue committee met twice during the year. Its remit is to support the board in developing the strategic vision for the Financial Ombudsman Service as an organisation by:

- overseeing a planned and managed cycle of stakeholder dialogues, building on the work currently undertaken by the organisation;
- overseeing the embedding of the outcomes of stakeholder dialogue within the management processes of the organisation; *and*
- making recommendations to the board on any future actions necessary to achieve best practice across all functions of the organisation.

directors' report (continued)

committees (continued)

Members of the stakeholder dialogue committee were (with attendance at meetings shown in brackets):

Sue Slipman – chairman (2/2)

Brian Landers (2/2)

Lawrence Churchill (2/2)

Ed Hucks (1/2)

Sir Christopher Kelly KCB (2/2)

A schedule of policy issues was continuously updated during the year by the executive team. This provided the committee with details of a wide range of issues, how they came to light, the stakeholders affected, actions taken to address them and feedback given to the relevant stakeholders. Examples of the issues that arose during the year are listed on page 37.

remuneration committee

The remuneration committee met once during the year. Its remit is to:

- consider and agree proposals from the chief ombudsman about the remuneration of senior executive staff and ombudsmen;
- give advice about the policy for, and scope of, pension arrangements for all staff;
- review and note annually the remuneration trends across the organisation; *and*
- advise on any proposals for major changes to employee benefit structures.

Members of the remuneration committee were (with attendance at meetings shown in brackets):

Sir Christopher Kelly KCB – chairman (1/1)

Lawrence Churchill (0/1)

Robert Crawford (1/1)

Kate Lampard (1/1)

The committee reviewed, and approved, proposals for revising the salary structure for senior staff and ombudsmen following the pay and grading project undertaken for all staff at the Financial Ombudsman Service.

directors' report (continued)

performance evaluation

The chairman met each director individually to assess the board's view of the performance of the FinancialOmbudsman Service, the operation of the board (including its method of operation, contributions by directors and the sub-committee structure), the role and performance of the executive team and proposals for further development.

auditors' independence

The company has reviewed its relationship with its auditors, Deloitte & Touche LLP, and has concluded that there are sufficient controls in place to ensure the required level of independence. During the year, no fees other than for audit and tax advice were paid to Deloitte & Touche LLP.

internal controls

The board of the Financial Ombudsman Service has overall responsibility for establishing key procedures designed to achieve a sound system for internal control and reviewing its effectiveness. The system is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss. As part of this process, the board and audit committee initiate reports from either the executive team or the internal auditors, where necessary.

The Financial Ombudsman Service's key internal control and monitoring procedures include:

financial reporting

There is a comprehensive budgeting system, with the annual budget (which sets out workload assumptions, financial plans and priorities) being approved by the boards of both the Financial Ombudsman Service and the Financial Services Authority. Monthly results with revised forecasts are reviewed at each board meeting.

monitoring systems

The audit committee reviews regular reports at their meetings from the internal auditors. The board receives a management information pack of key performance indicators at each of its meetings.

risk management


The Financial Ombudsman Service operates a risk management process that identifies the key risks facing the company. A risk management model was developed, which identifies key risks, an impact analysis, the current risk management strategy, its effectiveness, any further action required and the risk owner. This model was approved by the board and is regularly reviewed by the executive team.

directors' report (continued)

auditors

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP under the provisions of section 26(5) of the Companies Act 1989. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors of the company and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

Approved by the board of directors and signed on behalf of the board



Barbara Cheney
company secretary
10 June 2004

directors' responsibilities in respect of the financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year, and of the income and expenditure of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; *and*
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the financial statements comply with these requirements.

The directors are responsible for ensuring that proper accounting records are kept, which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

independent auditors' report to the members of the Financial Ombudsman Service Limited

We have audited the financial statements of the Financial Ombudsman Service Limited for the year ended 31 March 2004 which comprise the income and expenditure account, the balance sheet, the cash flow statement, notes 1 to 6 to the cash flow statement and notes 1 to 19 to the accounts. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent mis-statements.

*independent auditors' report to the members of the
Financial Ombudsman Service Limited (continued)*

basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2004 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

10 June 2004

income and expenditure account

for the year ended 31 March 2004

	note	2004 £'000	2003 £'000
turnover	2, 3	40,535	37,497
administrative costs		(36,322)	(34,168)
		4,213	3,329
other operating income	4	342	150
operating surplus for the year		4,555	3,479
interest receivable	5	158	221
interest payable and similar charges	6	(182)	(450)
surplus on ordinary activities before taxation	7	4,531	3,250
tax credit on surplus on ordinary activities	8	2	15
surplus on ordinary activities after taxation		4,533	3,265
balance of income over expenditure brought forward at 1 April		4,028	763
balance of income over expenditure carried forward at 31 March		8,561	4,028

All amounts relate to continuing activities.

There were no recognised gains or losses other than the reported surplus for the year.

Notes 1 to 6 to the cash flow statement and notes 1 to 19 to the accounts form an integral part of these financial statements.

balance sheet as at 31 March 2004

	note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
fixed assets					
tangible assets	13		7,859		9,461
current assets					
debtors: amounts falling due within one year	14	6,383		4,896	
cash at bank and in hand		5,088		3,119	
		<u>11,471</u>		<u>8,015</u>	
current liabilities					
creditors: amounts falling due within one year	15	<u>(3,269)</u>		<u>(3,948)</u>	
net current assets			8,202		4,067
total assets less current liabilities			<u>16,061</u>		<u>13,528</u>
creditors: amounts falling due after more than one year	16		(7,500)		(9,500)
net assets			<u>8,561</u>		<u>4,028</u>
capital and reserves					
accumulated balance of the income and expenditure account			8,561		4,028
			<u>8,561</u>		<u>4,028</u>

signed on behalf of the board of directors

Sue Slipman
chairman

Notes 1 to 6 to the cash flow statement and notes 1 to 19 to the accounts form an integral part of these financial statements. These financial statements were approved by the board of directors on 10 June 2004.

cash flow statement

for the year ended 31 March 2004

	note	2004 £'000	2003 £'000
net cash inflow from operating activities	1	5,252	4,542
returns on investments and servicing of finance	2	(27)	(368)
taxation	3	7	(22)
capital expenditure and financial investment	4	(1,263)	(1,346)
net cash inflow before financing		<u>3,969</u>	<u>2,806</u>
financing			
movement in long term borrowings		(2,000)	(4,000)
increase/(decrease) in cash in the year	5, 6	<u>1,969</u>	<u>(1,194)</u>

notes to the cash flow statement

for the year ended 31 March 2004

1 reconciliation of operating surplus to net cash inflow from operating activities

	2004 £'000	2003 £'000
operating surplus for the year	4,555	3,479
depreciation	2,865	2,464
loss on disposal of tangible fixed assets	–	8
decrease in establishment cost recovery fund	–	4,560
increase in debtors	(1,497)	(1,897)
decrease in creditors	(671)	(4,072)
net cash inflow from operating activities	<u>5,252</u>	<u>4,542</u>

notes to the cash flow statement for the year ended 31 March 2004 (continued)

2 returns on investments and servicing of finance

	2004	2003
	£'000	£'000
interest received	158	221
interest paid	(185)	(589)
	<u>(27)</u>	<u>(368)</u>

3 taxation

	2004	2003
	£'000	£'000
UK corporation tax paid	(15)	(22)
UK corporation tax received	22	–
	<u>7</u>	<u>(22)</u>

4 capital expenditure and financial investment

	2004	2003
	£'000	£'000
payments to acquire tangible fixed assets	(1,264)	(1,356)
receipts from sales of tangible fixed assets	1	10
	<u>(1,263)</u>	<u>(1,346)</u>

5 reconciliation of net cash flow to movement in net debt

	2004	2003
	£'000	£'000
increase/(decrease) in cash	1,969	(1,194)
cash inflow from decrease in debt financing	<u>2,000</u>	<u>4,000</u>
movement in net debt for year	3,969	2,806
net debt at 1 April	(6,381)	(9,187)
net debt at 31 March	<u>(2,412)</u>	<u>(6,381)</u>

6 analysis of changes in net debt

	at 1 April 2003	cash flows	at 31 March 2004
	£'000	£'000	£'000
cash at bank and in hand	3,119	1,969	5,088
long term loans	(9,500)	2,000	(7,500)
	<u>(6,381)</u>	<u>3,969</u>	<u>(2,412)</u>

notes to the accounts

for the year ended 31 March 2004

1 status of the company

Financial Ombudsman Service Limited is a company limited by guarantee and registered in England and Wales (company registration no. 3725015). The liability of each of the members is limited to the amount of £1 guaranteed in the Memorandum of Association.

2 principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards of the United Kingdom. A summary of the principal accounting policies is set out below.

turnover

annual levy – each firm that comes under the jurisdiction of the Financial Ombudsman Service is required to pay an annual levy based on the permissions given to that firm by the Financial Services Authority.

case fees – each firm that has a chargeable complaint referred for investigation to the Financial Ombudsman Service is required to pay a case fee upon closure of that complaint.

service charges – the Financial Ombudsman Service provides accounting and other services to some of the former schemes.

recognition of income – income is recognised when invoices are raised on firms and former schemes as above. For cases transferred from the Personal Investment Authority Ombudsman Bureau at 30 November 2001, and for cases billed by the Financial Ombudsman Service, at conversion, between 1 December 2001 and 31 March 2002, income is recognised upon closure of the case (see ‘deferred income’ accounting policy).

notes to the accounts for the year ended 31 March 2004 (continued)

2. principal accounting policies (continued)

tangible fixed assets

Depreciation is calculated so as to write off the cost, less estimated residual value, of tangible fixed assets on a straight-line basis over the expected useful economic life of the asset concerned.

leasehold improvements	over ten years
premises fees and stamp duty	over five years
computer hardware	over three years
computer software	over five years
computer systems development and fees	over five years
office furniture and equipment	over five years
fixtures and fittings	over ten years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

pension scheme payments

The company operates both a defined benefit pension scheme and a money purchase scheme, both being part of the Financial Services Authority tax-approved pension plan. The costs of the contributions to the defined benefit scheme are accounted for in accordance with SSAP 24, where the charge to the income and expenditure account relates to the cost of the pension spread over the service life of the employees, and is determined by independent qualified actuaries undertaking a formal valuation every three years. The costs of the contributions to the money purchase scheme are charged to the income and expenditure account as incurred.

operating lease commitments

Operating lease costs are charged to the income and expenditure account to reflect usage of the assets leased.

notes to the accounts for the year ended 31 March 2004 (continued)

2. principal accounting policies (continued)

deferred income

The accounting policy used by the Personal Investment Authority Ombudsman Bureau for billing chargeable cases was continued in the Financial Ombudsman Service from 1 December 2001 to 31 March 2002. Case fees were billed to firms and credited to the deferred income account on the conversion of the case. Amounts are released to case fee income only on closure of the case. The balance in the deferred income account therefore represents the number of open cases being:

- those cases originally converted and billed in the Personal Investment Authority Ombudsman Bureau prior to 1 December 2001 and transferred to the Financial Ombudsman Service at that date; and
- those cases converted and billed in the Financial Ombudsman Service between 1 December 2001 and 31 March 2002.

3 turnover	2004	2003
	£'000	£'000
annual levy	13,112	16,365
case fees	27,398	21,103
service charges	25	29
	<u>40,535</u>	<u>37,497</u>

The figure for annual levy includes refunds of £537 (2003: £1,676,432 additional charges) representing establishment costs refunded to (2003: charged to) firms in the year.

4 other operating income	2004	2003
	£'000	£'000
conference fees	96	58
publications	95	74
miscellaneous	151	18
	<u>342</u>	<u>150</u>

notes to the accounts for the year ended 31 March 2004 (continued)

5 interest receivable	2004	2003
	£'000	£'000
bank interest	158	219
other interest	–	2
	<u>158</u>	<u>221</u>

6 interest payable and similar charges	2004	2003
	£'000	£'000
bank loan and overdraft	182	450
	<u>182</u>	<u>450</u>

7 surplus on ordinary activities before taxation	note	2004	2003
		£'000	£'000
this is stated after charging:			
staff costs	9	25,642	19,590
depreciation	13	2,865	2,464
loss on disposal of tangible fixed assets		–	8
other operating lease rentals		25	27
auditors' remuneration	12	32	24
establishment costs		–	<u>4,560</u>

8 tax credit on surplus on ordinary activities

analysis of tax credit on ordinary activities

	2004	2003
	£'000	£'000
United Kingdom corporation tax at 19% (2003: 19%) based on the surplus for the year	(7)	(13)
adjustment in respect of prior years	9	28
	<u>2</u>	<u>15</u>

notes to the accounts for the year ended 31 March 2004 (continued)

8. tax credit on surplus on ordinary activities (continued)

factors affecting tax credit for the current year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK: 19% (2003: 19%). The differences are explained below:

	2004	2003
	£'000	£'000
surplus on ordinary activities before taxation	<u>4,531</u>	<u>3,250</u>
tax at 19% (2003: 19%) thereon	(861)	(617)
effects of:		
non taxable income	853	602
utilisation of tax losses	–	2
marginal relief	1	–
prior period adjustments	<u>9</u>	<u>28</u>
current tax credit for year	<u>2</u>	<u>15</u>

Corporation tax is not provided on the surplus generated from the company's principal activities.

9 staff costs

	2004	2003
note	£'000	£'000
salary costs	20,119	15,727
social security costs	2,189	1,587
other pension costs	10 2,460	1,674
flexible benefit costs	<u>874</u>	<u>602</u>
	<u>25,642</u>	<u>19,590</u>

The average number of employees during the year in the United Kingdom was as follows:

	2004	2003
adjudicators	301	221
other	<u>333</u>	<u>282</u>
	<u>634</u>	<u>503</u>

notes to the accounts for the year ended 31 March 2004 (continued)

10 pension costs

The Financial Ombudsman Service is part of the Financial Services Authority's (FSA) tax-approved pension plan open to permanent employees. The pension plan was established on 1 April 1998 and operates on both a defined benefit and defined contribution (money purchase scheme) basis. Since 1 April 2000, all employees joining the Financial Ombudsman Service have been eligible only for the defined contribution section of the plan. The defined benefit section of the plan is non-contributory for members. The defined contribution section is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to the pension plan.

Up to the two years ended 31 March 2004 the company accounted for pensions in accordance with Statement of Standard Accounting Practice No 24 'Accounting for Pension Costs' and followed the transitional arrangements permitted by FRS 17 under which disclosure on retirement benefits is given by way of a note in the financial statements.

The latest full actuarial valuation of the FSA pension plan was carried out as at 1 April 2002 by an independent actuary using the projected unit method. Independent actuarial advice has been obtained in order to calculate the share of assets and liabilities of the FSA scheme relating to those present and past employees of the Financial Ombudsman Service.

The Financial Ombudsman Service made regular contributions of £680,732 at the agreed rate of 19% of pensionable salaries for final salary section benefits and, in addition, contributed towards the insurance cost of death benefits payable from the plan and the expenses of administering the plan. In addition, the Financial Ombudsman Service made lump sum contributions totalling £666,667 to the plan towards funding the deficit.

The figures below relate solely to the obligations of the Financial Ombudsman Service in respect of the defined benefit section of the FSA pension plan, had FRS 17 been implemented in the year.

The principal assumptions used by the independent qualified actuaries in updating this valuation for FRS 17 purposes are shown below:

(a) main financial assumptions

	31 March 2004	31 March 2003	31 March 2002
	(%pa)	(%pa)	(%pa)
inflation	2.9	2.5	2.5
rate of general long term increase in salaries	4.4	4.0	5.0
rate of increase to pensions in payment	2.8	2.5	2.5
discount rate for plan liabilities	5.5	5.4	6.0

notes to the accounts for the year ended 31 March 2004 (continued)

10. pension costs (continued)

(b) expected return on assets

	at 31 March 2004		at 31 March 2003		at 31 March 2002	
	long-term rate of return expected	value	long-term rate of return expected	value	long-term rate of return expected	value
	(%pa)	(£m)	(%pa)	(£m)	(%pa)	(£m)
equities	7.7	4.01	7.5	2.37	8.0	2.71
government bonds	4.7	0.96	4.5	0.68	5.3	0.30
corporate bonds	5.2	0.05	5.4	0.00	6.0	0.32
other	4.2	0.04	4.0	0.03	4.8	0.03
total market value of assets		<u>5.06</u>		<u>3.08</u>		<u>3.36</u>

(c) analysis of amount charged to operating surplus

	value at 31 March 2004 (£m)	value at 31 March 2003 (£m)
current service cost	0.75	0.76
past service costs	0.00	0.00
total operating charge	<u>0.75</u>	<u>0.76</u>

(d) analysis of amount credited to other finance income

	for the year ending 31 March 2004 (£m)	for the year ending 31 March 2003 (£m)
expected return on pension plan assets	0.26	0.27
interest on pension plan liabilities	(0.30)	(0.27)
net return	<u>(0.04)</u>	<u>0.00</u>

notes to the accounts for the year ended 31 March 2004 (continued)

10. pension costs (continued)

(e) analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	for the year ending 31 March 2004 (£m)	for the year ending 31 March 2003 (£m)
actual return less expected return on pension plan assets	0.60	(1.12)
experience gains and losses arising on the plan liabilities	(0.47)	0.12
changes in assumptions underlying the present value of the plan liabilities	(0.54)	(0.20)
actuarial loss recognised in STRGL	<u>(0.41)</u>	<u>(1.20)</u>

(f) reconciliation to balance sheet

	value at 31 March 2004 (£m)	value at 31 March 2003 (£m)	value at 31 March 2002 (£m)
total market value of assets	5.06	3.08	3.36
present value of plan liabilities	<u>(7.06)</u>	<u>(5.25)</u>	<u>(4.19)</u>
deficit in plan	(2.00)	(2.17)	(0.83)
related deferred tax liability	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
net pension liability	<u>(2.00)</u>	<u>(2.17)</u>	<u>(0.83)</u>

(g) analysis of movement in deficit during the year

	for the year ending 31 March 2004 (£m)	for the year ending 31 March 2003 (£m)
deficit in plan at beginning of the year	(2.17)	(0.83)
current service cost	(0.75)	(0.76)
contributions and expenses	1.37	0.62
past service costs	0.00	0.00
other finance costs	(0.04)	0.00
actuarial loss	(0.41)	(1.20)
deficit in plan at end of the year	<u>(2.00)</u>	<u>(2.17)</u>

notes to the accounts for the year ended 31 March 2004 (continued)

10. pension costs (continued)

(h) history of experience gains and losses

	for the year ending 31 March 2004 (£m)	for the year ending 31 March 2003 (£m)
difference between expected and actual return on plan assets:		
■ amount (£m)	0.60	(1.12)
■ percentage of plan assets	12%	(36%)
experience gains/(losses) on plan liabilities:		
■ amount (£m)	(0.47)	0.12
■ percentage of the present value of the plan liabilities	(7%)	2%
total amount recognised in STRGL:		
■ amount (£m)	(0.41)	(1.20)
■ percentage of the present value of the plan liabilities	(6%)	(23%)

11 directors' remuneration

Directors' remuneration payable during the year amounted to £147,000 (2003: £140,658). The chairman was paid £45,000 per annum (2003: £40,000 per annum up to 21 February 2003 and £45,000 per annum from 22 February 2003). The deputy chairman was paid £18,000 (2003: £16,500) per annum and the other directors £12,000 (2003: £11,000) per annum.

12 auditors' remuneration

	2004 £'000	2003 £'000
audit fee	32	24
other services	—	—
	32	24

notes to the accounts for the year ended 31 March 2004 (continued)

13 tangible assets

	premises and leasehold improvements £'000	computer equipment and software £'000	furniture and equipment £'000	total £'000
cost				
at 1 April 2003	4,602	7,362	1,597	13,561
additions	16	929	319	1,264
disposals	—	(1)	—	(1)
at 31 March 2004	<u>4,618</u>	<u>8,290</u>	<u>1,916</u>	<u>14,824</u>
depreciation				
at 1 April 2003	1,068	2,505	527	4,100
charge for year	575	1,955	335	2,865
disposals	—	—	—	—
at 31 March 2004	<u>1,643</u>	<u>4,460</u>	<u>862</u>	<u>6,965</u>
net book value				
at 31 March 2004	<u>2,975</u>	<u>3,830</u>	<u>1,054</u>	<u>7,859</u>
at 31 March 2003	<u>3,534</u>	<u>4,857</u>	<u>1,070</u>	<u>9,461</u>

14 debtors: amounts falling due within one year

	2004 £'000	2003 £'000
trade debtors	5,340	3,491
other debtors	288	648
pre-payments	755	757
	<u>6,383</u>	<u>4,896</u>

15 creditors: amounts falling due within one year

	2004 £'000	2003 £'000
trade creditors	422	417
corporation tax	7	12
other taxes and social security	646	470
other creditors	165	347
accruals and deferred income	2,029	2,702
	<u>3,269</u>	<u>3,948</u>

notes to the accounts for the year ended 31 March 2004 (continued)

16 creditors: amounts falling due after one year

	2004	2003
	£'000	£'000
bank loan	7,500	9,500
	<u>7,500</u>	<u>9,500</u>

The company took out a revolving loan facility of £25m on 30 March 2000, which was available for draw-down until 30 September 2001 and was fully repayable by means of variable annual tranches from 31 March 2002, to be fully repaid by 31 March 2011. The facility was varied by means of an Amendment Letter dated 21 May 2001 amending the revolving loan facility to £18m, which was available for draw-down until 30 September 2002 and which was repayable by means of variable annual tranches from 31 March 2003, but still to be fully repaid by 31 March 2011. This facility was replaced by a new revolving loan facility of £15m dated 24 January 2003, renewable annually. The amount drawn-down at 31 March 2004 was £7.5m. The interest rate payable is 0.15% per annum above London interbank offered rates. A commitment fee of 0.08% is charged on the outstanding sum on the revolving loan facility not yet drawn down. The Financial Services Authority has guaranteed the loan facility.

17 operating lease commitments

The company entered into a fifteen year lease for four floors at South Quay Plaza II in November 1999, with a rent review every five years. Under the lease, the company was entitled to a one-year rent free period. The Financial Services Authority is a party to the lease agreement for the four floors as guarantor of performance of the lease in the sum of £1,089,798 per annum. On 6 July 2001, the company entered into a thirteen year lease for the sixth floor with a break clause and rent review in 2004. For both leases, rent has been charged from the date at which the premises became available for occupation. On 23 December 2003, the company entered into a five-year lease for half of the seventh floor. Under the lease the company is entitled to a one-year rent free period. On 5 May 2004, the company exchanged contracts on the lease for the ninth floor of South Quay Plaza II. The lease runs until July 2009, with a break clause in December 2006 and a rent review in September 2008. As at 31 March 2004, the company was committed to making the following payments during the next year, in respect of operating leases:

	premises	other	premises	other
	2004	2004	2003	2003
	£'000	£'000	£'000	£'000
leases which expire:				
within one year	–	2	–	2
between two and five years	106	24	–	9
after five years	1,530	–	1,530	–

notes to the accounts for the year ended 31 March 2004 (continued)

18 contingent liabilities

The chief ombudsman has reported that a number of complaints finalised by one team of adjudicators during the last six months of the year have been handled without following correct procedures. A review of approximately 300 cases is being undertaken to examine whether the outcome in each case was appropriate. Should the outcome be found to be inappropriate, action will be taken to rectify the position. The rectification review has recently begun and is expected to be completed by the end of the current financial year. At this stage it is not possible to quantify the number of cases that require attention or what costs may be incurred in rectification. For these reasons, the directors have been unable to quantify with any certainty a financial provision. These costs, if any, are expected to be paid in the current financial year.

19 related party transactions

The Financial Ombudsman Service, together with the Financial Services Authority, was created as part of the Government's legislation for the financial services market and derives its statutory authority from the Financial Services and Markets Act 2000. The Financial Services Authority is regarded as a related party.

During the year, the Financial Ombudsman Service billed the Financial Services Authority a total of £nil (2003: £7,250) being charges for collection of debts assigned by the Personal Investment Authority Ombudsman Bureau in March 2002.

An amount of £26,038 was due to the Financial Services Authority at 31 March 2004 (2003: £150,264). This was the net balance due following the assignment of the Personal Investment Authority Ombudsman Bureau debtors ledger to the Financial Ombudsman Service in March 2002 and is included in 'other creditors' (see note 15).

The Financial Services Authority is a guarantor of the loan facility in the sum of £7,500,000 at 31 March 2004 (see note 16), and also is a party to the lease agreement for four floors at South Quay Plaza II as guarantor of performance of the lease in the sum of £1,089,798 per annum (see note 17).

Other than disclosed above, there were no related party transactions during the year (2003: none).

organisation chart

as at 31 March 2004

executive management team

Walter Merricks
chief ombudsman

Tony Boorman
David Thomas
Jane Whittles
principal ombudsmen

Barbara Cheney
company secretary

David Cresswell
head of communications

Roy Hewlett
operations director

Jeremy Kean
finance and IT director

Darren Parris
head of human resources

panel of ombudsmen

Walter Merricks
chief ombudsman

Tony Boorman
David Thomas
Jane Whittles
principal ombudsmen

ombudsmen

David Bird
Mike Boyall
Reidy Flynn
Jane Hingston
Michael Ingram
Tony King
Steve Lilley
David Millington
Roy Milne
Caroline Mitchell
Richard Prior
Philip Roberts
Mark Sceeny
Robert Short
Chris Tilson
Richard Vaughan-Payne
Richard West
Sue Wrigley
Roger Yeomans

appointments to the panel of ombudsmen are made under paragraphs 4 and 5 of schedule 17 of the Financial Services and Markets Act 2000

operations team

Julia Hawkins
Tim Knott
Jane North
Caroline Wayman
Ken Webb
service managers
(managing complaints-casework handled by our teams of adjudicators)

Paul Bentall
head of legal services

Mark Boyle
facilities manager

Sindy Grewal
head of knowledge & information services

Sharon Jones
head of IT

Paul Kendall
head of customer contact division
(dealing with all front-line consumer enquiries)

Ray Neighbour
service quality manager
(handling complaints about our service)

the board as at 31 March 2004

Sue Slipman OBE (chairman)

- a trustee of the MoneyAdvice Trust
- chair of the National Consumer Council (NCC) policy commission on consumer rights in public services
- chair of the DTI/CRG working group on professional skills for corporate social responsibility (CSR) best practice *formerly*
- executive board director for environmental and social responsibility at Camelot Group plc
- director of the Gas Consumer Council
- director of the National Council for One Parent Families
- a director of the National Consumer Council

Brian Landers (deputy chairman)

- finance director at Penguin Group (UK) *formerly*
- chief operating officer at Pearson Education (Europe, Middle East and Africa)
- a director of Waterstone's
- first finance director of the Prison Service
- a trustee of the Royal Armouries

Lawrence Churchill

- chief executive of Zurich Financial Services' UK, Ireland and International life assurance business
- a member of the Life Insurance Council of the Association of British Insurers *formerly*
- chairman and managing director of UnumProvident
- managing director of NatWest Life and Investments
- a board member of the Personal Investment Authority (PIA) and the PIA Ombudsman Bureau
- a director of the Association of British Insurers
- a trustee of the Royal Society of Arts

Robert Crawford

- director (Scotland and Ireland) of the Institute of Customer Service
- associate director of TAP Consultancy (UK) Limited
- principal of Crawford Service Management *formerly*
- head of service quality at the Royal Bank of Scotland and NatWest
- a director of the Office of the Banking Ombudsman

Ed Hucks

- a member of the Court, University of Leeds
- a non-executive director of West Bromwich Building Society *formerly*
- a non-executive director of Empiricom
- customer services director at NPI
- a director of the former National & Provincial Building Society

Roger Jefferies

- a director of the National Clinical Assessment Authority
- chairman of an NHS disciplinary tribunal
- a director of the Telecommunications Ombudsman Service *formerly*
- Independent Housing Ombudsman
- chief executive of Hounslow and Croydon London Boroughs

Sir Christopher Kelly KCB

- chairman of NSPCC
- a director of the National Consumer Council *formerly*
- Permanent Secretary at the Department of Health
- head of policy at the Department of Social Security
- director of monetary & fiscal policy and director of the budget & public finances at HM Treasury

Kate Lampard

- a trustee of Esmée Fairbairn Foundation
- chair of Kent and Medway Strategic Health Authority *formerly*
- chair of the Independent Housing Ombudsman Limited
- chair of Invicta Community Care NHS Trust

Helena Wiesner

- a director of the Consumer Policy Institute
- a director of the Pensions, Protection and Investments Accreditation Board
- a council member of the Council for Licensed Conveyancers
- a member of the Finance & Leasing Association's Lending Code Group *formerly*
- head of economic and social research at the Consumers' Association
- deputy chairman of the Personal Investment Authority (PIA) and a director of the PIA Ombudsman Bureau
- a director of the National Consumer Council

our aims and ethos

The Financial Ombudsman Service was set up by law as an independent public body. Our job is to resolve individual disputes between consumers and financial services firms – fairly, reasonably, quickly and informally.

fairly

We are neither consumer champions nor an industry trade-body. We are completely independent and deal with disputes fairly and impartially.

Our service is for people from all backgrounds. We look at the facts of each complaint – not at how well the people concerned have presented their case. So no one should need any special expertise or professional help in order to bring their complaint to us.

reasonably

We aim to give clear, jargon-free reasons for our decisions – so that any fair-minded person can understand why we reached a particular conclusion. And we actively share our knowledge and experience with the outside world – to help consumers and firms settle disputes without the need for our involvement – and to try to help prevent the need for complaints in the first place.

quickly

Because we deal with thousands of disputes every week, we have to be practical and business-like in our approach. We set ourselves challenging targets and aim to produce a fair outcome in each case as speedily as we can.

informally

Our service is an informal alternative to the courts, and our approach is very different. We do not usually have formal hearings or face-to-face cross-examinations. We are not hidebound by rigid procedures and we aim to be as flexible as possible in our approach.

services for firms and
consumer advisers
how we can help

..... **contact our technical advice desk for:**

- information on how the ombudsman service works
- help with technical queries
- general guidance on how the ombudsman might view specific issues.

..... phone

020 7964 1400

..... email

technical.advice@financial-ombudsman.org.uk

..... **our external liaison team can:**

- provide training for complaints-handlers
- organise and speak at seminars, workshops and conferences
- arrange visits – you to us, or us to you.

..... phone

020 7964 0132


..... email

liaison.team@financial-ombudsman.org.uk

..... **our website www.financial-ombudsman.org.uk gives you online access to:**

- news and frequently asked questions (FAQs)
- help for consumers and technical guidance for firms
- publications, briefing notes and *ombudsman news* – our monthly newsletter containing case studies and commentary.





how to contact
the Financial
Ombudsman Service

..... **write to us** Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR

..... **phone us** 0845 080 1800
switchboard 020 7964 1000

..... **email us** complaint.info@financial-ombudsman.org.uk

..... **look at our website** www.financial-ombudsman.org.uk

**We can help if you
need information in
a different format
(eg Braille, audiotape
etc) or in a different
language. Just let
us know.**