

The cover features a dark purple background with a large, light green, rounded shape in the center containing the title. Below this is a blue wave-like shape, and at the bottom left is a red rounded shape containing the financial year. A multi-colored diagonal line runs across the top left. The Financial Ombudsman Service logo is in the bottom right.

# annual. review

financial year  
2007 | 08



Financial  
Ombudsman  
Service

## key facts about the Financial Ombudsman Service

# ... the independent experts in settling financial disputes



We were set up under the *Financial Services and Markets Act 2000* to help settle individual disputes between consumers and businesses providing financial services – fairly, reasonably, quickly and informally.

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We can consider complaints about a wide range of financial matters – from insurance and mortgages to investments and credit.

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We are independent and impartial – just as a judge would be, if the consumer went to court instead.

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If a business can't resolve a consumer's complaint, we'll see if we can settle the dispute. But the business must first have the chance to sort things out itself.

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Our service is free to consumers.

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Consumers do not have to accept any decision we make. They are always free to go to court instead. But if they accept an ombudsman's decision, it is binding on both them and the business.

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We do not write the rules for businesses providing financial services – or fine them if rules are broken. That is the job of the regulator.

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Our service is confidential – we do not publish the names of the businesses or consumers whose complaints we handle.

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We cannot give personal advice about financial matters or debt problems. But we are committed to sharing our knowledge and experience – to help consumers and businesses settle problems themselves and to help prevent the need for complaints in the first place.


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## key figures about the Financial Ombudsman Service


# ... settling disputes without taking sides


 We handled a record **794,648** initial enquiries and complaints from consumers – a 27% annual increase.


 Around **1 in 6** of the initial consumer enquiries we received turned into cases involving our adjudicators and ombudsmen – a record **123,089** disputes (a 30% annual increase).

 We saw a sharp **70% fall** in complaints about mortgage endowments – but numbers of insurance disputes **doubled** and banking disputes more than **tripled**.


 Fewer than 5% of the financial services businesses we cover had disputes referred to the ombudsman service.


 Just over half of the total number of cases we dealt with related to **six** of the UK's largest financial services groups – broadly reflecting the amount of business these groups as a whole carry out with consumers in the UK.


 We resolved **99,699** cases – of which nine out of ten were settled informally, without the need for formal ombudsman decisions.

 We resolved over half of all disputes about banking, insurance and investments *other than* mortgage endowments within three months; and half of mortgage endowment cases within nine months – in line with our targets.

 We operated on a budget of **£55.5 million** and our total number of staff averaged **825**.

 We provided information and handled enquiries in over **30** different languages and formats – from Arabic to Welsh, Braille to mp3.

 We took part in conferences, roadshows, trade-fairs and consumer-events at least twice every week.

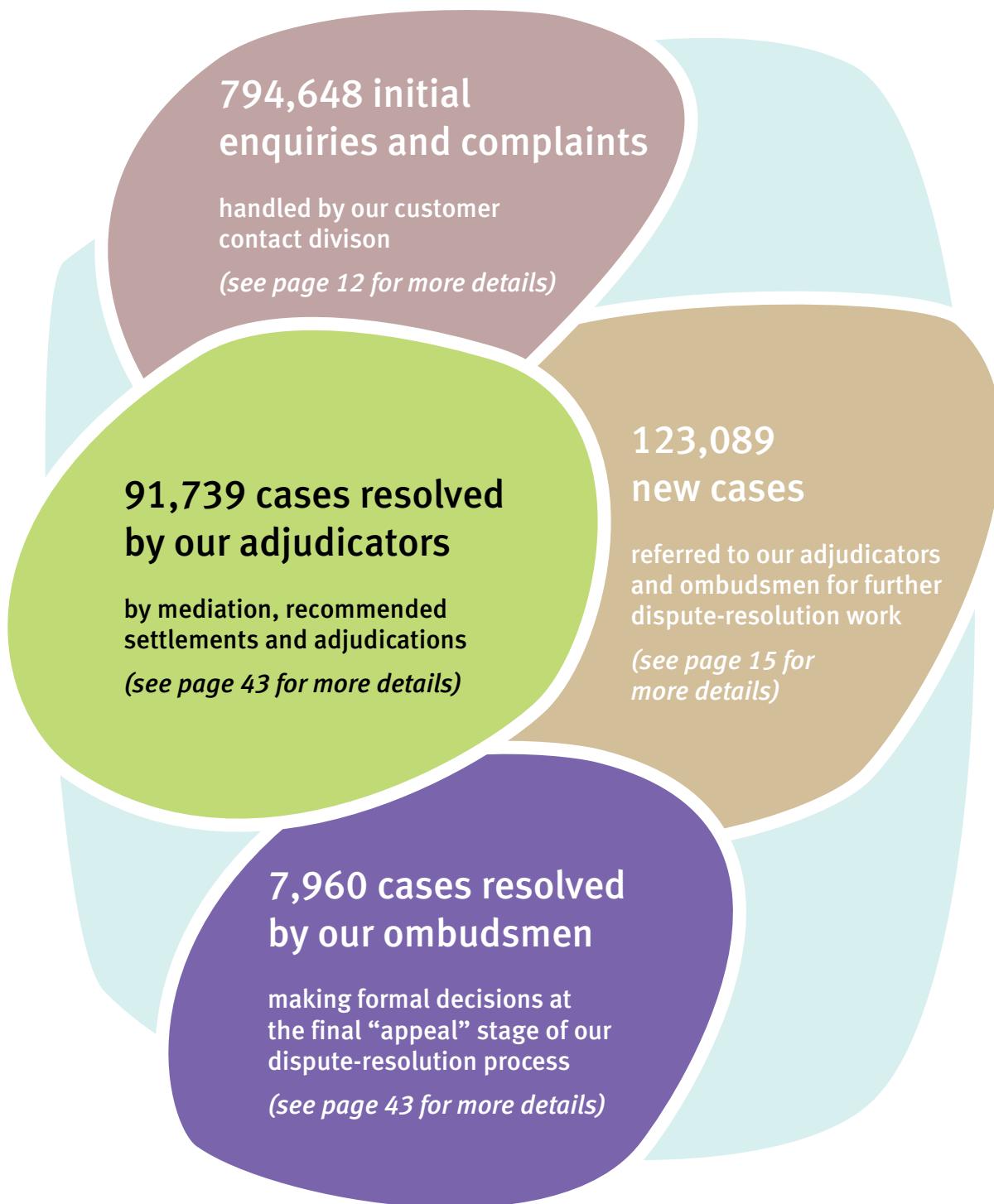
 We handled **600** parliamentary and ministerial enquiries, over **4,000** media calls and **18,000** specialist enquiries to our technical advice desk.

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This *annual review* – providing an overview of the work of the Financial Ombudsman Service in the financial year 2007/08 – is published in accordance with paragraph 7 of schedule 17 of the *Financial Services and Markets Act 2000*.

## an overview of our case-handling process



All figures relate to the year ended 31 March 2008

# chairman's foreword



Sir Christopher Kelly KCB

In my foreword to last year's *annual review*, I wrote that the number of new complaints to the ombudsman service had fallen for the first time since we were set up in 2001. This was a significant event. It indicated that we were at last in a position to take stock and plan a future course in a world no longer dominated by mortgage endowment complaints.

The sharp fall in new cases involving mortgage endowments has continued this year, with the number of endowment complaints falling from 46,100 in the year ended 31 March 2007 to 13,800 in the year ended 31 March 2008 – less than half the number we had initially forecast. Our forecast had anticipated that the number of mortgage endowment complaints would continue to decline – as the impact of “time barring” meant that consumers ran out of time to bring mortgage endowment disputes to us. But there has been a much steeper decline in these cases than we or the financial services industry – with whom we consult on these matters – had expected.

As I have observed in previous *annual reviews*, predicting future volumes of (and trends in) financial complaints is an art, not a science. The only guaranteed constant in our work is that – regardless of detailed budgets and workload forecasts agreed in advance with our stakeholders – the ombudsman service has to be capable of changing plans, revising assumptions and shifting resources flexibly, as we respond to what real life throws at us.

The sharp fall in the number of mortgage endowment complaints had a significant operational impact on the ombudsman service during the year. At the time of consulting on our budget in January and February 2007 we had already embarked on a policy of halting new recruitment, and releasing those of our staff who were on temporary contracts, in order to re-align staff numbers with the expected workload going forward.

Halfway through the year, however, it became clear that the scale of the reduction in new mortgage endowment complaints was such that additional action was required. In the subsequent organisational restructure and redundancy programme, some 150 staff left the ombudsman service during the second half of the year. This was the first time in our short history that we reduced – rather than increased – our staff numbers. I am very mindful of the effect this must have had on all our staff, who have withstood with commendable professionalism the demands and challenges we have faced this year.

The organisational restructure has not just been a question of scaling down the ombudsman service. We have taken the opportunity to make further improvements in the quality and efficiency of our operations – and to look at how we could enhance the value of our role.

We are committed to monitoring the quality and consistency of our work – we focus on this in more detail on page 48. One of the key measures of our performance is the timeliness of our complaints handling. This is not just a question of statistics. In our customer satisfaction surveys, consumers and businesses constantly rate as a top priority the importance of dealing with complaints promptly.

As we report on page 46, the time it takes us to settle disputes has improved on the previous year – partly reflecting the increase in the large number of banking-related cases which we were able to settle relatively quickly and informally. The fact that we met – and in some cases exceeded – our timeliness targets, in a year that included a period of unsettling organisational change for our staff, is an achievement of which our service can be rightly proud.

Our ability to resolve disputes by means of mediation and recommended settlements, rather than by using formal ombudsman powers, has also continued to benefit our productivity levels. However, the small increase in our unit cost this year is something we have long anticipated, as we lose the economies of scale achieved in earlier years with the large volumes of mortgage endowment complaints. There are more details about our budget and productivity on page 49.

During the year, my board commissioned an independent external review of the ombudsman service, led by Lord Hunt of Wirral. This review, which at the board's request looked in particular at the accessibility and transparency of the ombudsman service, is covered in more depth in the chief ombudsman's report on page 8. I am grateful to Lord Hunt for the wise advice he has given us.

Even as our organisational restructure was under way, early indications were emerging that suggested the workload could start rising in other areas. For whilst mortgage endowment complaints fell more steeply than anticipated during the year – by some 70% – the *total* number of new complaints referred to the ombudsman service *increased* by 30%.

This meant that the previous year's decline in overall complaint numbers – which we had interpreted as the possible start of a new downwards trend in complaint volumes – was sharply reversed. In fact, by the end of the 2007/08 financial year we had received more new complaints than in any year since the ombudsman service was established.

The challenge for us, as ever, was to predict what kind of resource this might mean we could need – and whether any such resource would be required for more than just a short-term blip.

Banking-related disputes, for example, had risen by almost 50% in the previous year – fuelled largely by consumer dissatisfaction with the level of unauthorised-overdraft charges. In the first quarter alone of the 2007/08 financial year, we received some 20,000 new complaints about these charges. This looked as though it could lead to our needing substantial additional resource to deal with these complaints.

In the event, however, pending a test case in the High Court, individual cases involving unauthorised-overdraft charges – being pursued through the formal complaints procedures of the banks, as well as with the ombudsman service and the courts – were put on hold in July 2007. There is more information about this on page 24 of this report.

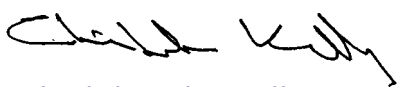


Last year I noted the increase in the number of disputes referred to us about payment protection insurance (PPI). I said that commentators were suggesting we would be seeing much larger volumes of complaints about this product in future. This proved to be the case during the year – probably reflecting the continued media focus and significant regulatory activity in this area, including fines by the Financial Services Authority (FSA) against a number of firms selling payment protection products.

However, it was only in the final quarter of the 2007/08 financial year that payment protection became the area of insurance most complained about to the ombudsman service. During that quarter we received record numbers of complaints about payment protection insurance and in the first three months of 2008 we received more payment protection complaints than in the whole of 2007. There is more information on page 36 of this report about payment protection complaints.

The sudden surges we have seen in complaints relating to payment protection and unauthorised-overdraft charges – driven largely by media and internet campaigns – mean that predicting, managing and dealing with complaint volumes looks strategically and operationally as challenging for us as ever.

Again this year – as part of this *annual review* – we have published in full the separate report of the independent assessor, Michael Barnes. The independent assessor's role is to investigate complaints from businesses and consumers about the level of service provided by the Financial Ombudsman Service. He reports directly to me and my board colleagues – as part of the framework we have in place for feedback and scrutiny on all aspects of our performance – and I am very grateful for his observations and insights. As in previous years, all the independent assessor's recommendations in individual cases have been accepted – and his helpful suggestions more generally for further improving some specific aspects of our service and procedure are being implemented.



**Sir Christopher Kelly KCB**

May 2008

# chief ombudsman's report



Walter Merricks CBE

In last year's *annual review* I noted the importance of the ombudsman service being accessible to *all* consumers, not just the determined middle-classes. At that time we were looking at whether our structure, style and process might inhibit consumers from accessing our service – and what we could do about it.

Not long after last year's *annual review* was published, our board decided that accessibility was important enough to justify commissioning an independent review of our service. Lord Hunt of Wirral – a distinguished financial services lawyer and former cabinet minister – was asked to carry out the review. It was entirely fitting – some ten years after the concept of a single statutory ombudsman scheme for the financial services sector had been first raised – to focus on the accessibility and transparency of our work. The review's aim was to ensure that in, say, three years' time, our service would not look out of date or behind the times.

This was the first time anyone had really examined the financial ombudsman model since the establishment of the original voluntary schemes – in insurance and banking – in the early 1980s. Even at the time the Financial Ombudsman Service was created as the single statutory scheme, the approach of the existing financial ombudsmen to accessibility and transparency was taken as read.

On the main structural aspects of our operations – our “fair and reasonable” approach to resolving individual disputes; an internal rather than external appeal process; file-based analysis rather than face-to-face hearings; and no charge for consumers – Lord Hunt has concluded that the model we follow is right and fit for purpose. But on accessibility and transparency he has given us an extensive agenda which, if implemented in full, would clearly set us well ahead as a public service organisation.

In the early days of financial ombudsman schemes, it was generally assumed that consumers would only need to know about ombudsmen if they had a complaint that a business itself could not settle. Little effort was devoted to raising awareness of ombudsman schemes more generally among the wider public.

Businesses are now required under the rules to tell customers about the ombudsman at the start of any contract – and again if an actual dispute arises. But, as we report on page 54, fewer than one in five consumers who pursued complaints through our service this year say they learned about us from the business they dealt with. So it is clearly important that ombudsman schemes make it as straightforward as possible for consumers to be able to access their services.

In approaching the accessibility agenda, we may need to research the costs and benefits of Lord Hunt's recommendations more closely than he was able or required to do. We will keep closely in touch with our stakeholders in the consumer and industry sectors. A research, experimentation and piloting programme, followed by assessment and phased introduction, seems the most practical way to take forward the proposals.

But what we now have is a clear vision of how the ombudsman service might look in three years' time – a service that is positioned somewhat differently from now, with a more active community agenda, and with more resources committed to ensuring that consumers know about our service and are able to make full use of it. Our commitment to even-handedness between consumers and businesses, when we make decisions in individual disputes, is fundamental to our approach. So we will, of course, remain focused on the fair resolution of the complaints that are referred to us by consumers. But it is clear that we will need to devote greater resource in future on awareness-raising, access and outreach activities.

The transparency agenda – separate from the accessibility challenge – is driven from a rather different starting point. Nor are resources alone necessarily an obstacle to change in this area. There are some considerable issues of principle at stake. Neither the Financial Ombudsman Service, nor any other UK private-sector ombudsman scheme, currently publishes

data about complaints volumes and uphold rates relating to named individual businesses. Nor is this necessarily to be a feature of the new ombudsman schemes in the energy, property and postal services sectors. The Office of Fair Trading (OFT) has laid down criteria for the approval of these new complaints-handling schemes, but openness about complaint outcomes is not a requirement.

Lord Hunt has been very clear about the principle behind his recommendations on greater transparency. He points out in his report that the availability of accurate information for consumers helps to make markets as a whole work more effectively. And he concludes that information about the complaints-handling performance of businesses is a relevant factor that consumers may wish to take into account when making a purchasing decision. Our board has accepted the principle of greater openness in this area.

So now the rather more difficult task must begin of seeing how this should be implemented in practice. We will be considering with industry and consumer bodies the options for exactly how our data on complaints volumes and uphold rates might be published. And in this *annual review* we are providing for the first time more detailed comparative data about the uphold rates for complaints across the different financial products and sectors that we cover (see page 44).

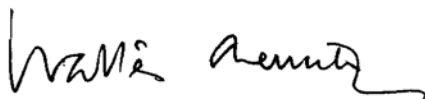
Experience in other commercial sectors where comparative tables have been introduced suggests that – at least in the early days – we should expect some unpredictability on the part of businesses in their complaints-handling, as they seek to re-position themselves in the tables. This could result in further swings and changes in the mix of our incoming caseload in future.

The issue that may be more difficult to handle is the potential effect that publishing data on individual businesses' complaints performance might have – operationally – on our approach to the early resolution of disputes. Last year more than nine out of ten cases were resolved by our adjudicators, without the need for formal ombudsman decisions. The framework of privacy within which we currently operate means that businesses are often willing to settle complaints on the basis of an informal view from us – without requiring an actual decision by an ombudsman. But it may become more difficult

for our adjudicators to reach informal resolution of complaints which, in their view, should result in redress for the consumer, if the business fears the impact of such outcomes in a published table.

In another strand of his report, Lord Hunt recommends our putting into the public domain a digest of our approach to those complaints we see most frequently. This would include publishing appropriate decisions, to show how we apply the principles developed in these types of cases. Again, successful implementation of this proposal would need careful thought. We had been concerned that moves in this direction might be misrepresented as producing a further set of regulation – just at a time when the FSA is in the process of reducing its rulebook as part of its more principles-based approach. But Lord Hunt has given us and the industry a clear message here – that the benefits of publication more than outweigh any misplaced concerns that could arise.

These, and the many other recommendations from Lord Hunt on accessibility and transparency, add up to a bold agenda for change – one that will take time to implement, but which I believe will deliver an ombudsman service fit for the changing world we see ahead. The agenda also builds on the solid foundations we already have in place – with our access and outreach programmes, and our stakeholder-engagement with those who use or have an interest in our work – and which we describe in more detail on the following pages of this *annual review*.



**Walter Merricks CBE**

May 2008

## at the front-line

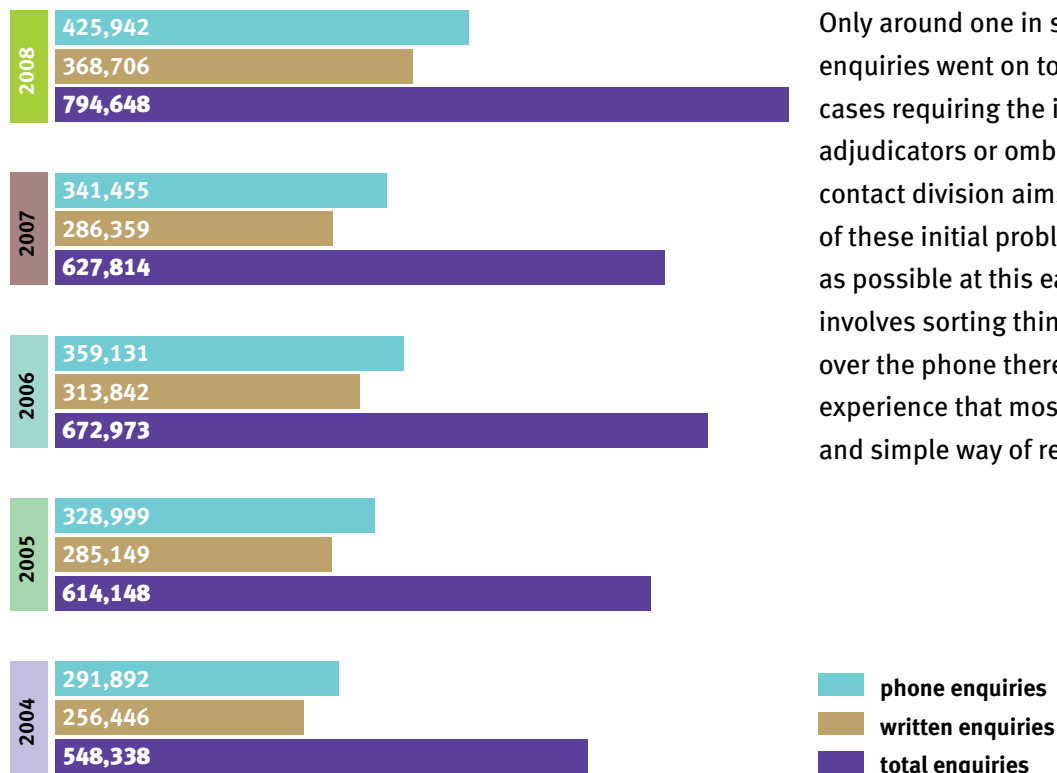
Our customer contact division provides our front-line for consumer enquiries – by phone, letter and email. In the 2007/08 financial year we handled a record **794,648** initial enquiries and complaints from consumers – a **27% increase** on the previous year, and the highest number since the Financial Ombudsman Service was set up.

This means that each working day our customer contact division handled over 3,000 phone calls and items of new correspondence – from consumers with questions, concerns and complaints about the way they have been treated by businesses providing financial services.

A significant number of consumers also access the information they need directly from our website, rather than by phoning us or writing to us. An average of 5,300 people visited [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk) each day during the year – and over 300,000 complaint forms were downloaded from our website (a 36% increase on the previous year).

The other most regularly-used of our online resources were the frequently-asked questions (FAQs) on complaining to the ombudsman, and our new range of consumer factsheets. There are more details about our website and the people who use it on page 60.

## initial enquiries and complaints from consumers



year ended 31 March

Only around one in six of these initial enquiries went on to become “full-blown” cases requiring the involvement of our adjudicators or ombudsmen. Our customer contact division aims to resolve as many of these initial problems and complaints as possible at this early stage. This usually involves sorting things out for consumers over the phone there and then. We know from experience that most people prefer this quick and simple way of resolving problems.

## how we handle initial enquiries and complaints

This shows the different ways in which our front-line customer contact division can help settle initial enquiries or complaints at the earliest stage – before they become “full-blown” cases.

letters, phone calls and emails from consumers

**is it a complaint – or just a request for information?**  
provide the consumer with the facts they need, to resolve the problem themselves.

**has the consumer complained to the business involved yet?**  
if not – refer the case to the business, giving it the chance to sort out the problem.

**does the consumer need advice on financial, debt or legal matters?**  
direct the consumer to relevant helplines and websites.

**should the business involved be given a last chance to settle the complaint?**  
persuade both sides to resolve the matter themselves – without escalating the case as a formal dispute to the ombudsman service.

**is the complaint clearly outside our remit?**  
explain the rules of our jurisdiction – for example, on time limits that apply.

**can we resolve the problem straight away?**  
step in promptly, talk to both sides, and see if a few practical suggestions can help sort things out.

**does the consumer want to pursue the complaint formally?**  
give an early steer on the likely outcome – from our informed independent viewpoint.

**refer as a new case to our adjudicators and ombudsmen for further work**

**is the consumer complaining to the wrong organisation?**  
suggest other relevant bodies or ombudsmen.

**is it a matter for the regulator?**  
explain the difference between redress and regulatory issues – referring to the relevant regulatory organisation.

**is the complaint clearly without merit?**  
explain why we don't believe it would be helpful or productive to pursue the matter further.

Being accessible is something we take very seriously. We are here for people from all backgrounds and sections of the community – not just those who are the most confident and articulate when it comes to complaining. No one needing to access our service should feel disadvantaged by language barriers or other difficulties. There is more information about our accessibility and diversity work on page 57.

We use an instant phone-based interpreting service to handle phone calls in languages other than English, and our website has information about the ombudsman service in over 20 languages (including video and audio clips in mpeg and mp3-format). We offer TypeTalk and sign language on request, and we regularly provide information in formats such as large print, audiotape/CD and “accessible text” (sometimes called “EasyRead”), to suit individual customers’ needs.

Many consumers are unsure how to go about complaining – or don’t know who to complain to formally at the business they are unhappy with. Where consumers get in touch with us first, *before* the business involved has had the opportunity to sort matters out, our customer contact division forwards the complaint direct

to the business – and asks it to investigate under its formal complaints procedure.

We remind consumers that they can ask us to get involved directly if the business is not then able to resolve their complaint within eight weeks.

Where consumers have already complained to the business in question – and contact us to say they remain dissatisfied with the business’s response – our customer contact division sorts out the paperwork and details we need, to be able to look at the case. We can often get much of the relevant information by guiding the consumer through our complaint form over the phone. This can be the most efficient way for us to get the details we need – and consumers clearly value the reassurance of personal contact by phone.

Our customer contact division also offers front-line advice and general guidance to consumers. This includes explaining the complaints process and discussing individual cases, where consumers are confused about any redress already on offer, or are uncertain how – or whether – to proceed with a complaint.

Where further work is needed to resolve complaints, our customer contact division refers cases to our specialist teams of adjudicators and ombudsmen.



## new cases referred to our adjudicators

In the year ended 31 March 2008, our customer contact division referred **123,089** new cases to our adjudicators and ombudsmen for more detailed dispute-resolution work – out of a total 794,648 enquiries and complaints initially received at our consumer front-line.

This is a **30% increase** on the 94,392 new cases recorded in last year's *annual review* – and is the highest number of cases we have received in any year since the ombudsman service was set up.

This record number of new cases resulted mainly from:

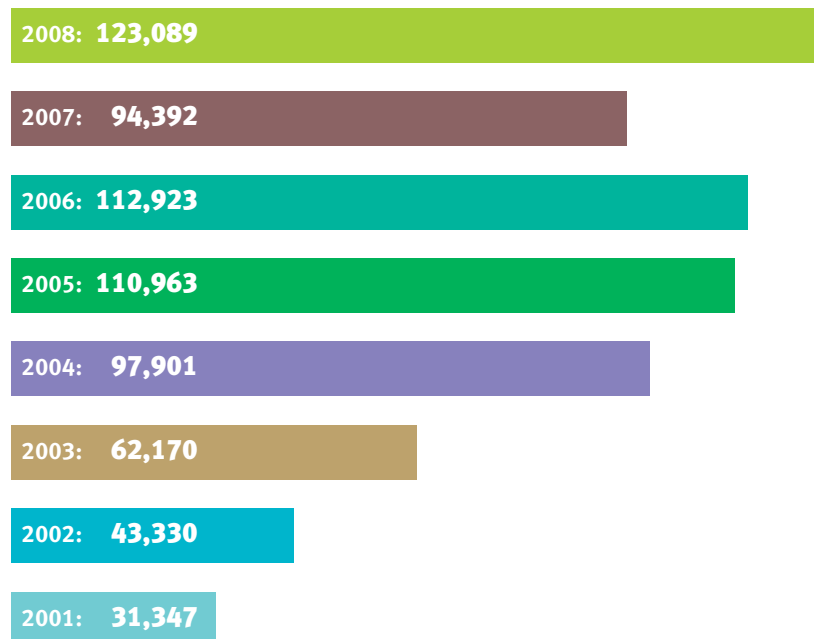
- banking-related complaints more than tripling in number – driven by the heavy volumes of complaints about unauthorised-overdraft charges we received in the first half of the year (see page 24 for more information about these complaints).
- insurance-related complaints doubling in number – driven largely by the record levels of complaints about payment protection insurance towards the end of the year (see page 36 for more information about these complaints).

The heavy volumes of complaints about unauthorised-overdraft charges and payment protection insurance – that pushed up the total number of new complaints in the year – also masked the 70% fall in the number of

mortgage endowment disputes. These complaints fell from 46,134 in the year ended 31 March 2007 to 13,778 in the 2007/08 financial year, the lowest number in five years.

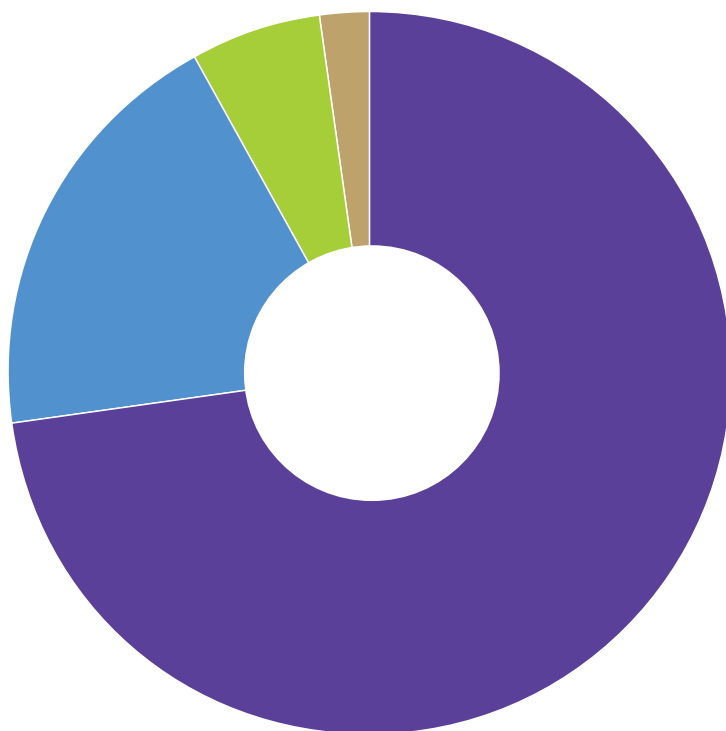
We had been anticipating this reduction in mortgage endowment complaints – though not at quite so steep a rate – as increasing numbers of consumers reached their deadline for complaining. There is more information about mortgage endowment complaints and the deadline effect of the “time bar” rules on page 31.

## number of new cases



year ended 31 March

## who these new cases are from



**73%**

complaints made by consumers themselves

**19%**

complaints made on behalf of consumers by claims-management companies

**6%**

complaints made on behalf of consumers by third parties such as Trading Standards and Citizens Advice

**2%**

complaints made by small businesses

The majority of people who bring complaints to the ombudsman service do so in their personal capacity as individual consumers. However, we also look at complaints brought by small businesses, charities and trusts that have an annual turnover, income or net asset value of up to £1 million.

Sole traders and people running small businesses may not always register a complaint with us specifically as a *business* dispute, because they often see the issues as essentially personal rather than commercial. This means that, in practice, the proportion of complaints made by smaller businesses may be slightly higher than the figure shown in this chart.

People wanting to bring a complaint to the ombudsman service can appoint someone else to do this on their behalf – for example, a member of their family, a friend or Citizens Advice.

In almost one in five cases referred to the ombudsman service, consumers employed a commercial claims-management company to handle their complaint for them.

## cases referred by claims-management companies



We tell consumers that we do not think they should need the help of a commercial third-party – such as a claims-management company or solicitor – to bring a complaint to us. We decide cases by looking at the facts – not at how well the arguments are presented. We prefer to hear from consumers in their own words. If people employ someone to present their case for them, this could mean they end up paying them out of any compensation that is due.

As we comment on page 33 – in the specific context of pension-related complaints involving SERPS – we have seen a significant number of cases this year where some claims-management companies have given consumers unrealistic expectations of large sums of compensation in cash, without appearing first to have properly assessed the actual merits of the individual cases.

There is more information about the types of consumers who use our service on page 52.

**33%**

mortgage endowment complaints

**24%**

credit card complaints

**14%**

payment protection insurance (PPI) complaints

**13%**

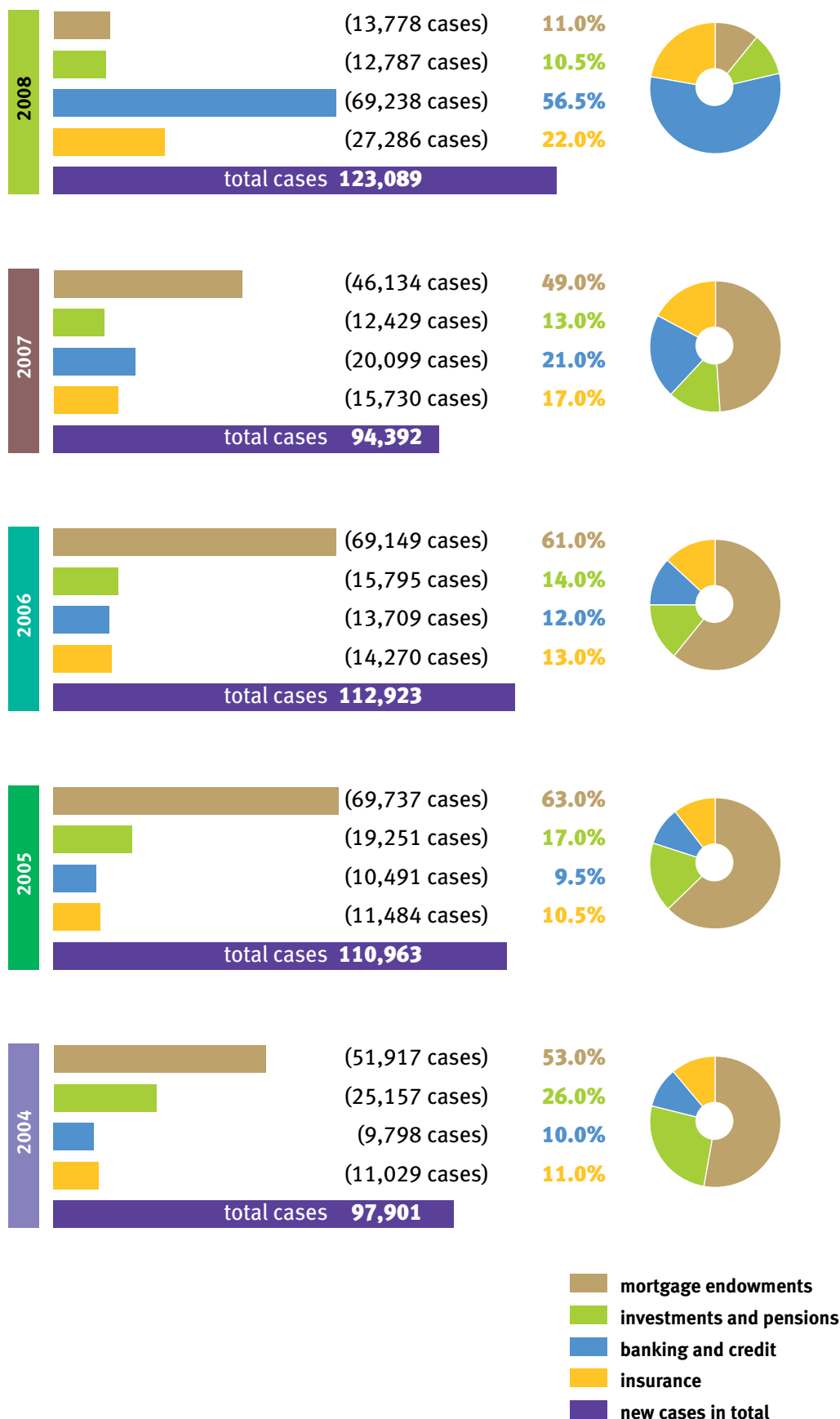
current account complaints

**16%**

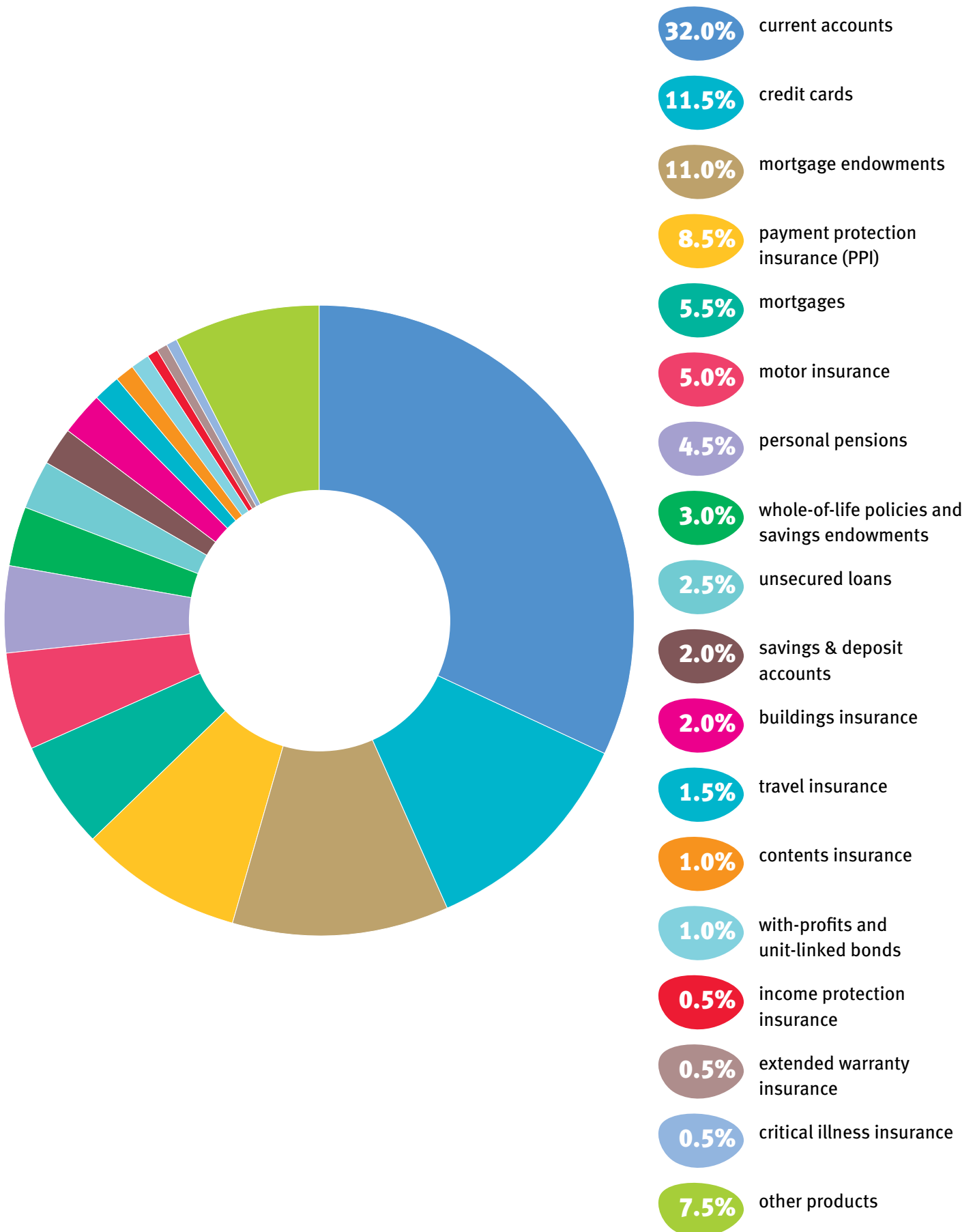
other types of complaint

# what the complaints were about

## new cases by area of complaint

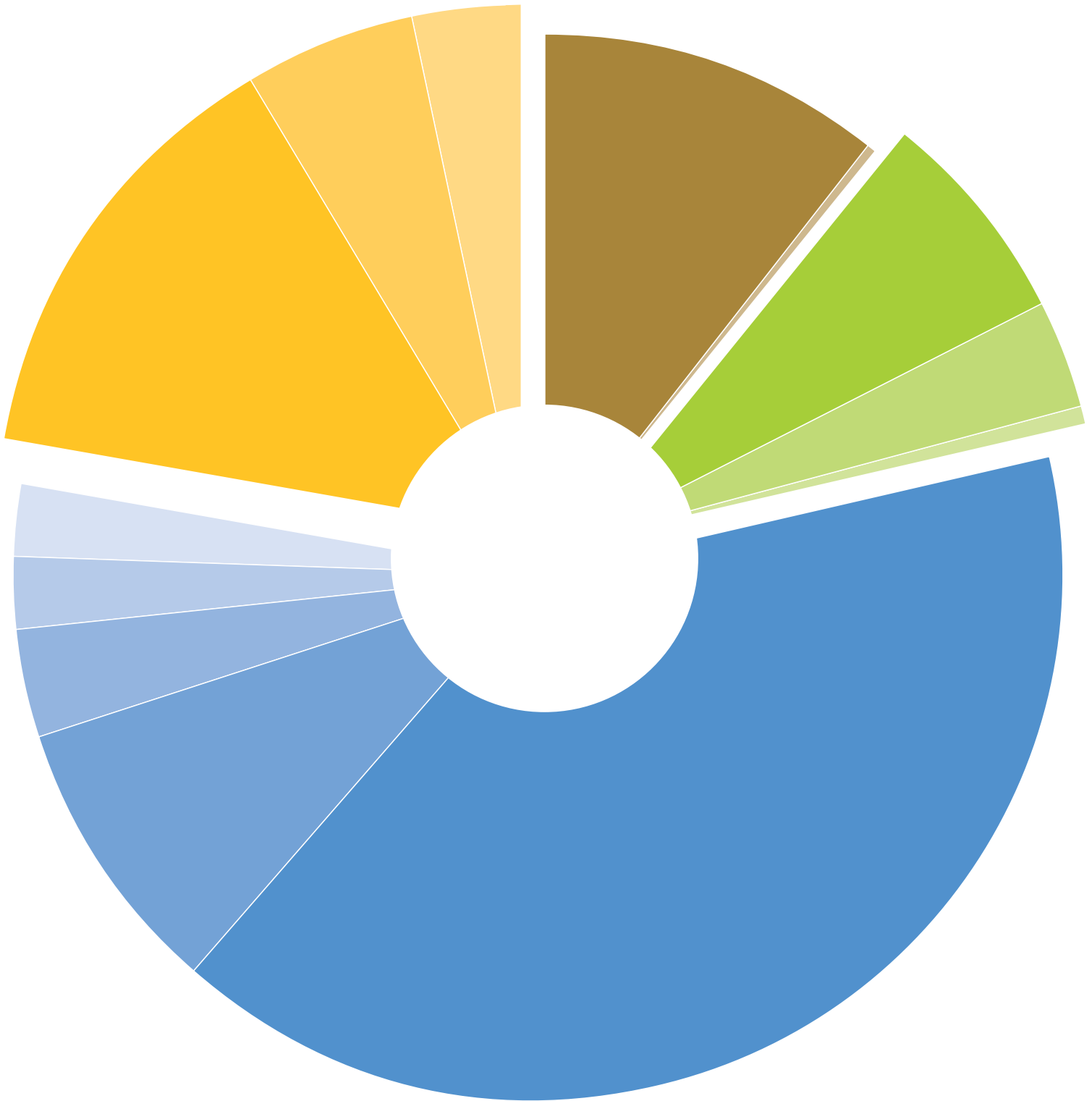


## what financial products the new cases involved



# what the complaints were about

## what issues the new cases involved



## 11.0% mortgage endowments

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- of which
- 96% complaints about sales and advice
  - 4% other complaints

## 10.5% investments and pensions

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- of which
- 63% complaints about sales and advice
  - 31% complaints about administration
  - 6% other complaints

## 56.5% banking and credit

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- of which
- 71% complaints about charges
  - 15% complaints about administration
  - 6% complaints about transactions
  - 4% complaints about sales and advice
  - 4% other complaints

## 22.0% insurance

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- of which
- 62% complaints about claims
  - 24% complaints about sales and advice
  - 14% other complaints

# what the complaints were about

## new cases by financial product or service

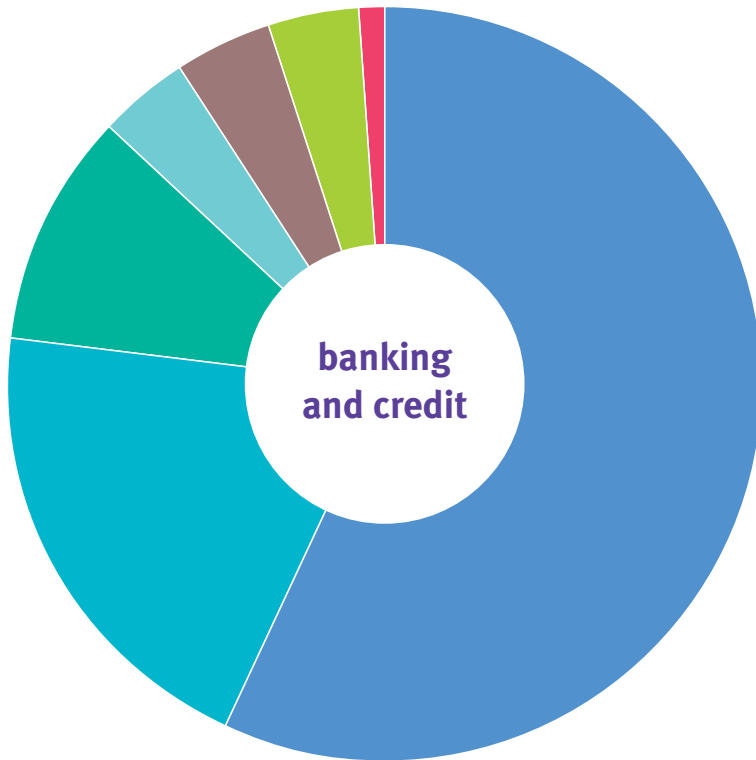
	year ended 31 March 2008	year ended 31 March 2007
<b>current accounts</b>	<b>39,263</b>	8,061
<i>including complaints about</i>		
● charges	31,618	3,285
● direct debits <i>and</i> standing orders	562	336
<b>credit cards</b>	<b>14,123</b>	2,731
<b>mortgage endowments</b>	<b>13,778</b>	46,134
<b>payment protection insurance (PPI)</b>	<b>10,652</b>	1,832
<b>mortgages</b>	<b>6,824</b>	4,366
<b>motor insurance</b>	<b>6,009</b>	4,230
<b>personal pensions</b>	<b>5,297</b>	3,687
<i>including complaints about</i>		
● personal pension plans	2,211	1,701
● SERPS	2,183	954
● annuities	383	321
● small self-administered schemes (SSASs) and self-invested personal pensions (SIPPs)	299	171
● income drawdown	88	142
<b>whole-of-life policies <i>and</i> savings endowments</b>	<b>3,211</b>	3,734
<b>unsecured loans</b>	<b>2,940</b>	1,755
<b>other “packaged” investment products</b>	<b>2,750</b>	3,644
<i>including complaints about</i>		
● with-profits and unit-linked bonds	1,192	2,601
● investment ISAs	729	521
● guaranteed-income bonds	296	113
● PEPs	162	174
● unit trusts	114	100
<b>savings <i>and</i> deposit accounts</b>	<b>2,675</b>	1,438
<b>buildings insurance</b>	<b>2,669</b>	1,951
<b>other banking services</b>	<b>2,643</b>	1,748
<i>including complaints about</i>		
● cash machines	883	291
● cheque clearing	612	547
● electronic payment	502	369
● money transfer	415	378
● safe custody	52	46



	year ended 31 March 2008	year ended 31 March 2007
<b>other types of general insurance</b> <i>including complaints about</i>	<b>1,710</b>	1,515
● commercial policies	368	520
● pet insurance	329	273
● roadside assistance	218	202
● caravan insurance	64	77
<b>travel insurance</b>	<b>1,628</b>	1,670
<b>contents insurance</b>	<b>1,363</b>	1,238
<b>consumer-credit products and services</b> <i>in relation to activities covered since April 2007 by our consumer credit jurisdiction – including complaints about</i>	<b>849</b>	*
● hire purchase	212	
● debt collecting	179	
● point-of-sale loans	167	
● store cards	110	
● catalogue shopping	40	
<b>income protection insurance</b>	<b>832</b>	891
<b>stockbroking</b>	<b>776</b>	599
<b>extended warranty insurance</b>	<b>701</b>	713
<b>critical illness insurance</b>	<b>638</b>	680
<b>legal expenses insurance</b>	<b>474</b>	445
<b>portfolio and fund management</b>	<b>433</b>	453
<b>private medical insurance</b>	<b>369</b>	388
<b>personal accident insurance</b>	<b>238</b>	177
<b>free-standing additional voluntary contribution (FSAVC) schemes</b>	<b>171</b>	255
<b>derivatives</b> <i>including complaints about</i>	<b>73</b>	57
● spread-betting	58	36
<b>total number of new cases</b>	<b>123,089</b>	94,392

\* not covered by the ombudsman service before April 2007

On the following pages we highlight the issues behind the key areas of complaint during the year.



57% current accounts

20% credit cards

10% mortgages

4% unsecured loans

4% savings and deposit accounts

4% other banking services

1% consumer credit\*

\* covered by our consumer credit jurisdiction  
(eg hire purchase, debt collecting and store cards)

## current account complaints

The five-fold increase in current account disputes during the year was driven by the wave of complaints about charges incurred when an overdraft limit is exceeded.

Following the “test case” in the High Court announced by the Office of Fair Trading (OFT) in July 2007 – which is expected to clarify the law in this area – and a complaints-handling waiver issued to the relevant banks and building societies by the Financial Services Authority (FSA), we decided to put on hold most of our work on complaints relating to bank charges, while awaiting the outcome of the legal proceedings. This was in line with the approach also taken by county courts nationwide.

The High Court’s decision on the first part of the legal “test case” was made public on 24 April 2008. The decision covers points of legal principle – and was not intended to provide a final answer to all the legal questions raised about these charges. While the legal proceedings continue, we have confirmed that we will continue to keep complaints about unauthorised overdraft charges on hold.

However, we have continued to deal with complaints about current-account charges where we identified issues of financial hardship affecting the consumer. In these cases, it has usually been possible to deal with all the parts of a complaint *except* the part that relates specifically to whether bank charges are lawful or not.

Cases involving issues of financial hardship have frequently turned out to take rather more time to deal with than we had expected. This is sometimes because the current-account provider in question was slow to take the

## current account complaints *(continued)*

2007/08	39,263	
2006/07	8,061	
2005/06	3,543	
2004/05	2,521	
2003/04	2,106	
2002/03	1,602	

initiative and collect from its customer the sort of financial information it needed – in order to gain a proper understanding of the customer’s financial position. On the other hand, some consumers expected an automatic full refund of all charges in response to their complaint of hardship – and were reluctant to provide information about their financial position or to discuss a resolution that fell short, in their view, of what they wanted in terms of redress.

By far the largest part of our caseload of current-account disputes comprised complaints about charges incurred when an overdraft limit is exceeded. However, we continued to receive complaints about other aspects of how current accounts work. Because current accounts are normally very “active” financial products – involving frequent transactions and administrative updates – there is much that can, potentially, go wrong. This explains why many complaints we handled during the year involved delay or mistakes in the administration of the account.







The initial problem was sometimes made worse by the consumer not fully understanding how the various facilities and features of their current account actually worked – and then getting confusing (or wrong)

explanations from their bank or building society. For example, confusion was often caused by misunderstandings about the time that different types of payments take to reach a current account – and about which payments may have needed additional days to “clear” before they could be drawn on. We also see many cases where there has been confusion about the different ways in which standing orders and direct debits are administered on a current account.

We often find in disputes such as these that before we can go on to decide what went wrong and who was responsible for the problem, we first need to provide clear explanations about banking procedures – something it might have been helpful for the account-provider involved to have done itself.

Another common cause of complaints about current accounts involves instructions given face-to-face or over the phone. These complaints highlight the importance – both for consumers and for banks – of communicating clearly and keeping a note of phone calls. Encouragingly, however, we received only a low number of complaints during the year from consumers who had experienced problems when switching between current-account providers.

## credit card complaints

2007/08	14,123	
2006/07	2,731	
2005/06	2,124	
2004/05	1,599	
2003/04	1,444	
2002/03	864	

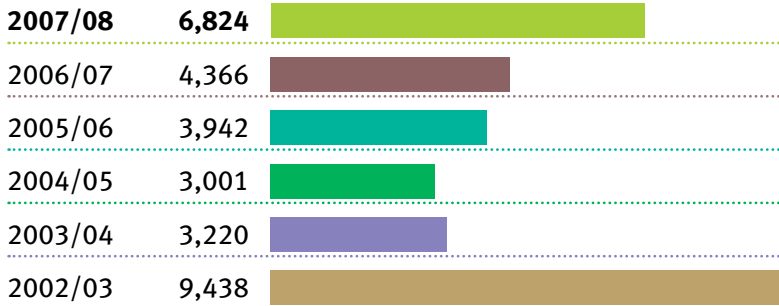
During the year we have seen a significant number of complaints about so-called “default” charges – applied by credit card companies where the customer is either late in making their monthly payment or misses a payment. The OFT issued a statement of opinion on this in April 2006. It encouraged card issuers to calculate their costs in relation to customers’ “defaults” – and it provided views on what activities might reasonably be included within those costs.

We have begun to receive complaints from consumers about increases in the interest rate charged on their credit card – where these increases reflect a change in the card issuer’s view about the “risk” that the consumer

represents. In these cases, we have had to consider not only whether there had been a change to the customer’s risk profile, but also whether the credit card agreement made proper provision for an interest rate variation of this type.

We also continued to receive complaints about disputed credit and debit card transactions, including transactions involving cash machines. We keep up to date with technology and other developments in this area – although most of the disputes we see turn on practical issues specific to the individual circumstances of the case, rather than on complex technological points.

## complaints about mortgages



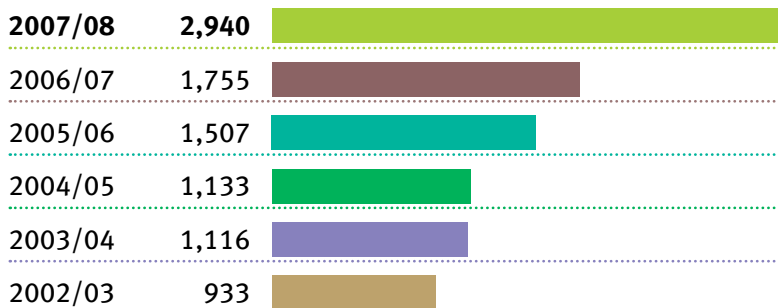
As we predicted in last year's *annual review*, the number of complaints we received about "mortgage exit" administration fees reduced during the year, following the FSA's statement of good practice to mortgage lenders. However, we still continued to receive some complaints in this area.

The number of disputes about the application of administration fees in relation to mortgage arrears increased during the year. In some cases, we questioned whether any arrears administration was actually necessary – particularly where the consumer was keeping to an agreed repayment schedule. There have also been complaints where we found that the fees charged for arrears administration were disproportionate – or manifestly unfair – in the circumstances of the particular case.

We have seen a rise in complaints about the way lenders have handled arrears problems – particularly disputes relating to the quality of lenders' communication and their willingness to be flexible. Complaints about the "advised sale" of mortgages have also risen in number – including complaints about the affordability of the mortgage when it was first taken out.

In some cases, the consumer may find it difficult to establish whether a problem has been caused by something the broker did wrong, or something the lender did wrong. This can mean we need to handle complaints against both businesses, particularly where the businesses themselves have not given clear explanations to the consumer.

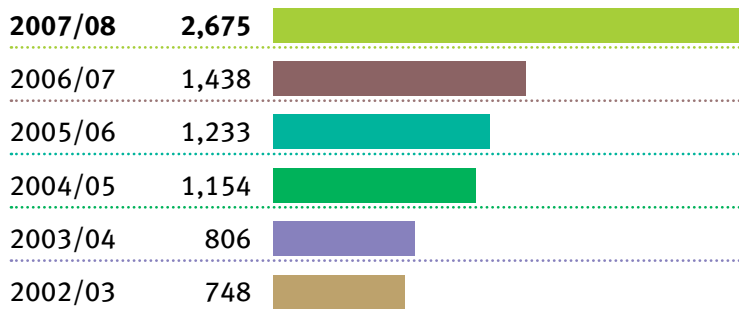
## complaints about unsecured loans



Most of the complaints we received this year about unsecured loans were from consumers who were in financial difficulty – and who did not believe that their lenders were dealing fairly with them. We have commented in previous years about the rise in the number of disputes about loans that consumers say were unaffordable from the outset. This trend has continued this year.

In particular, we have seen an increase in the number of complaints about lenders' handling of payment difficulties. As with complaints relating to mortgage arrears, these disputes often turn on the standard of communication by lenders – and their willingness to be flexible, where the consumer feels they are doing what they can to address their debt.

## complaints about savings and deposit accounts

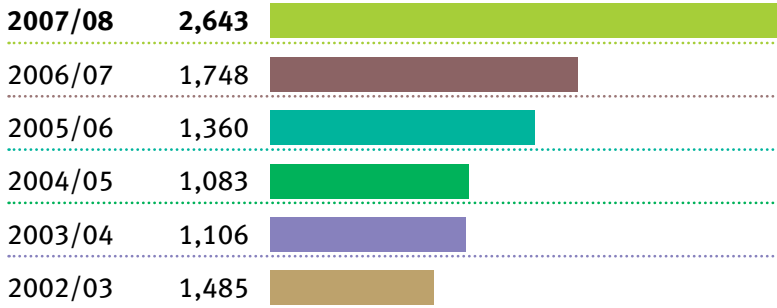


During the year there has been a rise in complaints about “roll-over” savings bonds. These are savings products which have a set term during which withdrawals cannot be made, except by forfeiting interest. At the end of the term, the bond “rolls over” into another term – unless the consumer instructs otherwise.

Complaints have arisen where consumers have felt that their savings institution did not explain clearly enough what would happen at the end of the term – and what the consumer would need to do, to avoid the money being tied up for another term.

We have also continued to receive complaints about savings products which offer high “headline” rates of interest – but where consumers are unhappy with the steps they have to take to secure the best rate. Cash-ISA providers continued to have complaints brought against them by consumers whose ISA applications were not processed correctly or on time – and who therefore lost out on a tax-efficient savings product for the 2007/08 tax year.

## complaints about other banking services



During the year we received a number of complaints about international money transfers made outside Europe. The systems used to carry out these transfers can be complex – often involving institutions other than just the sending and receiving banks – and require very accurate information. Consumers often expect these transfers to be simpler and quicker than they actually are.

Bank employees who are not familiar with this type of service may fail to recognise potential problems when consumers make initial enquiries. These transfers are sometimes for payments such as property purchase or business obligations, so the effect of a delayed or mis-directed payment can be significant.

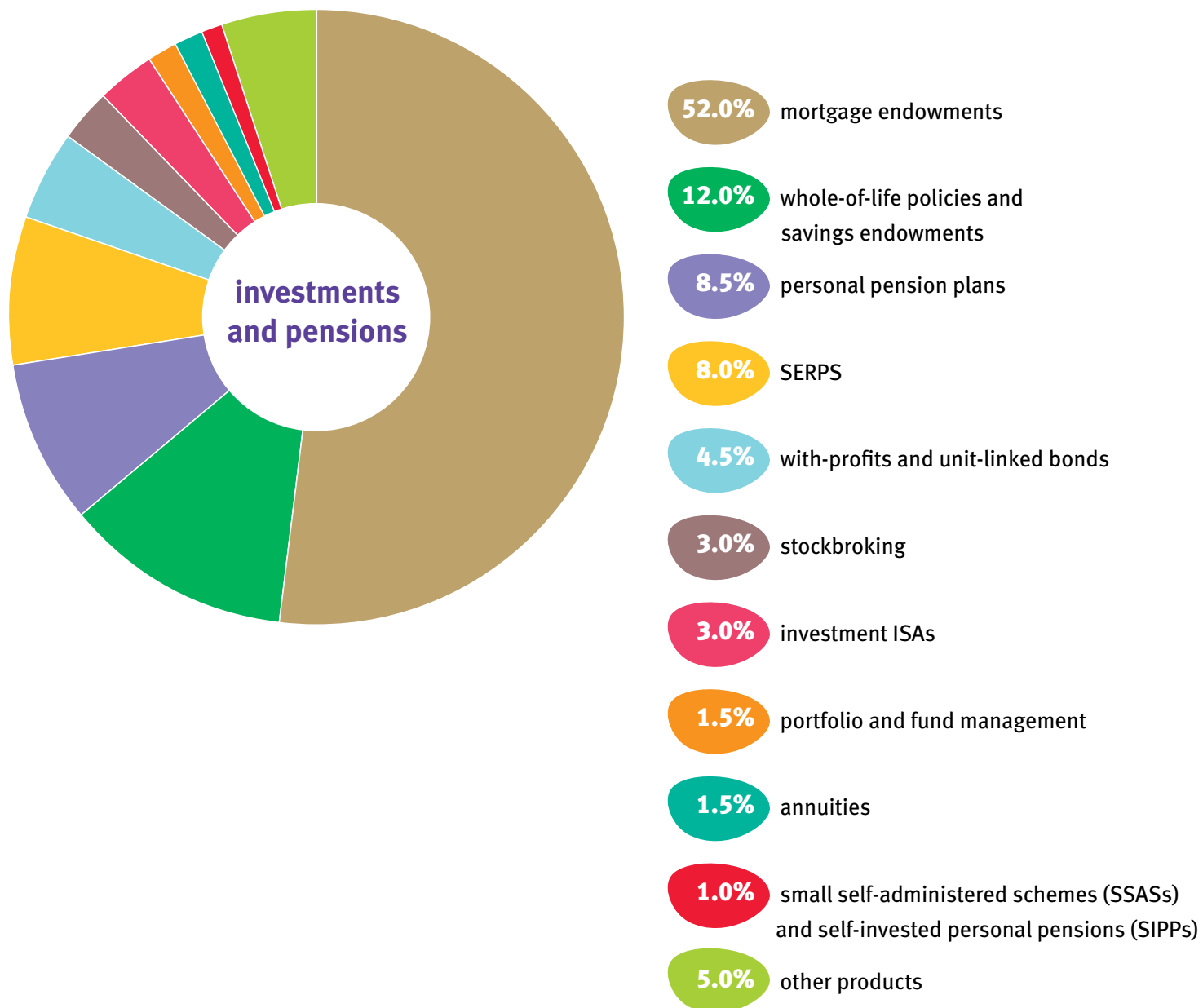
Complaints involving problems with cheques clearing continued to be a feature this year.

We saw a significant number of cases where individual consumers who had privately advertised goods for sale fell prey to fraudsters who posed as genuine but paid with a stolen or counterfeit cheque.

The consumers in these cases had released the goods they were selling, at the point they believed the cheque had “cleared” – only to discover a day or so later that the cheque was fraudulent.

The new cheque-clearing arrangements, introduced in November 2007, should provide more safeguards for consumers – who are now able safely to draw on UK cheques that have not been returned by “day six” of the clearance cycle. But the success of this measure will depend not only on consumers knowing about the new rules, but also on bank staff fully understanding them – and being able to explain them correctly to consumers.

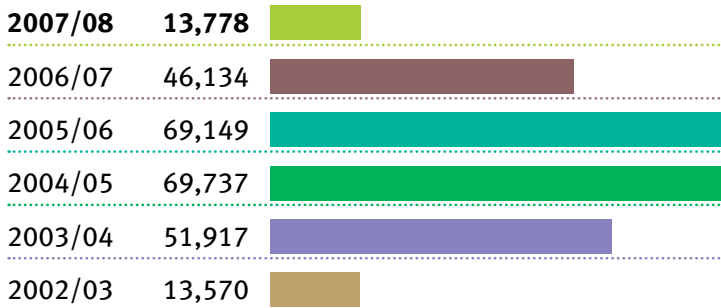
## what the complaints were about: investments and pensions



While the number of new complaints about the mis-selling of mortgage endowments fell by 70% during the 2007/08 financial year, the number of new complaints relating to all other types of investments levelled off – edging up by 3% after falling by around 20% in each of the three previous years.



## complaints about mortgage endowments



The decline in the rate of complaints referred to the ombudsman service about the mis-sale of mortgage endowments accelerated during the year – with the number of new cases dropping by 70%, following a fall by a third in the previous year. This means that the level of mortgage endowment complaints is now at its lowest since the 2002/03 financial year.







In earlier years, we were receiving over 250 mortgage endowment complaints every working day – around two-thirds of our total workload. But in the first half of the 2007/08 financial year, mortgage endowment cases represented only around 12% of all new complaints. And by the final quarter of the year, this figure had decreased to 8%.

The fall in the number of these complaints has resulted primarily from the impact of the “time bars” that now apply to many consumers with mortgage endowments. As we reported in last year’s *annual review*, the potential rush to complain before the deadline did not transpire. However, we continued to see a number of cases where the consumer’s deadline for complaining had passed – but they wanted to check that the business had applied the date of the deadline correctly.

We have also seen a variety of arguments put forward both by businesses and consumers (and their representatives) about how our jurisdiction operates in this area. Our task is to apply the time limits set down by the FSA – taking into account the individual facts of each case. If we are unable to deal with a case, we explain the reasons for this to both sides.

In some cases, we have seen an increase in the complexity of the calculations needed to work out the redress that should be paid. Our starting point for assessing compensation is the guidance set out in the FSA’s rules. However, calculating redress can be more complicated where consumers have already taken a range of different actions – such as redeeming their mortgage in full or switching to a repayment mortgage – before bringing their complaint to us. Where we uphold a complaint, the overriding principle remains that we look to put the consumer back into the position that they would have been in if the policy had not been mis-sold.

## complaints about whole-of-life policies and savings endowments

2007/08	3,211	
2006/07	3,734	
2005/06	4,163	
2004/05	4,506	
2003/04	5,442	
2002/03	5,009	

Whole-of-life policies are often sold to meet potential inheritance tax liabilities. However, during the year we have continued to receive complaints from consumers who are unhappy that policies taken out for this purpose have not met their expectations.

A regular feature of these complaints is the so-called “premium review” clause. In the cases we see, consumers complain that these built-in reviews of the premiums they need to pay have led either to an unaffordable increase in the premium – or to a reduction in the promised pay-out, to the extent that it will no longer meet the potential tax liability.

The “premium review” clause in the policies we see has not always been obvious from the product literature. Details of how the clause operates – and how the premium is calculated as a result of the review – have often been opaque. And we also frequently see complaints where the clause had not been brought to the consumer’s attention – or where its operation remained insufficiently understood, even after advice had been given. Calculating the new premium following a “premium review” is a complex actuarial matter and, in many of the cases we see, the business involved has failed to explain the new premium fully – if at all – to the consumer.

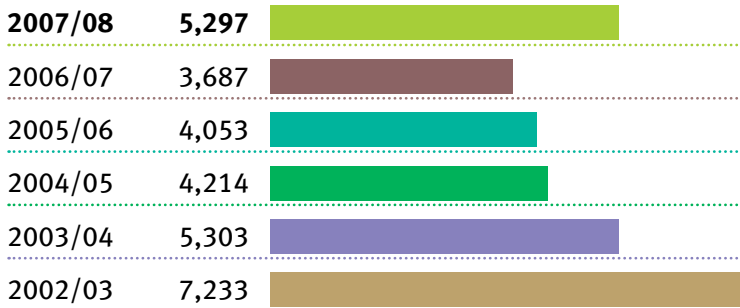
Consumers who understood that a review would be carried out often complain to us that they were, nevertheless, still alarmed to find they were faced with a sudden large increase in premiums – when they had thought the purpose of a regular review was to stop this from happening.

Given the cost of the life insurance included as part of the policies, the potential unsuitability of endowments as savings vehicles has been the subject of action by the regulator.

But complaints we see suggest that some firms still fail to appreciate that this might not be the sole reason for an endowment’s unsuitability when sold primarily as a savings vehicle.

Frequently, in complaints we see, it is the other charges built into the policy that make it unlikely that the product would achieve the returns the consumer had been led to expect – other than in years of exceptional performance. It does not seem unreasonable for a consumer to expect a savings policy to, at the very least, return the amount invested. Consumers who complain to us about these policies generally say they had expected a higher return than they would have received from a deposit account. We are likely to uphold these complaints in favour of the consumer, where we decide they were not adequately informed that lower returns were possible.

## complaints about personal pensions



The upward trend during the year in the number of complaints we received about personal pensions resulted largely from the doubling in cases about advice to transfer out of SERPS (the State Earnings-Related Pension Scheme). SERPS was the additional state pension-scheme that was superseded by the State Second Pension (S2P) from April 2002.

A significant proportion of these SERPS complaints were submitted to us in bulk by claims-management companies – using standard forms and template letters. Many of these cases had no reasonable chance of success, given the individual circumstances involved. The claims-management companies often appeared to have given consumers unrealistic expectations of very large sums of compensation in cash – without having considered the actual merits of the individual cases.

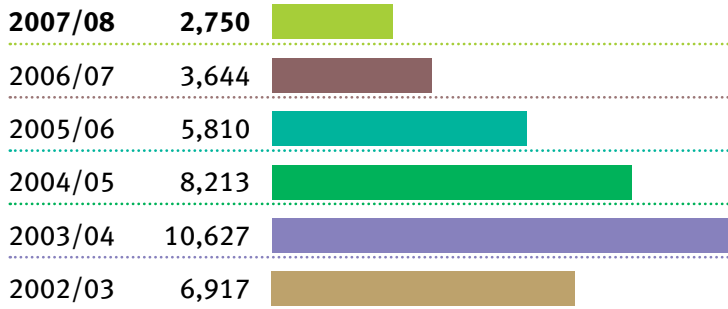
In last year's *annual review* we noted that the pensions simplification changes that had come into effect in April 2006 had not resulted in significant numbers of new complaints. This year we have started to see a couple of new areas where the changes have led to disputes being referred to us.

One area involves so-called “triviality” – where pension funds can be taken as a lump sum if the total value of the funds involves less than 1% (currently £15,000) of the total lifetime allowance for pensions savings. From a number of complaints we have seen, it appears that some advisers have failed to understand how these provisions work in practice.

We have also received complaints from consumers who, before the pensions simplification changes came into force, took out self-invested personal pensions (SIPPs) for the purpose of investing in residential property. They complained that they had been advised to do this on the understanding that this would be allowed as part of the pensions simplification changes. In the event, this was not the case.

In general, complaints we deal with about pensions continue broadly to turn on the suitability of the pension and/or investment funds involved, and on administrative matters such as delay. SIPPs complaints, for instance, frequently involve disputes about delays in transferring from one provider to another, delays in making income payments, and delays in buying and selling assets (or failing to do so). We regularly refer complaints such as these to the Pensions Ombudsman under a memorandum of understanding between our two organisations.

## complaints about investment bonds (and “packaged” investment products)



During the year we have continued to receive complaints about so-called “market value reductions” (MVRs) being applied to some with-profits bonds when consumers cash them in. As we have explained in previous *annual reviews*, we deal with these complaints on the basis of the facts and circumstances of each individual case.

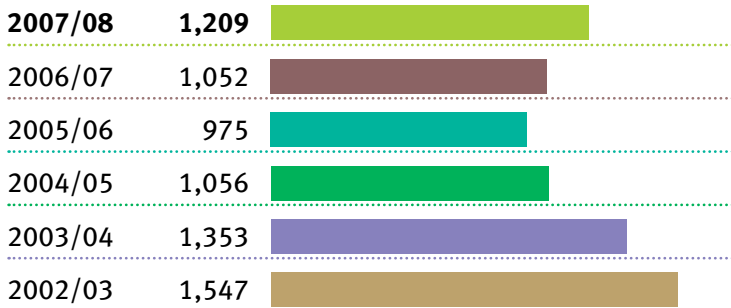
We have also received a significant number of complaints about the failure of bonuses on with-profits bonds to reflect improved stockmarket conditions – and about the way with-profits bonds work, which some consumers believe is inherently unfair.

These more general issues are not a matter for the ombudsman. The management of a fund is an issue for the regulator. So we continue to refer on to the FSA – under the “wider implications” process – complaints about “management actions”, in relation to with-profits funds that are both open and closed to new business. There is more information about this process on the website that we run jointly with the regulators ([www.widerimplications.info](http://www.widerimplications.info)).

If the FSA has no objection to the way a particular fund is managed, then we tell the consumer who has complained to us that there is nothing further we can do to help. We appreciate that some consumers find this frustrating – but we explain that the FSA, as the regulator, has to take into consideration the interests of all the policyholders as a group.

Another current issue relating to with-profits funds is the way in which some insurance companies are dealing with the inherited estates of with-profits funds (often described as “orphan assets”). These are the surplus assets in a with-profits fund, built up over many years. Issues relating to inherited estates are, again, a matter for the FSA as regulator – and ultimately for the court, which will approve any arrangements in relation to the distribution of these estates.

## complaints about stockbroking and portfolio & fund management



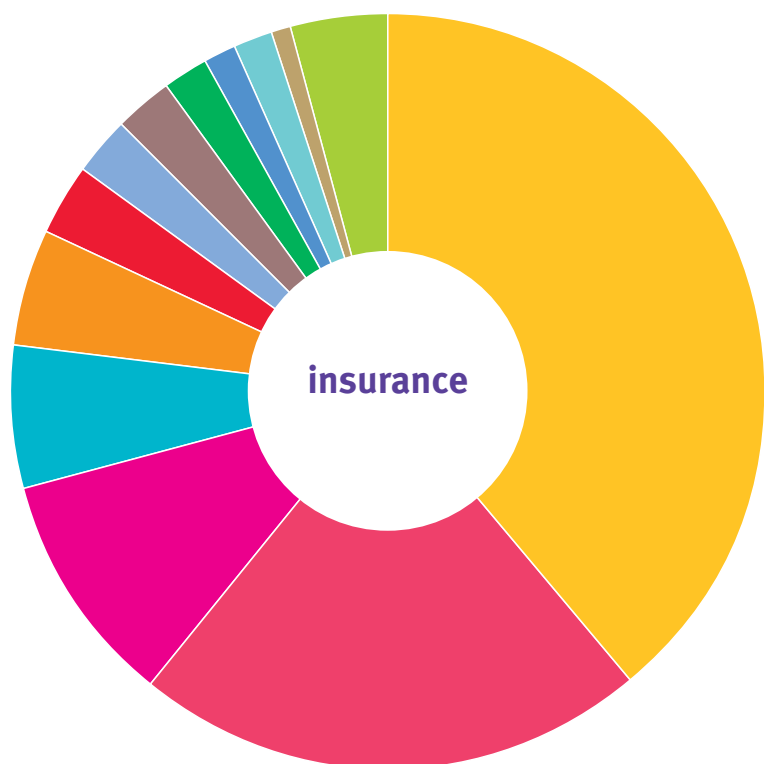
Clients of stockbrokers need to be certain what they are asking their broker to do for them. During the year we have continued to see complaints where the consumer had been expecting their broker to actively manage their portfolio – only to discover that its value had dropped and that nothing appeared to have been done to halt the decline.

In complaints like this, we start off by looking at the terms and conditions that the consumer has agreed, to identify the extent of the firm's legal obligations. We then look at any other evidence – for example, what was said at the time the investment was made. The firm is not liable for actively managing a portfolio unless

it has agreed to do this – or unless the consumer has reasonably been given to understand that it will do so.

Other complaints we have received during the year concern high-risk activities such as spread-betting. In these cases, we look at the particular circumstances of each individual complaint to weigh up whether, on balance, we feel the consumer understood and accepted the risk they were taking.

Although it is not yet a regulatory requirement, many brokers already record phone conversations, which can provide us with some very useful evidence in considering complaints like these.









## payment protection insurance (PPI)

The number of payment protection complaints referred to the ombudsman service built up gradually throughout the year – with very significant volumes of cases arriving only in the last months of the financial year. In fact, we received more complaints in the first three months of 2008 than in the whole of 2007. This resulted in an overall six-fold annual increase in the total number of disputes about payment protection policies.

From the second half of 2006 we started seeing a distinct change in the type of complaints we were receiving. An increasing proportion of disputes focused on how payment protection policies had been sold – and how they operated – rather than on insurance claims that had been rejected, which had been the cause of nearly all complaints about payment protection up until then. Concern about the selling of payment protection has attracted the attention of the media, consumer groups, the FSA, the OFT and the Competition Commission – driving the upsurge in complaints to the ombudsman service.

In considering complaints about payment protection insurance, we continue to apply our long-standing approach to the sale of insurance products – and the complaints we have seen have raised very few new issues. Applying the standards set by the law, by good industry practice since the 1990s, and in recent times by the FSA, enabled us to be clear about the approach that we take to selling insurance – and to follow this approach consistently in these cases.

## payment protection insurance (PPI) *(continued)*

2007/08	10,652	
2006/07	1,832	
2005/06	1,315	
2004/05	833	
2003/04	802	
2002/03	803	

We have seen fewer payment protection complaints brought by claims-management companies on behalf of consumers than some had expected. 14% of cases referred to the ombudsman service by claims-management companies involved payment protection insurance – fewer than half the number of cases that claims-management companies brought in relation to mortgage endowments.

On the other hand, we have noticed that an increasing number of consumers have actively pursued their own complaint – first with the business involved, and then with us – using standard letters and templates from newspapers and “reclaim” websites.

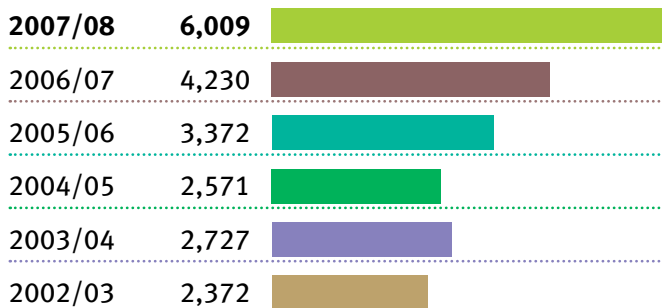
In dealing with the large number of disputes involving payment protection insurance, we have identified a number of general patterns and themes in the concerns raised by consumers. We have seen a significant number of complaints from consumers who say they did not ask for a payment protection policy or did not know they had one. Other consumers complain that they were told they had to take out payment protection insurance, even though they did not want it.

We have also seen many cases where consumers complain that when they took out payment protection insurance, they were not aware of relevant important features – such as exclusions which would have made them ineligible for cover.

However, we have seen significant differences in the number of cases received – and the outcome of those cases – depending on the type of payment protection policy involved. In the cases we see, for example, single-premium policies sold by a lender at the same time as the loan appear to present considerably more problems than monthly mortgage protection policies.

Particular challenges include cases where consumers’ complaints are made on the basis of standard templates – where individual details may be missing – and where firms have no records of individual sales. These are the types of issues that we take forward – as part of our ongoing dialogue – with the FSA, insurers, intermediaries and consumer groups.

## motor insurance complaints



Motor insurance complaints increased significantly in the year, rising by 42%. They have more than doubled in the last three years – and the proportion of these cases where we support policyholders in their disputes with insurers and intermediaries has increased to around a half. There has been a significant rise in all types of motor insurance complaints referred to us – and we have been in discussion with the motor insurance sector to try to identify possible causes.

We are still seeing a significant volume of disputes about the quality and timing of vehicle repairs, where the insurer has accepted responsibility for carrying out the repair work. We also see many disputes relating to the valuation of cars that have

been written-off after a road accident – and we remain concerned that some insurers are not making offers to consumers on a timely or reasonable basis.

We recognise that the number of disputes between insurance companies and policyholders remains exceedingly low, as a proportion of all motor insurance claims. However, as insurers and intermediaries focus on increasing their efficiency in dealing with “high-volume” claims – each of which individually can have a significant impact on the particular consumer involved – it seems likely that there will be a permanent, and growing, demand for our services in relation to disputes in this area.



## complaints about buildings and contents insurance

		buildings insurance		contents insurance
2007/08	2,669		1,363	
2006/07	1,951		1,238	
2005/06	1,951		1,224	
2004/05	1,624		1,145	
2003/04	1,549		1,154	
2002/03	1,285		1,009	

During the year we saw a sharp rise in disputes involving buildings insurance (up 37%) and a 10% rise in complaints relating to contents insurance.

The complaints about buildings insurance mostly centred on damage caused by storm, subsidence and flooding. Many disputes related to consumers' concerns about delays by insurers – and dissatisfaction with the way in which repairs were carried out under buildings insurance policies.

Insurers can meet claims under buildings insurance policies either by offering to pay policyholders a sum of money to allow them to pay for repairs and remedial work themselves – or by arranging for the necessary work to be done and paying for it directly.

When this latter arrangement works well, it can clearly benefit both sides.

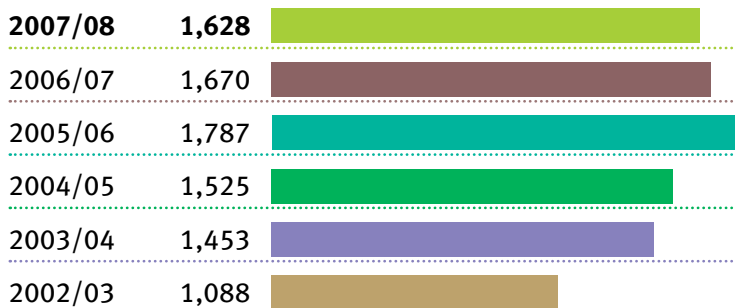
The policyholder can see that the insurer has taken on the responsibility of selecting and managing builders, plumbers, roofers *etc* – including ensuring that they do a good job, or chasing them up to demand that they do so.

In return, the insurer gets to keep control of costs – and can retain the benefit of any reductions or discounts they are able to negotiate.

When this arrangement goes wrong, however, the insurer and the policyholder can end up locked in a dispute about the failure and delays of those who were appointed to carry out the repairs.

We kept a close eye on the consequences of the severe flooding that hit parts of the country during the summer of 2007 – to pick up on any early indications of problems that might result in insurance disputes being referred to us. Our experience in the past has been that the insurance sector's swift and professional response to large-scale emergencies has been complemented by a realistic and resilient attitude on the part of consumers. So far, the number of complaints that we have seen resulting from the floods has been very low – although we are aware that many people are still unable to return home while waiting for properties to be repaired.

## travel insurance complaints



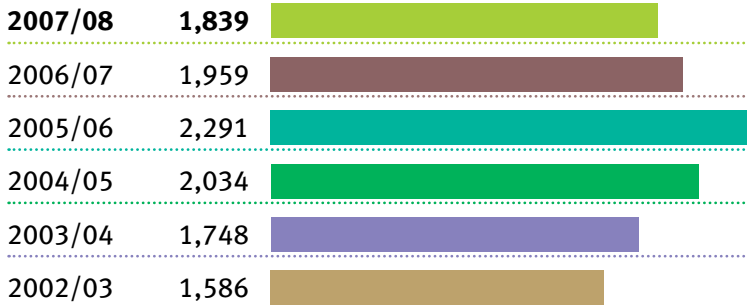
The number of travel insurance complaints referred to the ombudsman service has declined for the second year running. This is clearly welcome news. We hope it reflects both improved claims- and complaints-handling by insurers, and also growing consumer understanding as to what is – and isn't – likely to be covered by travel insurance.

The largest cause of complaints we see about travel insurance relates to unpaid claims for the cancellation of holidays – rather than disputed claims for medical treatment abroad or theft. However, as many of these claims arise out of the ill-health of someone who was planning to travel – or a relative of someone

who was planning to travel – we are still concerned about the lack of clarity in some policy documents we see relating to restrictions regarding medical history and changes in health.

In December 2007 the government announced that from 2009 the sale of travel insurance as part of a package holiday will be regulated by law for the first time. From this date, complaints about the sale of travel insurance by travel agents, tour operators, airlines and others will also be covered by the ombudsman service. We will be working closely with the travel insurance sector and consumer groups in the run-up to 2009 in preparation for this extension of our remit.

## health insurance complaints



In previous *annual reviews* we have commented on the difficult and sensitive nature of the disputes we deal with involving health and medical insurance. So it is pleasing that – for the second year running – disputes referred to us about all types of policies in this area have declined. We now find insurers have handled complaints fairly in two-thirds of these cases.

Considerable credit for this decline in complaint numbers must go to those insurers and re-insurers who have improved the quality of their claims-handling, co-operated in publishing data on how claims are treated, and engaged in discussions on how to improve industry practice.

We were particularly pleased to see the *guidance on non-disclosure in protection policies* published by the Association of British Insurers (ABI) in January 2008. This guidance endorses the approach to non-disclosure of medical matters that the ombudsman service has developed over time – and that has been followed to a large extent by the Law Commission in their proposals for reforming insurance law.

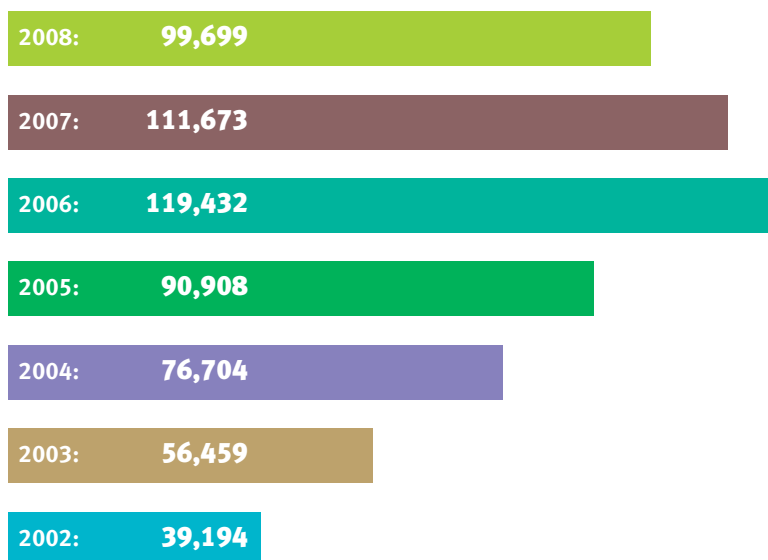
Difficult aspects do, however, remain in this area of our dispute-resolution work. During the year, for example, we spent a significant part of our time on disputes about the seriousness of illnesses and conditions which may be psychological in origin (at least in part) or which cannot be accurately assessed solely by tests or scans.

Disputes about health insurance generally turn on highly complex issues that, by definition, are of immense personal importance to the consumer and financial significance to the insurer. This probably explains why a higher proportion of health and medical disputes require a binding ombudsman decision to resolve them than disputes in other areas of insurance work, which we can frequently settle more quickly and informally.

For many people, it is clearly a challenge at the best of times to raise a concern about a complex insurance matter – so pursuing a formal complaint must seem all the more daunting following sickness, incapacity or bereavement. This reinforces the need for us to be accessible to consumers from all backgrounds.

# how we dealt with the complaints

## number of cases we resolved



year ended 31 March

## different approaches in different cases

Our aim is to take as flexible and pragmatic an approach as possible to the process of resolving complaints – using the dispute-resolution tools most appropriate to the individual circumstances of each case. Our approaches include:

An adjudicator settling a dispute informally – through mediation and recommended settlements. This might involve negotiating a constructive way forward – satisfactory to both sides – without seeking to apportion any blame for what may have gone wrong in the past between the business and the consumer.

An adjudicator issuing an “adjudication” – a more formal document setting out our recommendations as to whether the complaint should be upheld.

An ombudsman carrying out a review and making a final decision – where the earlier informal intervention by an adjudicator hasn’t settled the dispute. A decision by any of our panel of 37 ombudsmen is final – it is the last stage of our dispute-resolution process.

We resolved a total of **99,699** cases in the 2007/08 financial year – including 29,484 mortgage endowment complaints. More than nine out of ten of these cases were settled informally by our adjudicators – without the need for formal ombudsman decisions.

We resolved 11% fewer cases than in the previous year. This reflected the fact that, during the year, our adjudicators were able to settle significantly fewer mortgage endowment complaints at the earlier, more informal, stage of our dispute-resolution process. An increasing proportion of the most disputed mortgage endowment cases were referred to our ombudsmen for official final decisions.

The number of mortgage endowment disputes that could be settled only by formal decisions by our ombudsmen more than doubled in the year – increasing to 3,705 cases (from 1,802 in the previous year).

The number of cases we were able to resolve and close was also affected by the fact that in July 2007 we put on hold around 14,000 current account disputes about charges incurred when an overdraft limit is exceeded. We did this while awaiting the outcome of legal proceedings brought in the High Court by the Office of Fair Trading (OFT) and a number of current account providers (see page 24).

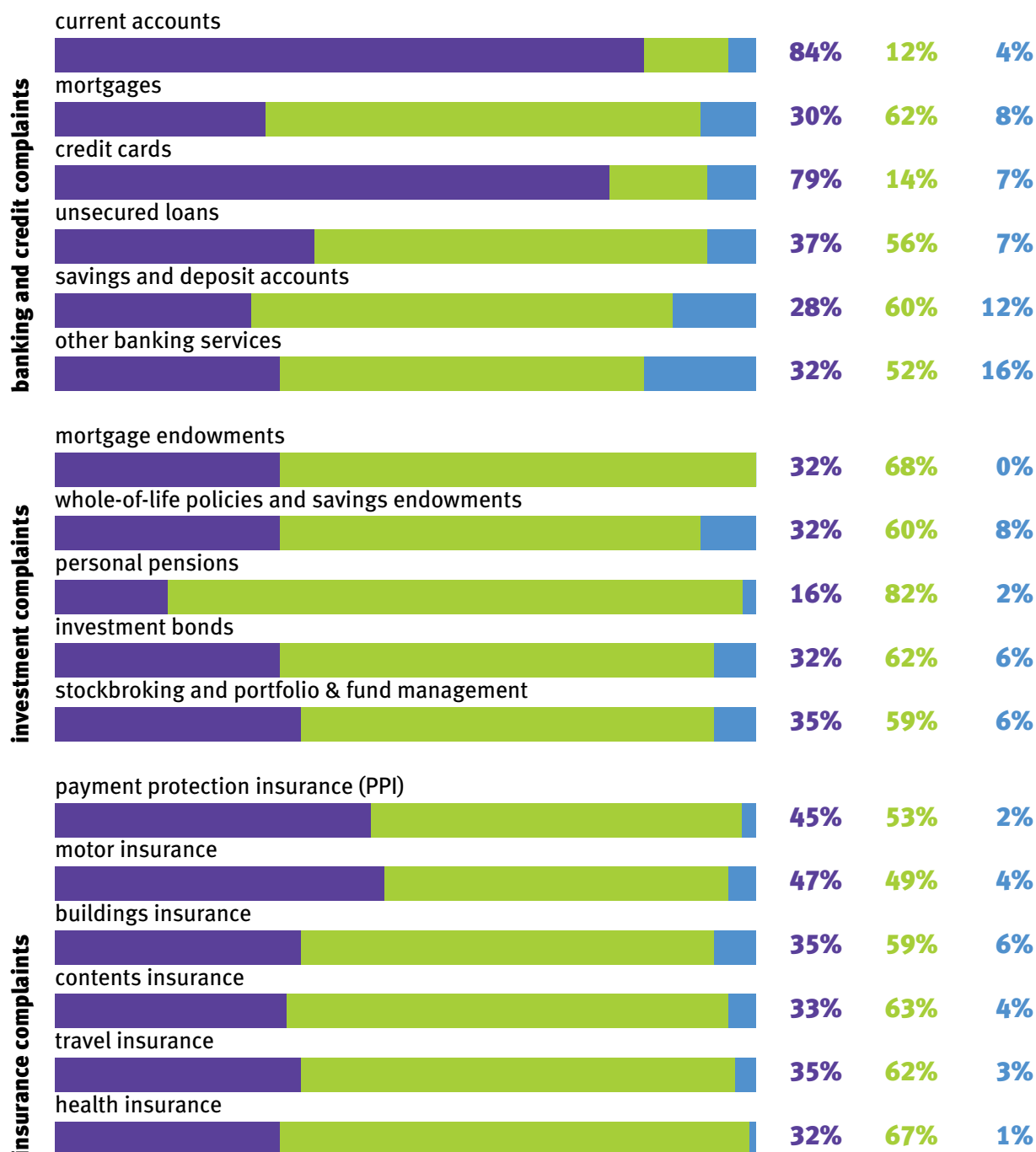
## outcome of cases

In each case we settle, we record how the final outcome – after our involvement – compared with the position the business took when it issued its final response to the consumer’s complaint. This means we record:

- either that “we agreed with the consumer’s complaint”, where the business had failed

to accept that it had done something wrong, or had failed to offer sufficient redress;

- or that “we agreed with the business’s response”, where the business had done nothing wrong, or where it had originally done something wrong but had later offered sufficient redress – even if the explanation it gave the consumer had been poor.



These figures exclude complaints that were outside our remit – or withdrawn – where we made no decision on the merits of the case.

we agreed with the consumer’s complaint  
 we agreed with the business’s response  
 mixed outcome

Where we *uphold* a complaint in favour of a consumer – either wholly or partly – there are a number of ways in which we can put matters right, depending on the individual circumstances of the case. These include:

**Telling the business to pay redress – to put the consumer in the position they would now be in, if the business hadn't got it wrong in the first place.**

**Telling the business to compensate the consumer for particular distress and inconvenience – generally an amount between £150 and £500, where we believe the individual circumstances justify it.**

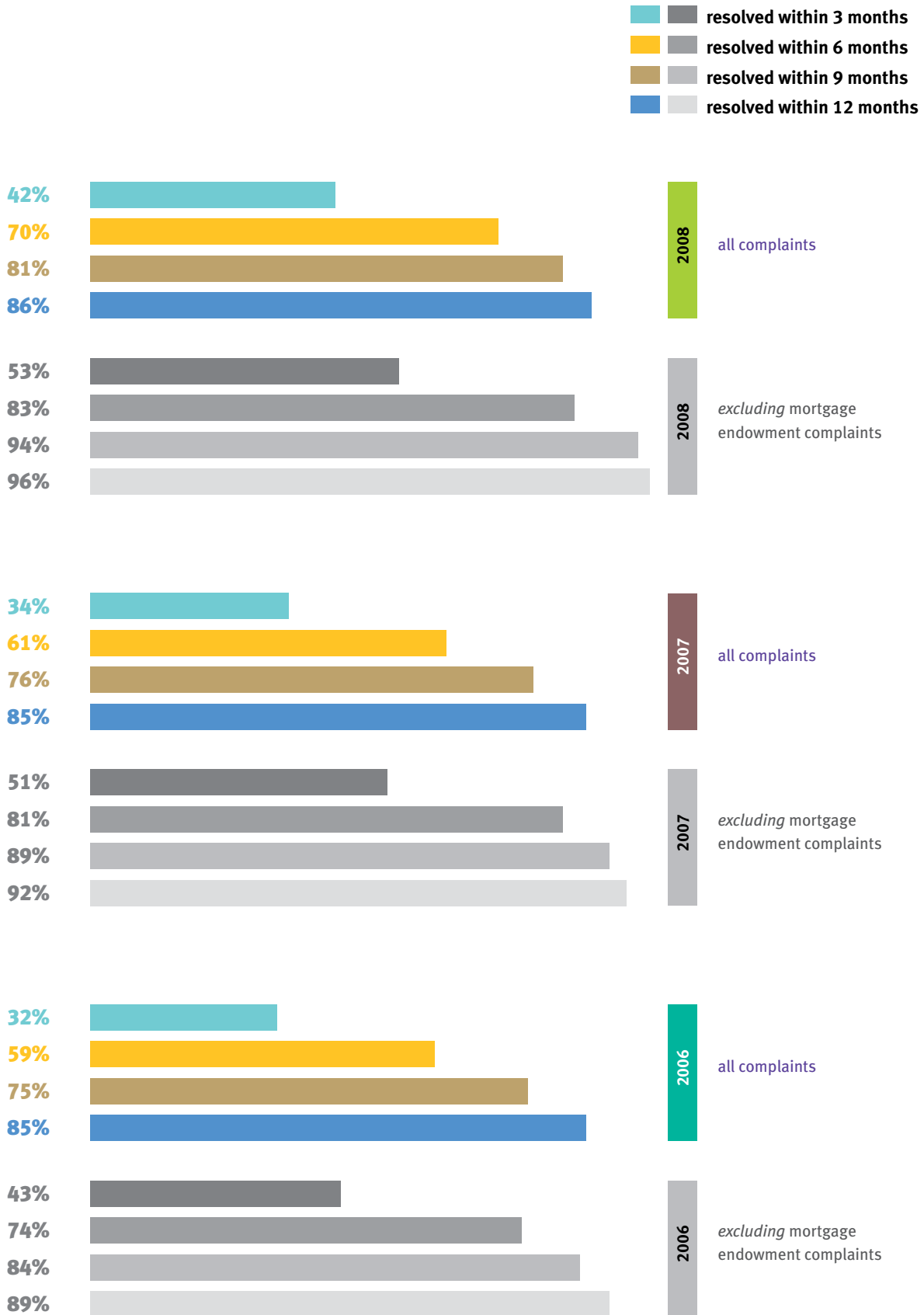
**Directing the business to take action, to put right what's gone wrong. This can range from correcting credit references to paying a previously rejected insurance claim.**

**Telling the business to apologise to the customer.**

Where we do *not* uphold a complaint in favour of a consumer, we aim to explain clearly why we believe the business handled the complaint fairly. In some cases, the business could have prevented the complaint from arising in the first place if it had explained things better. In other cases, our explanation simply reinforces – from an entirely impartial point of view – what the business has already explained to the consumer.

We recognise that any decision of ours will be disappointing for the side that doesn't hear from us what it wanted to hear. But whatever the outcome of an individual dispute, we hope we will have “added value” by giving our view on the case fairly, authoritatively and impartially. There is more information about how consumers rate our service on page 62 – and about how businesses rate us on page 67.

## time taken to resolve cases





The chart opposite shows the time it takes to settle disputes that are referred to the ombudsman service. For complaints about banking, insurance and investments *other than* mortgage endowments, we resolved 53% of all disputes within three months – fractionally exceeding the timeliness target of 50% set in the budget for 2007/08.

We also exceeded the timeliness targets – set in the budget for 2007/08 – for resolving all complaints *other than* mortgage endowments within six months, nine months and a year. Our timeliness statistics during the year showed an improvement on the previous year's figures.

Our ability to handle mortgage endowment complaints as quickly as we would have liked has been affected during the year by the increased proportion of hard-fought cases that have had to be referred to an ombudsman for an official final decision – rather than being settled by an adjudicator at an earlier and more informal stage of our dispute-resolution process.

This means that, on average, mortgage endowment complaints took between nine months and a year to settle. This is in line with the timeliness targets set in the budget for 2007/08.

The concern for consumers with mortgage endowment complaints is whether they will be able to pay off their mortgage when their endowment matures – usually at some future date. Generally, no loss has yet materialised in real terms – so a longer waiting period before deciding these cases, whilst regrettable, is less critical than in other types of cases where loss may have already materialised.

We continue to give priority to cases where the consumer might clearly be disadvantaged by having to wait longer, for example through financial hardship or for medical reasons.

Disputes that cannot be resolved following the intervention of an adjudicator – and that therefore need to involve an ombudsman directly – tend to be more entrenched and legalistic. This affects not only the time it takes us to resolve these cases but also our unit cost and productivity.

During the year we also continued to handle a significant proportion of mortgage endowment complaints involving smaller businesses. In these cases, we are no longer able to benefit from the efficiencies and economies of scale that we developed when dealing with significant volumes of cases involving the largest financial services groups.

## quality and consistency

We are committed to monitoring the quality and consistency of our work. Our quality management process includes systems that alert managers to any cases where the standards we set may not have been achieved – so that appropriate action can be taken to put things right. We also have a quality-audit mechanism that measures quality levels across our teams of adjudicators, as well as providing a means of testing the integrity of our quality processes generally.

The quality-audit mechanism also involves members of the executive team, including the chief ombudsman, monitoring the standard of adjudicators' work by reviewing and assessing randomly-selected closed cases. We have further strengthened our commitment to quality by setting up a quality committee as a sub-committee of the board – with a formal remit to oversee our quality processes and results.

Work in this area is coordinated by our quality team which reports directly to the chief ombudsman. As well as spearheading our quality-improvement activities across all areas of the organisation, the quality team provides expertise and support for our process-improvement and project-management work.

It is also responsible for producing and verifying management information and performance data for operational and strategic purposes.

Our commitment to continuous improvement is underpinned by our programme of stakeholder research – which helps give us a closer understanding of what our customers want, how they rate the service we provide, and where we could do things better.

This includes:

**Running quarterly surveys to monitor the views of the businesses we cover.**

**Carrying out customer-satisfaction research on an ongoing basis, to record and measure the opinions of consumers whose complaints we have handled.**

**Monitoring general consumer-awareness of the ombudsman service, on a quarterly basis, to help with our work on accessibility – ensuring that everyone who needs to contact us knows how to find us and how to access our services.**

**Running our “voice of the customer” system, so that we can take account of customer comments, whoever they are from, whenever they arise, and whatever they are about.**

Results and feedback from these stakeholder-research activities are shown in more detail in the chapters *who complained to us* and *who the complaints were about*.

Our knowledge-management systems are at the heart of our work to ensure the accuracy and consistency of our approach to handling individual cases. Over 85% of the financial products and services about which we commonly receive complaints are now covered by “KIT”, our in-house knowledge-management toolkit. This intranet-based resource is supplemented with a wide range of in-house clinics, briefings and seminars – which help us share knowledge, learn and improve.

As an organisation that every day deals with thousands of pieces of correspondence and makes hundreds of decisions on complaints, we recognise that things can and do go wrong.

A key consideration in looking at complaints is the way in which the businesses concerned have tried to put things right. In just the same way, we believe an important test by which we should 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 businesses whose complaints we handle – we have our own formal complaints procedure for people who are unhappy with the level of service we have provided. These complaints are handled by a specialist group of complaints handlers, reporting directly to our corporate director. Where we cannot resolve a complaint about our service, it can be referred to the independent assessor (see page 74 for the independent assessor’s annual report).

## our budget and productivity

The Financial Ombudsman Service is funded by an annual levy paid by the businesses we cover – and by case fees that we charge each business for settling disputes referred to us about them.

In the 2007/08 financial year we did not, however, charge businesses case fees for the *first two* disputes we settled during the year. As from April 2008, we increased the number of free cases – following consultation with the financial services industry – so that businesses are charged case fees only for the *fourth* (and any subsequent) dispute during the year.

There is more information about how many businesses paid case fees on page 66.

Our budget is calculated on the basis of workload forecasts that we consult on publicly each year in January and February – before the start of the new financial year.

Following consultation in January and February 2007, the boards of the FSA and the Financial Ombudsman Service agreed a budget for the ombudsman service – for the 2007/08 financial year – that assumed income of £57.3 million, expenditure of £57.3 million and a unit cost of £535.

## our budget and productivity *continued*

The final figures for the year showed that our income from case fees was £2 million below budget. This largely reflected the fact that fewer mortgage endowment complaints were completed by our adjudicators – triggering

a case fee – as an increasing proportion of these cases had to be referred to our ombudsmen for a final decision, which is a longer and more complex process.

## our income and expenditure *(summary)*

	actual year ended 31 March 2008 £ million	budget year ended 31 March 2008 £ million	actual year ended 31 March 2007 £ million	actual year ended 31 March 2006 £ million
<b>income</b>				
annual levy	19.5	19.4	16.6	11.7
case fees	35.5	37.5	36.1	39.8
other income	0.5	0.4	0.4	0.5
<b>total income</b>	<b>55.5</b>	<b>57.3</b>	<b>53.1</b>	<b>52.0</b>
<b>expenditure</b>				
staff-related costs	41.4	43.6	42.5	40.5
other costs	9.6	10.2	9.7	8.9
financing charges	0.2	0.3	0.3	0.3
depreciation	1.7	3.2	2.5	2.9
<b>total expenditure</b>	<b>52.9</b>	<b>57.3</b>	<b>55.0</b>	<b>52.6</b>
exceptional costs	3.1	–	–	–
surplus/(deficit)	(0.5)	–	(1.7)	(0.6)

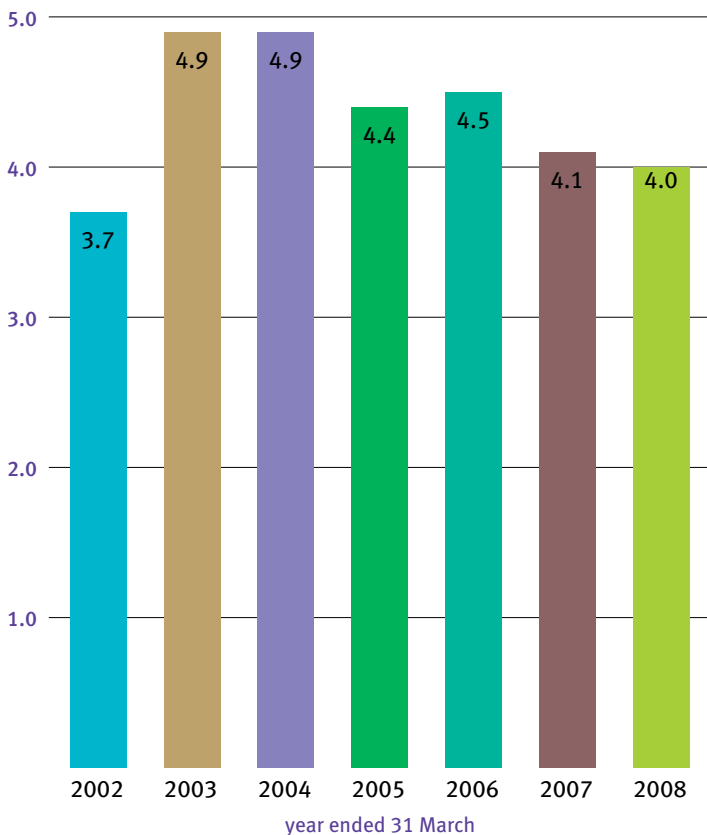
The figures for the year ended 31 March 2008 are drawn from our unaudited management accounts. The directors' report and audited financial statements are available separately – from June 2008 – on our website and as hard-copy.

Our total expenditure for the year of £52.9 million was £4.4 million below budget – mainly due to staff-related costs being lower than planned. Exceptional costs of £3.1 million related to restructuring and redundancy costs, following the sharp decline in the number of new mortgage endowment cases. These costs had originally been estimated at £4 million. There is more

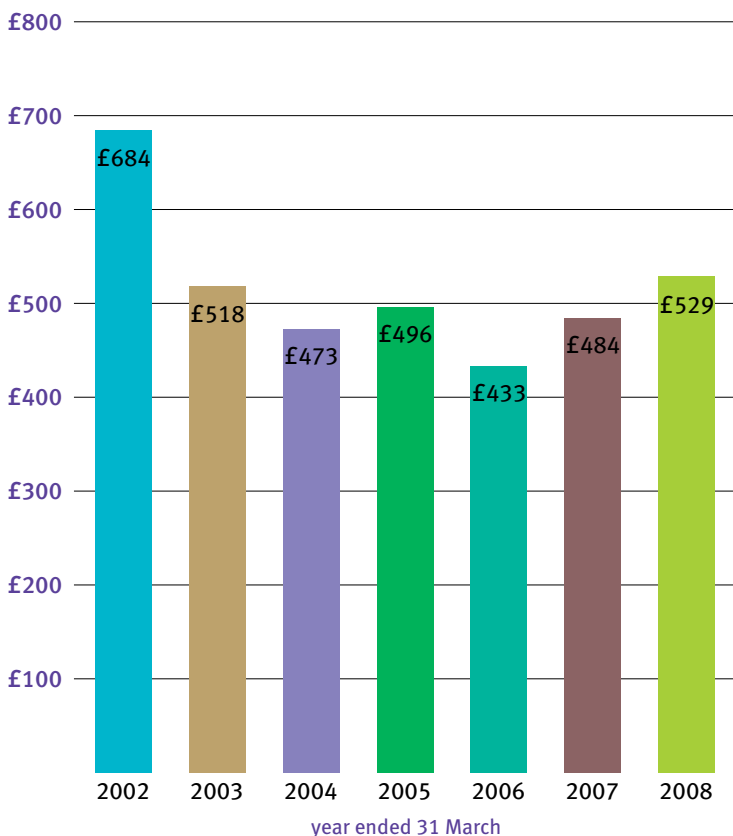
information about these costs in our *corporate plan & budget* published in January 2008.

The amount of bad debts during the year was £0.4 million – resulting from firms we cover going out of business, leaving case fees unpaid with no realistic chance of recovery. Over 85% of these costs related to firms that have either been liquidated or placed “in default” by the Financial Services Compensation Scheme (FSCS).

## average number of cases resolved weekly by each adjudicator



## our unit cost \*



Our unit cost for the year was £529 – compared with an estimated figure in the budget of £535, and a figure of £484 in the previous year. This 9% increase in our unit cost is linked to the lower levels of productivity we had been anticipating – once we lost the significant economies of scale that we achieved in earlier years with the very large volumes of mortgage endowment cases.

Changes in the mix of cases we deal with – both in terms of the topics the complaints involve and the complexity of the individual cases – means that there are fluctuations in the number of disputes each adjudicator handles.

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

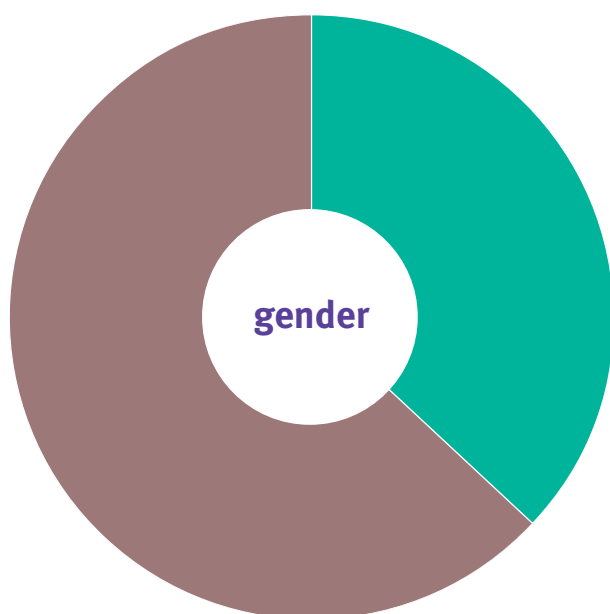
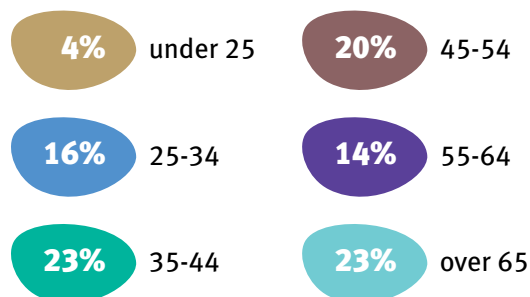
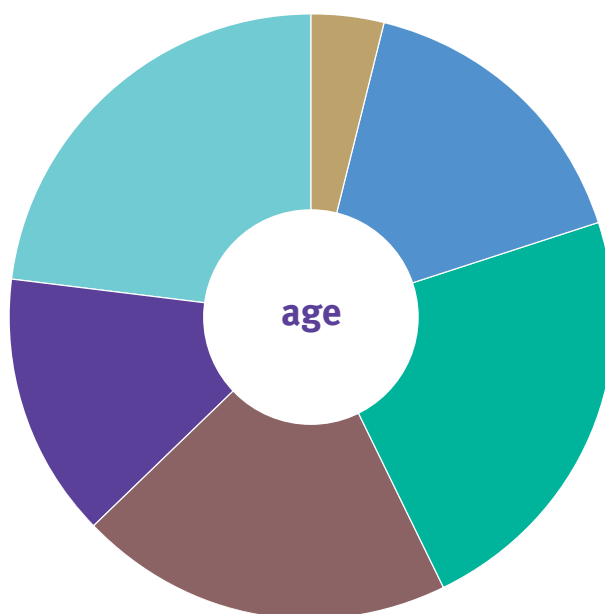
## what type of consumer uses the ombudsman service?

### what age are consumers who complain to the ombudsman?

Just over half of the consumers who brought complaints to the ombudsman service during the year were between the ages of 35 and 64. In previous years, eight out of ten people who used our service were in this age bracket.

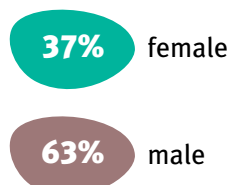
The decreasing dominance of this age group is in line with the significant fall in the number of complaints about mortgage endowments this year. 35 to 64 year olds are the home-owning generation who were most likely to have had complaints relating to mortgage endowments.

The proportion of consumers under 35 who use our service doubled over the year to 20%. We hope this reflects the work we have carried out among this age group to help raise awareness of the right to bring financial disputes to the ombudsman service. There is more information about our awareness-raising and accessibility initiatives on page 58.

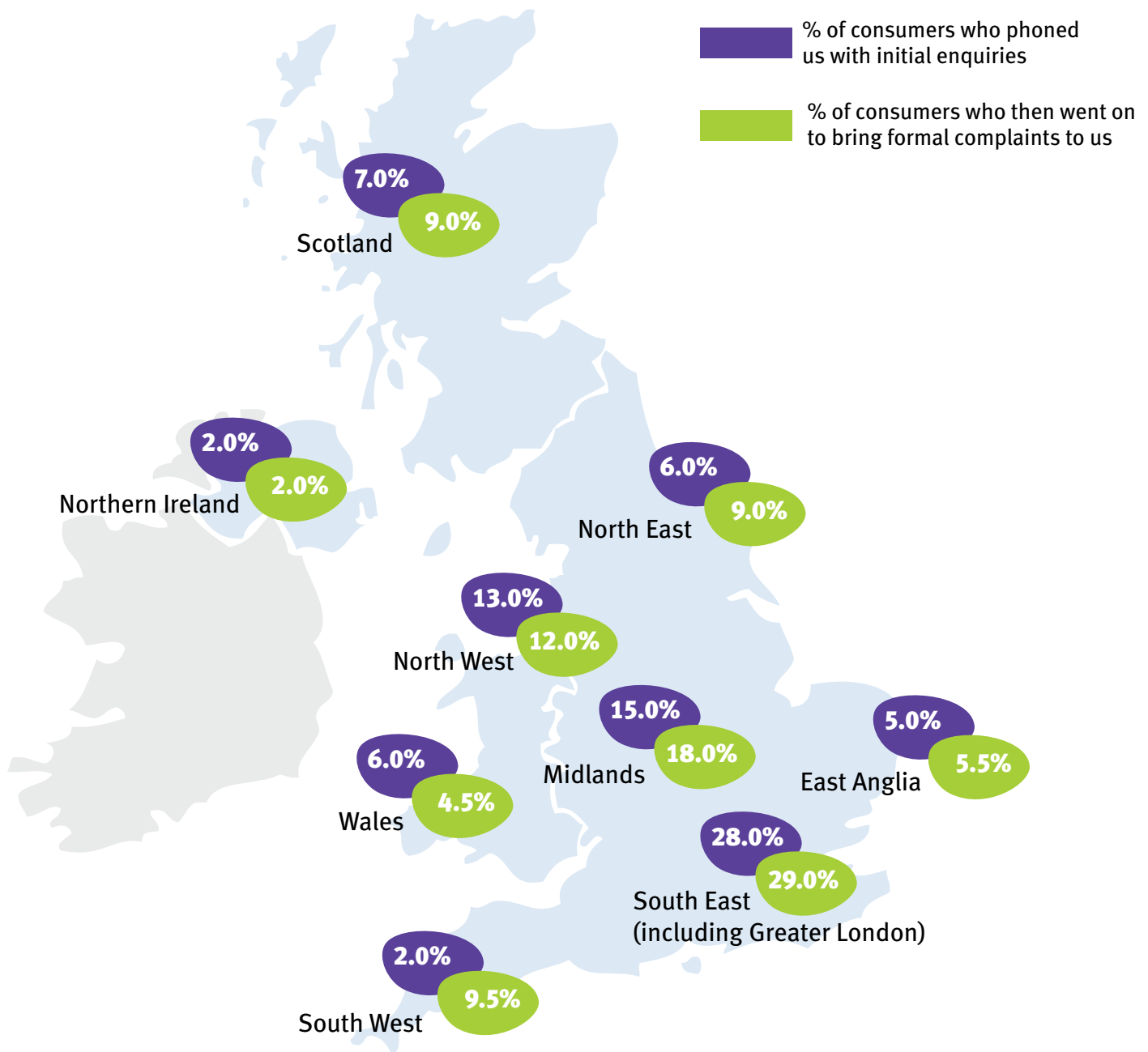


### ... and what gender are they?

Men complain more to the ombudsman service than women. However, the proportion of women who refer complaints to us has increased by 8% during the year – again reflecting, we hope, our various outreach initiatives with younger women. Many complaints relate to accounts and policies that are held jointly, where conventionally the first-named account-holder – the name our system records – is generally a male partner.



where do consumers live who complain to us?

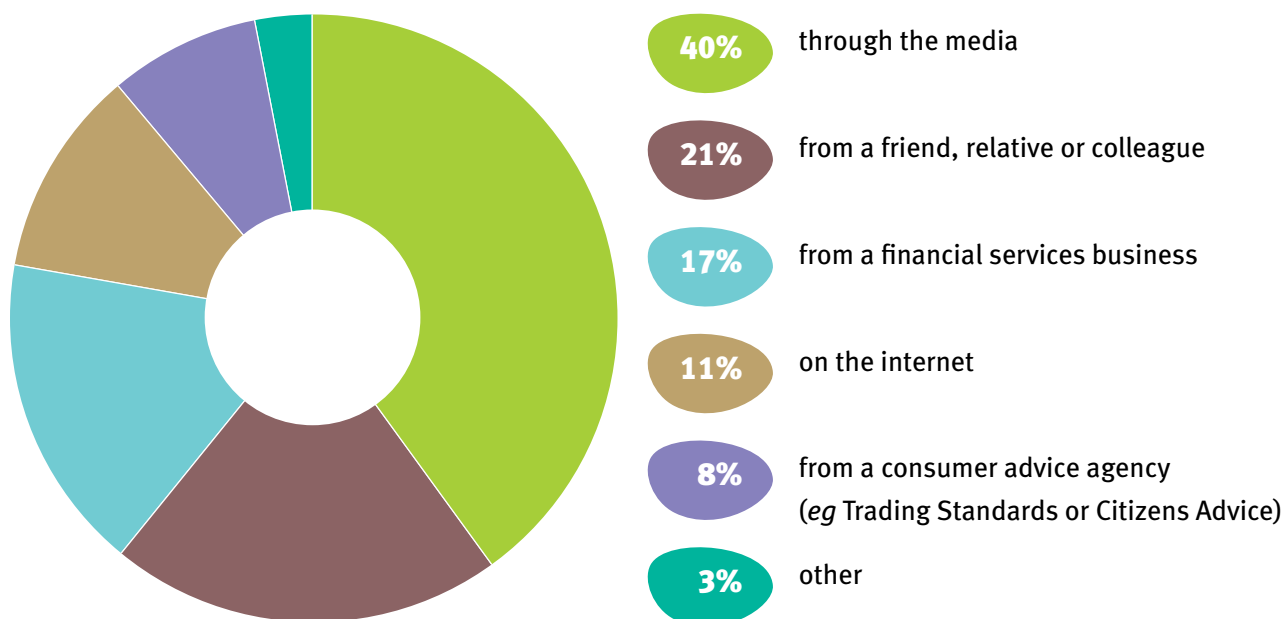


13% contacted us by mobile phone 3% of calls not traceable 1.5% live outside the UK

This map shows where consumers who brought complaints to the ombudsman this year live in the UK. Comparing these figures with regional population data helps us monitor awareness and usage of our service across the regions and nations.

The location of people using the ombudsman service continues broadly to reflect the spread of the population across the UK as a whole.

## how did consumers hear about the ombudsman?



Businesses covered by the ombudsman service are required by law to mention the ombudsman, when they deal with a customer for the first time. Businesses also have to give details about us, if a complaint arises which the business cannot resolve to the customer's satisfaction. So we would expect consumers with complaints to say they heard about us from the business they complained about. However, the proportion of people who told us that this is how they found out about us continued to fall – down to 17% this year from 19% in the previous year (and 32% the year before that).

On the other hand, the proportion of people who said they found out about the ombudsman from friends, relatives and work colleagues – or from the internet – continued to increase. Almost three-quarters of consumers who came to the ombudsman service said they knew about us from the internet, media or by word of mouth.

95% of people who got in touch with us said that finding our contact details had been easy – the same figure as in the previous year.



During the year we carried out market research into levels of awareness of the Financial Ombudsman Service among consumers more generally – as we are just as interested to hear the views of those who have *not* used our service. This research takes the form of quarterly phone-based interviews carried out with a representative sample of the adult UK population.

The results of this research during the year showed that:

**12% of consumers said they had been unhappy in their dealings with a financial services business.**

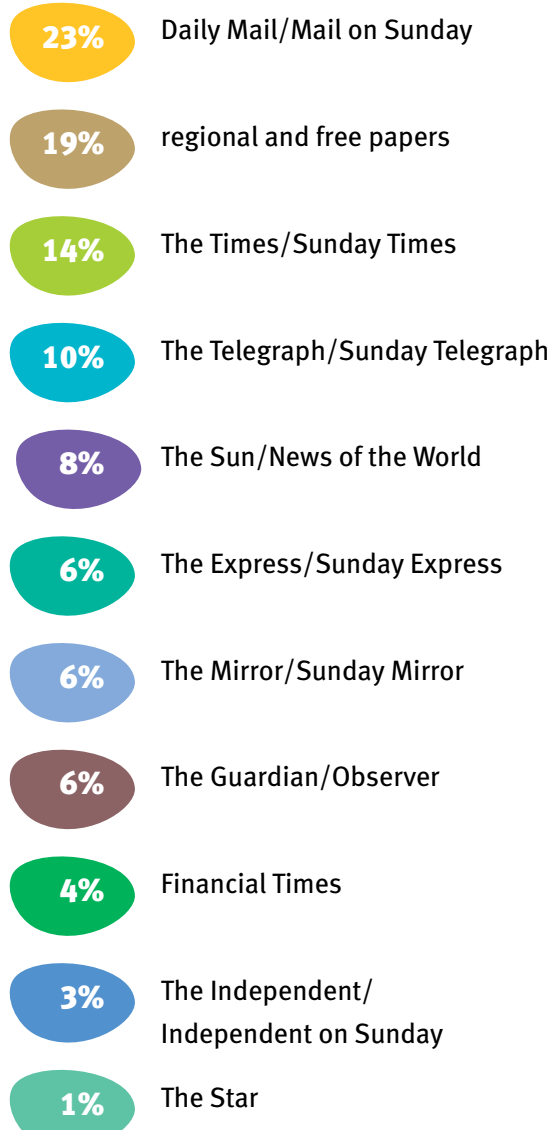
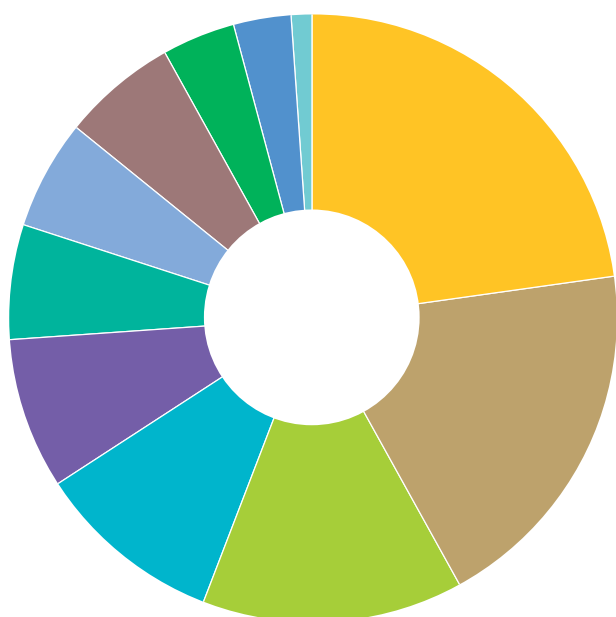
**The proportion of consumers able to name us, unprompted, was similar across all geographical areas within the UK – but varied significantly depending on age and socio-economic background.**

**13% of consumers named us, unprompted, as the organisation whose job it is to resolve disputes between consumers and financial services businesses (up from 10% in the previous year).**

**During a period of extensive media coverage of consumers complaining about bank charges, the proportion of consumers able to name us, unprompted, rose to one in five people.**

**More than half of consumers felt that the existence of the ombudsman increased their confidence in financial services.**

## what newspapers do consumers read who complain to the ombudsman?



The general pattern of newspaper-reading among people who use the ombudsman service – as recorded in our consumer research – remains broadly similar to previous years' findings. Knowing which newspapers are read by consumers who bring complaints to us gives us a useful insight into the socio-economic background of our customers.

Other analysis we have carried out during the year – which has involved looking at the postcodes and occupations of those referring complaints to the ombudsman service – indicates that the proportion of people from different socio-economic backgrounds who use the ombudsman service broadly relates to the number of financial products estimated to be held by different socio-economic groups.

Our research also shows that there is no statistically significant variation – by socio-economic group or lifestyle group – in the outcome of complaints brought to the ombudsman service. There is more information about the outcome of the complaints referred to us on page 44.

During the year we launched a number of targeted consumer initiatives to help raise levels of awareness and usage of the ombudsman service – where our research identified specific groups of more vulnerable consumers or those who appeared to be less likely to know about, or to use, our service. There are more details on the following pages about this aspect of our accessibility work.

## accessibility and consumer diversity

13% of consumers whose disputes we settled during the year told us they had some form of disability (12% in the previous year) – predominantly mobility difficulties.

Demand continued to increase during the year for information in alternative formats such as Braille, large print and on audiotape/CD – and we also use TypeTalk, sign-language and “accessible text” (sometimes also called “easy read”). This is part of our commitment to be flexible and to accommodate our customers’ individual needs wherever we can.

During the year our *accessibility taskforce* – which comprises senior staff from across all areas of the ombudsman service – launched a special focus on how we respond to customers with different needs. This has included taking part in various initiatives to seek feedback in the community on how we approach disability issues – and how we can learn from the problems that people with disabilities may have encountered in financial services.

8% of people who used our service during the year defined themselves as belonging to non-white ethnic groups (7% in the previous year). 14% of our own employees come from a non-white ethnic background. Our consumer research shows that levels of awareness of the ombudsman vary between consumers from different ethnic backgrounds – but the most significant fluctuations relate to age, region and socio-economic factors.

During the year we continued our partnership with ZEE, the UK Asian media-network. Our tailored messages – for example, our Eid/Diwali advert in ZEE TV magazine – and our closer work with the Asian community, including taking part in “melas” (Asian lifestyle events), may have contributed to the two-fold increase in unprompted awareness of the ombudsman recorded among this group of consumers during the year.



In the last few years, the influx into the UK of migrant workers from Eastern Europe, and especially Poland, has given the financial services sector the opportunity to develop new markets for financial products and services. The banking sector, for example, has responded by offering people arriving from Poland new accounts reflecting the particular circumstances and needs of this group.

## accessibility and consumer diversity *continued*

To complement the wide range of information already provided by many public-sector and commercial organisations for Polish workers arriving in the UK, we produced a tailored information pack for distribution across the UK Polish-support network. This included information cards with key messages in English and Polish.



Our work in languages other than English also reflects the fact that last year over 1,000 consumers from 88 countries round the world brought complaints to the ombudsman service – relating to UK-based financial services and products.

For people who are not comfortable using English, we provide information and communicate in many other languages. In the past year we have done so using over 30 languages – including handling correspondence in Romanian, phone calls in Tigrinya and emails in Kurdish. Around half

of our interpreting and translation work involves predominantly Asian languages and the other half involves European languages (of which two thirds are Western European languages and one third Eastern).

We also run 12 “micro-sites” (mini websites) in languages ranging from Somali to Welsh. And we have video and audio clips (in mpeg and mp3-format) available on our website in eight languages.

During the year we identified a number of other groups of consumers who appeared to be under-represented in terms of usage of the ombudsman service. Our research indicated that younger women, for example, were generally around 10% less likely to know about the ombudsman service than their male peers. We therefore launched a specific awareness-raising initiative, targeting women aged 25 to 45. This included producing advertorial and advertising for the women’s press – and taking part in lifestyle events and consumer shows outside the conventional financial services arena, such as the National Wedding show and the *Vitality* health, beauty and well-being show.





We similarly targeted an awareness-campaign at parents with young families – a group shown by our research to be more likely to have a wider range of financial products, but less likely to be aware of their right to complain to the ombudsman if things go wrong. As with our initiative with younger women, we produced a range of tailored information and took part in mainstream events that took us outside the world of financial services. Our theme at events such as the *BBC Good Homes* show at Birmingham NEC was “bubbles and balloons” – designed to make our potentially rather dry and abstract message more accessible and fun.

The proportion of complaints to the ombudsman service brought by younger people – though growing (see page 52) – does not appear to correspond to their increasing ownership of financial products, which typically includes travel, motor and mobile-phone insurance, bank accounts and store cards. Our market research suggested that of the small proportion of younger people who said they *had* actually complained to a financial services business – and remained unhappy with how the business had handled their complaint – most *did not* then refer the dispute to us. This was largely because they thought there was “no point”, it would be “too much hassle” or they “couldn’t be bothered”.

In response to this feedback, we launched a youth awareness-campaign at the 2007 Trading Standards annual conference – using a range of posters and postcards aimed at increasing the perceived relevance of the ombudsman to this age group.



We also produced a special education resource-pack for teachers and youth workers – providing key information about the role of the ombudsman in resolving disputes. We launched the resource-pack at *The Education Show* at Birmingham NEC – and have promoted it widely in the education press and across youth websites and networks.

Our work with teachers and youth workers has highlighted the value these “trusted individuals” in the community place on the key life-skills that dispute-resolution involves, such as negotiation, problem-solving and communication.

During the year we identified that consumers in Northern Ireland showed slightly lower levels of awareness of the ombudsman service than consumers elsewhere across the UK. In response to this, we launched an initiative which involved taking part in a major consumer show in Belfast and working closely with the regional media.

## our website users

During the year we recorded 44 million hits on our website – [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk) – with an average of 160,000 visitors a month. On the busiest day on the website during the year 8,243 people logged on. In July 2007 we were listed in the *Daily Mirror* as one of “the 101 websites that will help change your life”.

To find out more about our website users – and why they visited us online – we ran a web-based user-survey over a three-month period at the end of 2007. Key findings showed that:

**56% of users were male and 44% female.**

**43% of people were first-time visitors and 57% had already been on our website previously.**

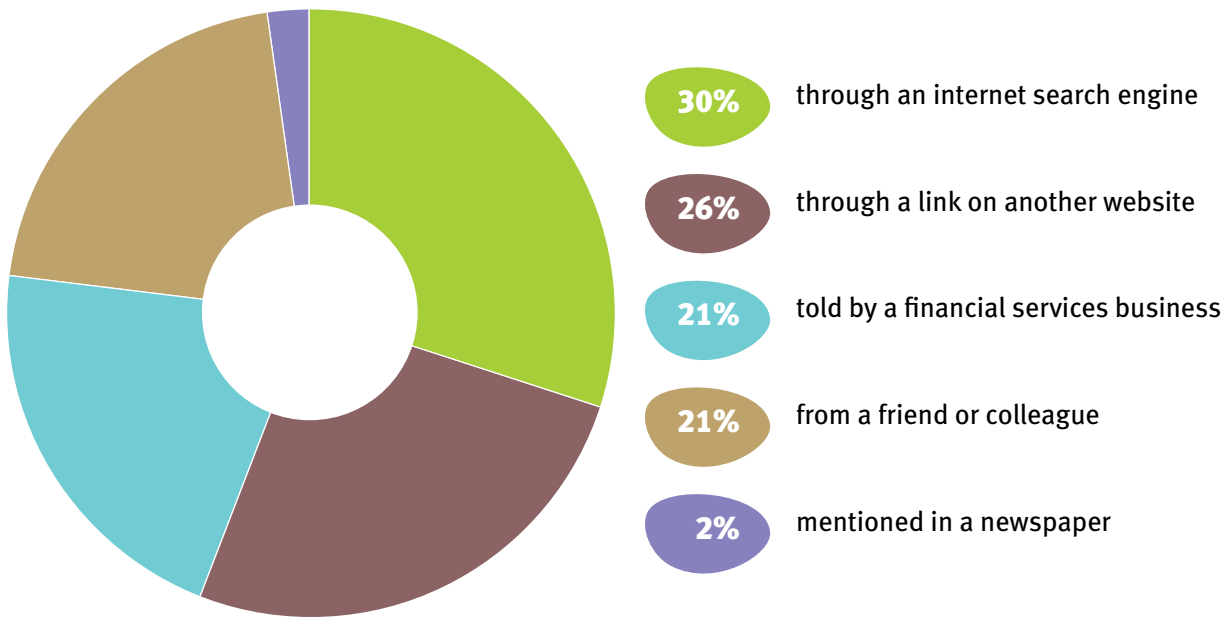
**34% of people who use the website are under 35, while 20% of this age group actually bring complaints to the ombudsman service; conversely, 19% of people visiting our website are over 55, while 37% of people who complain to us are in this age group.**

**68% were consumers visiting for personal use and 32% were on our website for business purposes.**

**70% of users said they would definitely visit the site again.**

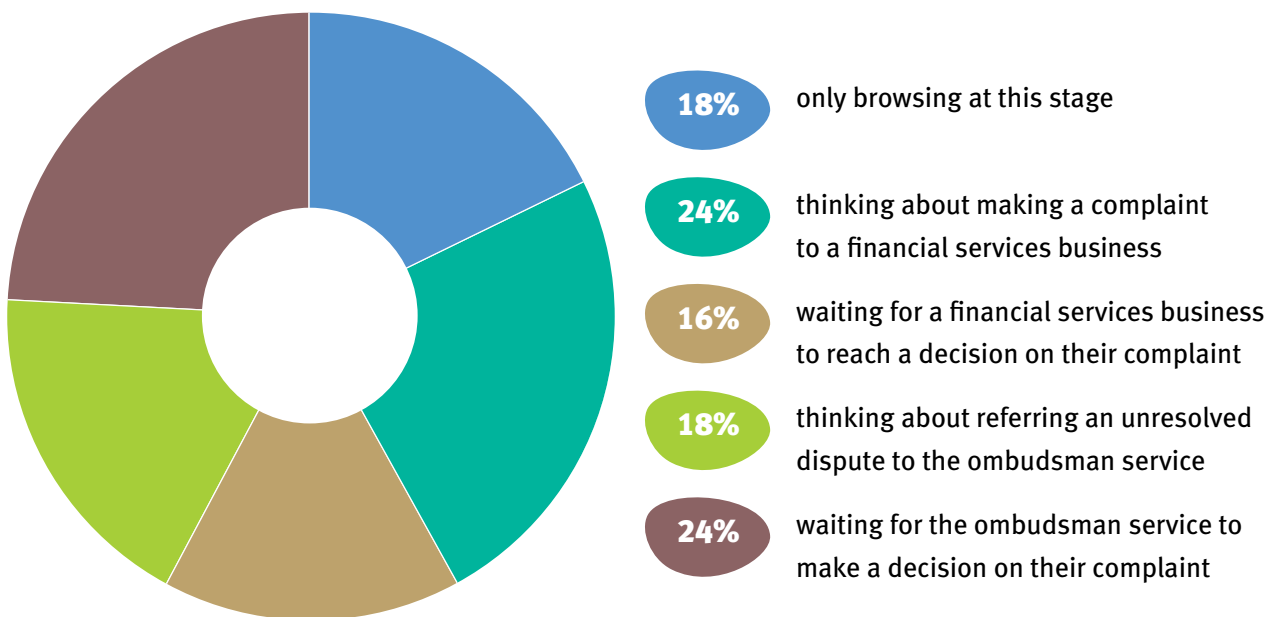
During the year we also added “voting buttons” to the most accessed pages of the website, inviting users to tell us how useful they found these particular sections by voting on a scale of 1 to 5 – with 1 being “very useful” and 5 “not very useful”. Each section received the top ratings of 1 or 2 from at least 80% of users – with the accessibility page receiving these top ratings from 92% of people who voted.

### how did our website users find out about the site?



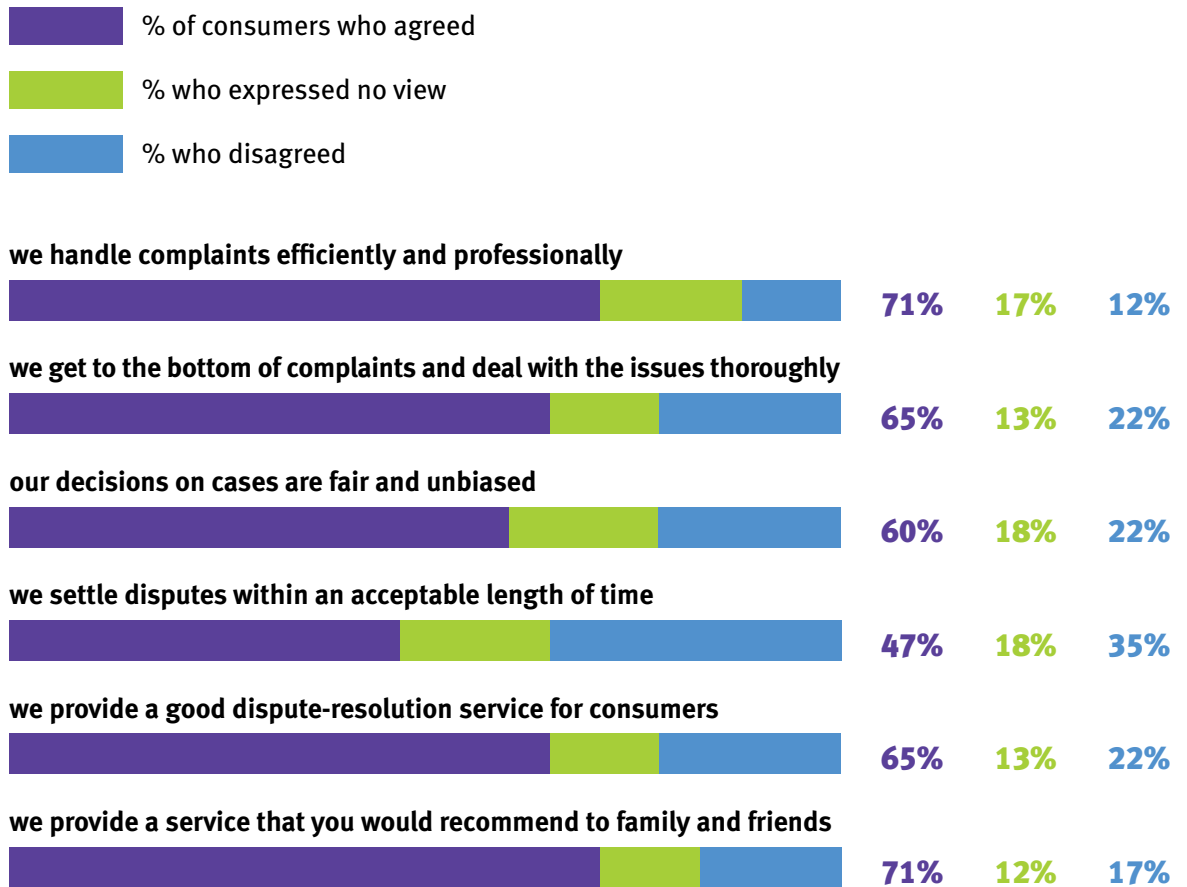
There was a 50% increase during the year in the number of people who said they found out about our website through internet searches or from links on other websites. This reflects the growing importance of the internet and social media as sources of information.

### what stage are our website users at in pursuing their own complaints?



Compared with the previous year, fewer people who used our website said they were only browsing or *thinking* about complaining – and more said they were already actively involved in pursuing a complaint, either with us or with the business involved.

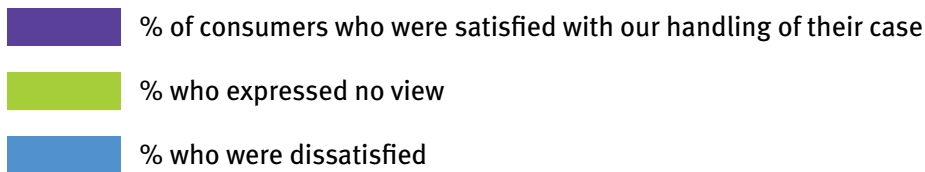
## how do consumers who complain to the ombudsman rate our service?



These results showed a small improvement on the previous year.



## how does the outcome of a complaint affect how consumers rate the service we provide?



### consumers who said they felt they had “won” their complaint



### consumers who said they felt they had “lost” their complaint

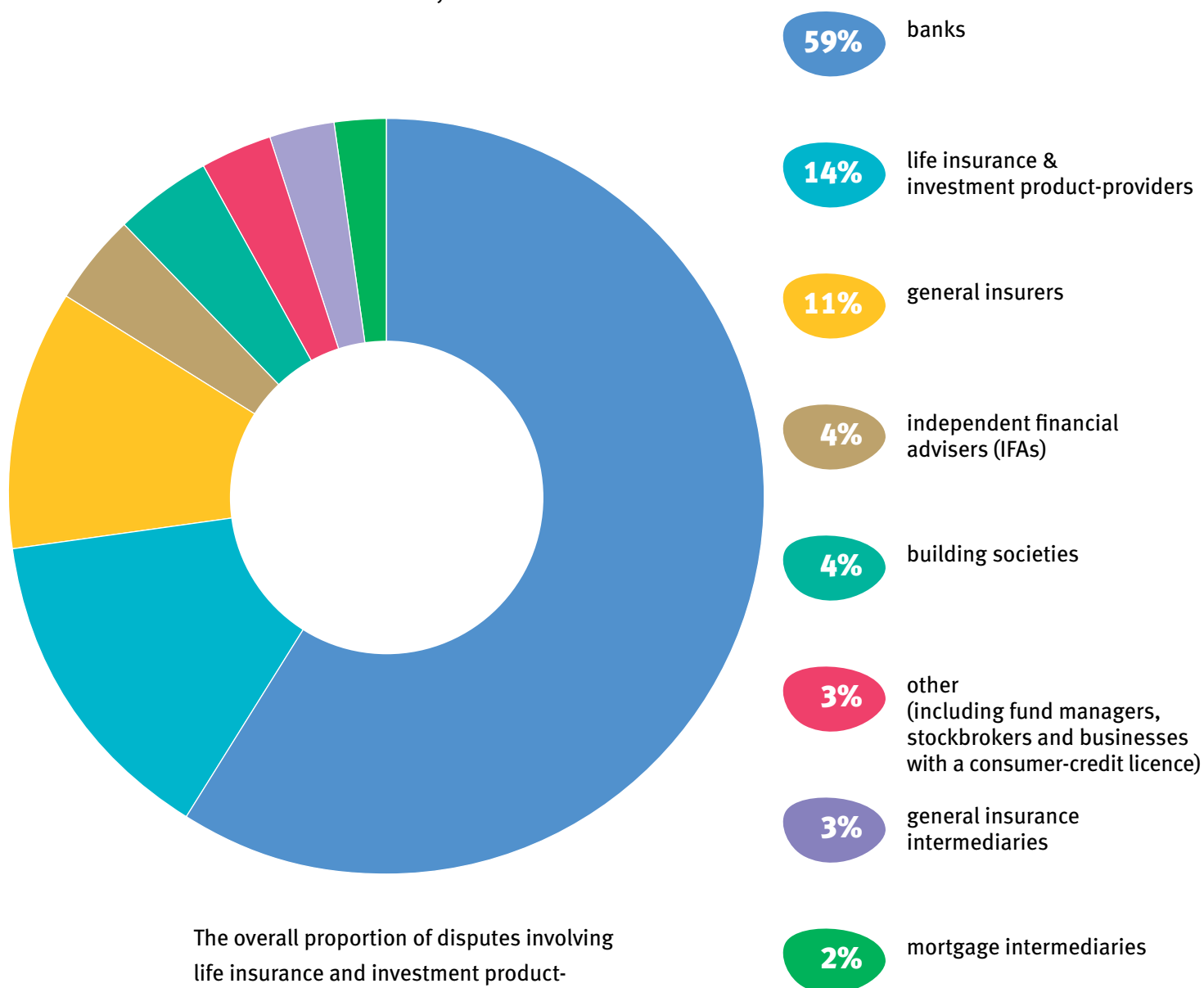


Nine out of ten consumers who felt they had “won” their complaint said they would recommend our service to their friends and family. But only five out of ten consumers who felt they had “lost” their case said they would do so. This shows how people’s personal experience of our service is inevitably influenced by how they perceive the outcome of their own individual complaint. Unfortunately, this means we cannot please everyone.

However, seeking the views of those who have used our service is an essential part of finding out where we can improve. There is more information about our work to measure and improve quality on page 48. And we show how businesses rate our service on page 67.

## businesses complained about – by sector

These charts show how the new complaints we received during the 2007/08 financial year were spread across the different sectors of the financial services industry.

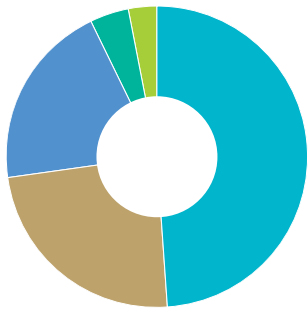


The overall proportion of disputes involving life insurance and investment product-providers more than halved during the year. This reflects the significant decrease in complaints about mortgage endowments sold by larger insurance companies.

The proportion of disputes involving independent financial advisers (IFAs) also fell – by two thirds – similarly reflecting the decrease in mortgage endowment complaints against IFAs.

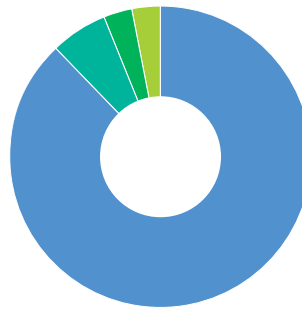
On the other hand, the proportion of disputes involving banks doubled – as a result of the substantial volumes of complaints about bank charges.

## financial products complained about – by sector



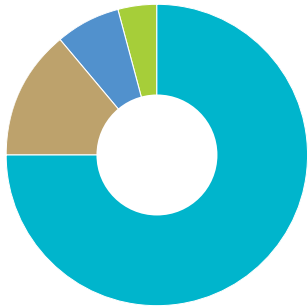
### mortgage endowments

- 49%** life insurance & investment product-providers
- 24%** independent financial advisers (IFAs)
- 20%** banks
- 4%** building societies
- 3%** other



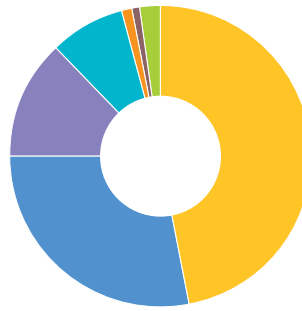
### banking and credit products & services

- 88%** banks
- 6%** building societies
- 3%** mortgage brokers
- 3%** other (including businesses with a consumer-credit licence)



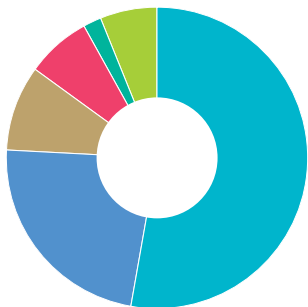
### personal pension products

- 75%** life insurance & investment product-providers
- 14%** IFAs
- 7%** banks
- 4%** other (including building societies and stockbrokers)



### general insurance products

- 47%** general insurers
- 28%** banks
- 13%** insurance brokers
- 8%** life insurance & investment product-providers
- 1%** cash-plan health insurers
- 1%** Society of Lloyd's
- 2%** other



### other investments

- 53%** life insurance & investment product-providers
- 23%** banks
- 9%** IFAs
- 7%** stockbrokers and fund managers
- 2%** building societies
- 6%** other (including friendly societies and credit unions)

## how often do businesses have complaints about them referred to the ombudsman?

From April 2007 our remit was extended to cover some 80,000 businesses with a standard consumer-credit licence. This means that customers of over 100,000 financial services businesses now have the statutory protection of the Financial Ombudsman Service, should a dispute arise.

These businesses range in size from global banking, insurance and investment giants to sole traders providing credit as a side-line to their main business. This range in size is reflected in the number of disputes we receive about the different businesses we cover.

Six of the UK's largest financial services groups accounted for 52% of complaints we received

during the year. At the other end of the scale, 160 cases (0.1% of all complaints) related to friendly societies, and just 11 complaints involved credit unions.

In fact, fewer than 5% of businesses we cover actually had disputes referred to the ombudsman service during the year. 70% of these businesses had just one or two complaints brought to us – which meant they paid no case fees. This was because – as in previous years – we did not charge businesses case fees for the first *two* complaints in the 2007/08 financial year. For the 2008/09 financial year, we will not be charging businesses case fees for the first *three* complaints.

**1,958 businesses** each had **1 complaint** referred to the ombudsman service during the year

**531 businesses** each had **2 complaints** to the ombudsman

**265 businesses** each had **3 complaints** to the ombudsman

**448 businesses** each had **between 4 and 10 complaints** to the ombudsman

**96 businesses** each had **between 11 and 20 complaints** to the ombudsman

**119 businesses** each had **between 21 and 50 complaints** to the ombudsman

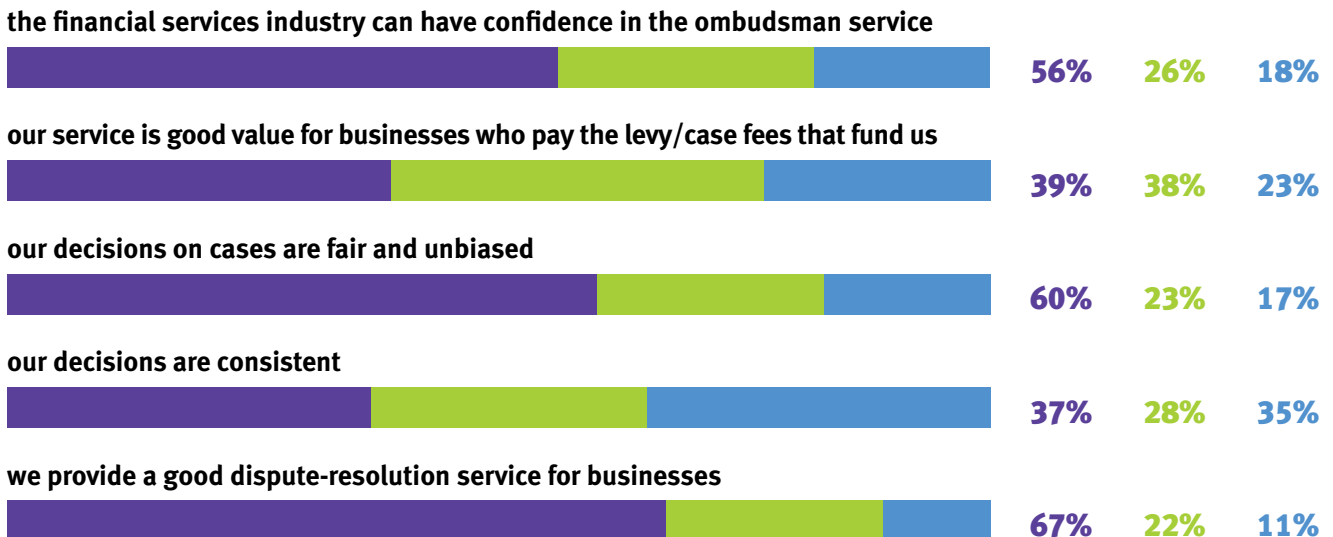
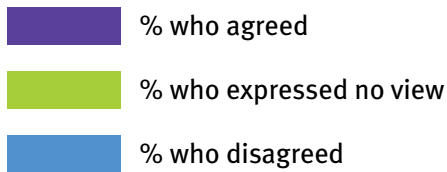
**56 businesses** each had **between 51 and 100 complaints** to the ombudsman

**47 businesses** each had **between 101 and 250 complaints** to the ombudsman

**28 businesses** each had **between 251 and 500 complaints** to the ombudsman

**36 businesses** each had **more than 500 complaints** referred to the ombudsman during the year

## how do businesses rate our service?



We carry out quarterly surveys to gauge the views of the businesses we deal with – on how we handle disputes and the extent to which we accommodate their particular needs and concerns. These surveys cover all sectors of the financial services industry, ranging from sole-proprietor businesses to the largest financial groups.

The proportion of businesses who agreed with these statements increased this year, compared with previous years' survey results. In contrast to previous years, the levels of satisfaction expressed by smaller businesses were higher than those recorded for larger businesses. This may reflect our increased focus – through our *smaller firms' taskforce* – on identifying and meeting the different needs of smaller businesses. We show how consumers who complain to the ombudsman rate our service on page 62.

Our work involves more than settling disputes between consumers and businesses providing financial services. It also involves feeding back the lessons learned from our work, as well as working with others – at home and abroad – who have an interest in what we do.

In this section we highlight some of this other work we have done. Further information on this work is in our *corporate plan*, published in January each year (and available in the “publications” section of our website).

### extensions to our remit

Under the *Consumer Credit Act 2006* our remit was extended in April 2007 to include around 80,000 businesses with a standard consumer-credit licence issued by the Office of Fair Trading (OFT). These included some types of business that were covered by the ombudsman service for the first time, such as debt collectors and credit-reference agencies.

Also new to us were tens of thousands of firms with a consumer-credit licence whose main line of business is *not* the provision of financial services – but activities ranging from car dealerships to furniture stores. To help these businesses adapt to their new complaints-handling responsibilities, we continued to run an extensive external-liaison programme drawing on our existing consumer-credit expertise – we have long dealt with the banks and building societies who provide loans and mortgages making up 70% by value of the UK consumer-credit market.

The scope of the consumer-credit complaints we can look at was extended further from April 2008, when the financial limit under the *Consumer Credit Act 1974* was removed. This meant that loan agreements above the £25,000 limit were now covered by the *Act*, and complaints about these could come to our service.



We are also preparing to welcome two new categories of consumer-credit licensee within our remit from October 2008 – debt administrators and providers of credit information services (credit repairers).

The coverage of our “voluntary jurisdiction” continued to expand during the year. This includes businesses who are not covered by our service by law – but who join it voluntarily. In July 2007 PayPal joined the voluntary jurisdiction, following its re-location from the UK to Luxembourg. And in February 2008 Post Office Ltd also joined.

In July 2007 we published a consultation paper on filling the gaps in our voluntary jurisdiction. This would enable Europe-based businesses to give their UK customers the protection of the ombudsman for all their financial services activities – in the same way as if those activities were carried out from the UK. This wider coverage took effect from April 2008.

### preparing for further extensions to our remit

In June 2007 the *Thornton review* recommended that the Pensions Ombudsman should be merged into the Financial Ombudsman Service to create a single scheme for all complaints about pensions – both private and occupational, and covering advice-related and administration disputes. The government accepted this recommendation, and we have been working with relevant government departments, the Pensions Ombudsman and the Financial Services Authority (FSA) on proposals for delivering this effectively. Primary legislation to implement this will be needed in due course.

The *Payment Services Directive*, to be implemented by 1 November 2009, will require out-of-court complaints-handling and redress procedures to be put in place for settling disputes between payment-service providers and their users. We have been working with the Treasury and the FSA on proposals for delivering this effectively.

We have also been working with the Treasury and the FSA on proposals for extending our remit to cover disputes about the sale of travel insurance as part of a package holiday, as well as disputes involving the proposed “reclaim fund” for the unclaimed assets of banks and building societies.

### working with the FSA and other authorities

We have continued to work closely with the FSA on issues that affect both our dispute-resolution role and the FSA’s regulatory role. As part of this work, we agreed and published a new memorandum of understanding with the FSA. We also updated and re-launched the *wider implications* process ([www.widerimplications.info](http://www.widerimplications.info)) that is designed to manage any overlaps between our roles in a structured and transparent way.





The OFT – as the regulator for the new consumer-credit activities within our remit – joined the *wider implications* process during the year. We also agreed and published a separate memorandum of understanding with the OFT.

We have worked closely with the FSA on a number of its current initiatives, including its move to more principles-based regulation. The existence of the ombudsman to deal with individual complaints is a key factor in enabling the FSA to focus on the broader picture in a risk-based way. As part of this, we worked with the FSA in preparing a consultation on proposals to simplify the complaints-handling rulebook.

Some of the changes that resulted from this took effect from November 2007 – and the rest from April 2008. We also worked closely with the FSA on its *treating customers fairly* initiative – and on its *retail distribution review* which is looking at the future market for the sale of investments and savings products.

In April 2007, following a review of how we are funded, we and the FSA announced that we would see what scope there was for moving incrementally towards a funding system that gave greater emphasis to the case fee (rather than the levy). This system would involve an increase in the number of “free” cases.

In December 2007 we consulted on proposals to increase the number of “free” cases from two to three.

This change took effect from April 2008 – alongside a shift in the balance of our funding that means that 70% is now projected to come from case fees, and only 30% from the levy.

### **national and international role**

We have maintained close relations with a number of government departments that have a close interest in what we do – including HM Treasury, the Ministry of Justice and the Department for Business, Enterprise and Regulatory Reform. We have also assisted a number of other public bodies that are responsible for redress schemes at home and abroad and that look to the Financial Ombudsman Service model in designing their schemes.

We continued to work closely and share best practice with other ombudsman schemes at home and abroad. At home we did this through our membership of the British and Irish Ombudsman Association. At the European level, we continued to work within FIN-NET, the network of European financial dispute-resolution bodies, to help improve the handling of cross-border disputes.

And at a global level, we hosted INFO 2007, the annual conference of international financial dispute-resolution bodies, attended in London by delegates from six continents. The Economic Secretary to the Treasury took the opportunity presented by the conference to announce five principles which will in future shape the UK Government’s approach to financial services in Europe.





Our board is committed to a three-yearly independent external review of the service. In 2007 Lord Hunt of Wirral agreed to lead a review, focusing on whether we should be doing more to be visible and accessible to those we serve, and whether we are making the most effective use of the information and experience gained from our work. Lord Hunt's report was published in April 2008 and is discussed in the chief ombudsman's report on page 8.

The Law Commission and the Scottish Law Commission sought our help in their review of the law on misrepresentation and non-disclosure in relation to insurance contracts. We were able to let them study (under conditions of confidentiality) a range of real cases that we had dealt with. Their subsequent recommendations for a change in the law – published during the year – drew heavily on the approach that the ombudsman service takes to such cases.

### reviews

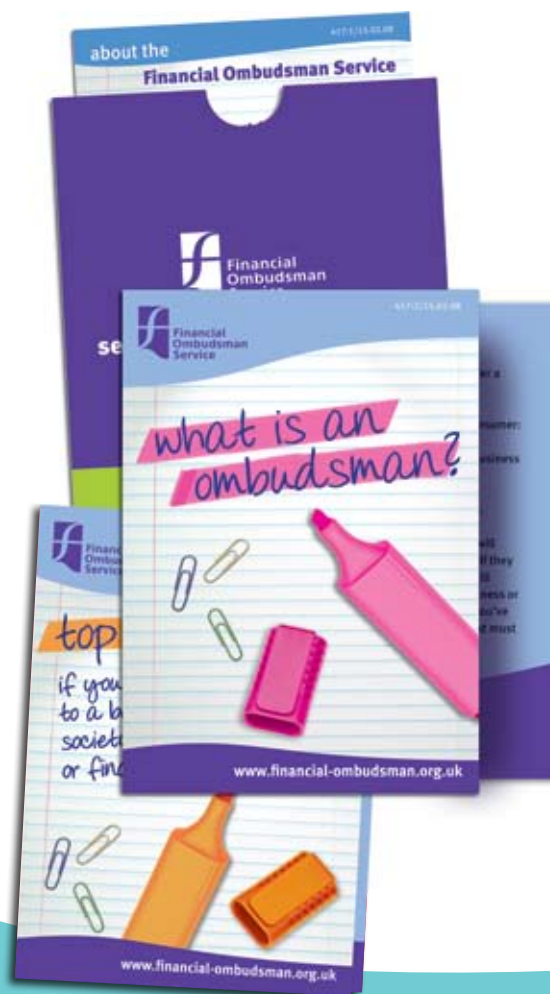
Two high-level internal taskforces worked during the year to improve aspects of our service. The work of our *smaller firms' taskforce* to accommodate the different needs and concerns of smaller businesses included creating a special section on our website for smaller businesses and providing our adjudicators with training, to help them meet the particular needs of these firms.

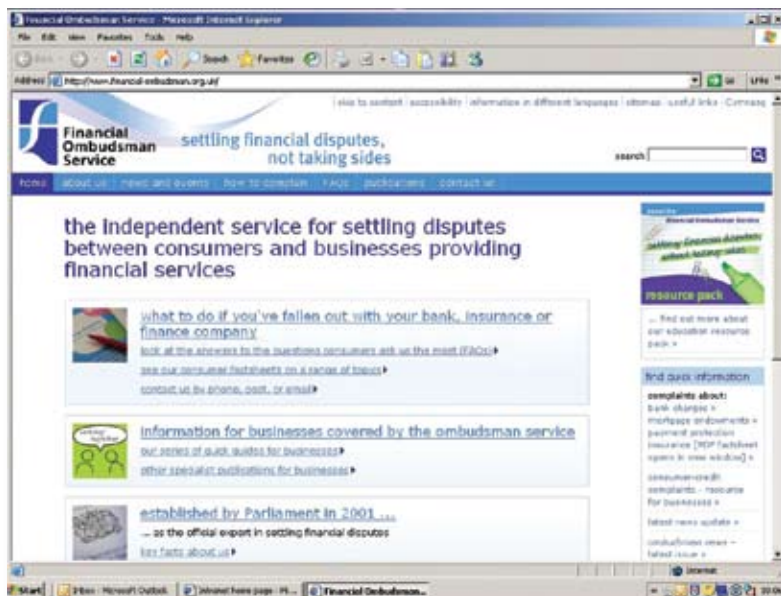
Our *accessibility taskforce* was set up to take further steps to ensure that our service is accessible to everyone, whatever their needs may be – and included a dedicated group looking at the particular needs of users with disabilities.

## engaging with stakeholders

We carry out a wide range of activities aimed at sharing our experience and knowledge with the outside world. Over the year these external liaison and outreach activities have included:

- Dealing with 18,354 enquiries to our technical advice desk – our dedicated service for people handling complaints in the financial services sector and the consumer advice world.
- Taking part in industry conferences and trade-shows – including roadshows and regional events run by trade bodies, professional networks and the trade press; and national trade-fairs such as the Credit Show, Mortgage Business Expo and the Financial Services Scotland show.
- Organising visits, meetings and training for businesses and trade bodies – including a relationship-management programme involving the 36 financial services groups that each had more than 500 complaints referred to the ombudsman service during the year.
- Meeting and training local consumer-advisers – from Aberdeen to Plymouth, Belfast to Chelmsford – to share our complaints-handling skills with front-line problem-solvers in the community.
- Taking our exhibition stand to high-profile consumer events, including the National Wedding Show at London Olympia, *BBC Good Homes* at Birmingham NEC, and *Glow* beauty and vitality show in Belfast.





- Speaking at seminars and conferences hosted by organisations ranging from the Money Advice Liaison Group to the Council of Mortgage Lenders.
- Adding over 200 new pages to our website – including “my story” case studies and 99 news updates, as well as features such as video and audio clips (in mpeg and mp3-format).

- Publishing our regular newsletter, *ombudsman news*, and distributing over a million copies of our consumer leaflet and other publications (including versions in over 20 languages and formats).
- Answering media questions and providing information for publications ranging from *Camping and Caravanning* to *Niche Personal Loans*, *moneysavingexpert.com* to *The Orcadian* (in Orkney) – and taking part in programmes from BBC *Breakfast* to ITV *Tonight*, Radio Ulster *On Your Behalf* to Channel 5 *The Gadget Show*.





# the independent assessor's annual report



annual report by **Michael Barnes CBE**  
to the board of the Financial Ombudsman Service

The independent assessor's role is to carry out a final review of the level of service provided by the Financial Ombudsman Service, in cases where a user of our service has already referred a complaint to our service review team for investigation but remains dissatisfied.

Under his terms of reference, the independent assessor can consider complaints about our level of service, our procedures and the behaviour of our staff. His remit does not cover disagreements about the actual merits of decisions. 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 2008, a total of 281 cases were referred to me, compared with 326 in the 2006/2007 financial year – a reduction probably explained by the decline in the number of mortgage endowment complaints that the Financial Ombudsman Service was having to deal with during the year.

The number of complaints referred to me that required a full investigation and review of the file was 170 – of which I upheld 80, either wholly or in part, a slightly higher proportion than in the previous year. In all but three of the complaints I upheld, I made recommendations for financial compensation.

The amounts of compensation that I recommended ranged from £50 to £600, with most awards falling between £250 and £450. In about a third of the complaints that I upheld, the service review team at the ombudsman service had already offered apologies and/or some compensation – but not enough, in my view, to provide sufficient redress.

Nineteen of the cases referred to me during the year were awaiting my investigation as at 31 March 2008. Of the cases which did not require investigation, 53 were referred to me too early in the process (*ie* before the service review team had been given the opportunity to deal with the complaint); 28 were general enquiries; 9 were outside my remit because they were “out of time” or unrelated to the ombudsman service; and 2 cases were withdrawn by the person complaining.

Delay continues to be the most frequent reason for complaints – often involving cases that have been passed from one adjudicator to another for operational reasons. In my view, this is something which casework managers need to keep under review. Delay is particularly unfortunate where a complaint has been with the ombudsman service for several months – and when the case then comes to be considered, it emerges that it is outside the ombudsman’s jurisdiction for reasons that should have been apparent at an earlier stage.

It is also important that any correspondence sent in, while a case is awaiting allocation to an adjudicator, should be carefully monitored. In one case, an offer sent by the business to the consumer via the ombudsman service remained on file for several months before the consumer was made aware of it.

Unfair treatment is another frequently-cited cause for complaint – often in situations where the real focus of the consumer’s or business’s concerns is simply that they disagree with the ombudsman’s decision. That, of course, is something which my terms of reference exclude me from questioning, unless there appears to be some procedural irregularity in the way a decision has been arrived at. Poor service of one kind or another – often a failure to keep the parties involved updated on progress – also comes high on the list of causes for complaint.

For obvious reasons, it is important that adjudicators not only deal even-handedly with both parties to the complaint, but are also *seen* to have done so. During the year I have noticed that when adjudicators are minded to uphold a complaint in the consumer's favour, they usually present this to the business involved as their "view" of what the outcome should be. On the other hand, when they consider that the complaint should *not* be upheld, adjudicators frequently convey this to the consumer as their "assessment" – which to my mind has a more formal ring to it.

I understand that the term used internally by the ombudsman service to describe both these situations is "initial view". It therefore seems to me to be good practice that the term used internally should also be used externally – in letters both to businesses and consumers. People's perceptions are important in these matters, and if it is a "view" when put to the business but an "assessment" when put to the consumer, the former may be seen as in some way being more negotiable than the latter.

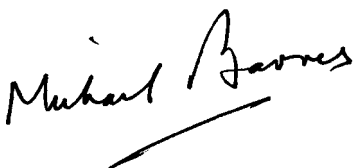
Another matter that has given me pause for thought during the year is the attention paid to guidance that the ombudsman service issues from time to time. For example, the ombudsman service has issued guidance on awards for non-financial detriment such as distress and inconvenience (available as a technical note on the ombudsman website). This is relevant in the context of complaints I receive from consumers unhappy that awards made in their favour are very low.

Three levels of awards are quoted in the guidance – modest awards (less than £300), significant awards (£300 to £1,000), and exceptional awards (over £1,000). In the cases that I see where awards for distress and inconvenience are made against businesses, they are almost always in the modest bracket. The amount of awards made is clearly a matter for the judgement of adjudicators and ombudsmen – but I suggest that they should be reminded of the situations quoted in the guidance where significant or even exceptional awards might be justified.

As in previous years, only a small number of complaints were referred to me by businesses – 13 in total. Nearly all of these came from independent financial advisers (IFAs) or brokers. Most involved the levying of case fees, where the business concerned felt that the complaint was trivial or outside the time limits – and so should, in their view, have been dismissed early on in the process without “triggering” a case fee. The rules governing time limits, particularly in mortgage endowment cases, are both highly detailed and very specific. It is therefore only rarely that I consider that the business has grounds for complaint in this regard.

One change during the year has been the emergence of insurance as the sector producing the largest number of complaints referred to me about the way cases have been handled. Legal expenses, income protection, and buildings and contents claims all figured prominently – and clearly give rise to highly emotive feelings as far as consumers are concerned. They are also matters where ombudsmen often have to reach difficult decisions – on issues such as disability or long-term illness – which clearly have far-reaching effects on people's lives.

Finally, I must issue my customary warning that the cases referred to me represent only a tiny fraction of the ombudsman service's overall caseload. The matters to which I have drawn attention in this report are therefore based on a small number of isolated examples. Nevertheless, they can help to point the way towards improvements in service and procedure – and I am grateful to the service review manager and his colleagues at the Financial Ombudsman Service for their readiness to pass on my findings to adjudicators and ombudsmen, where it is appropriate that they should do so.

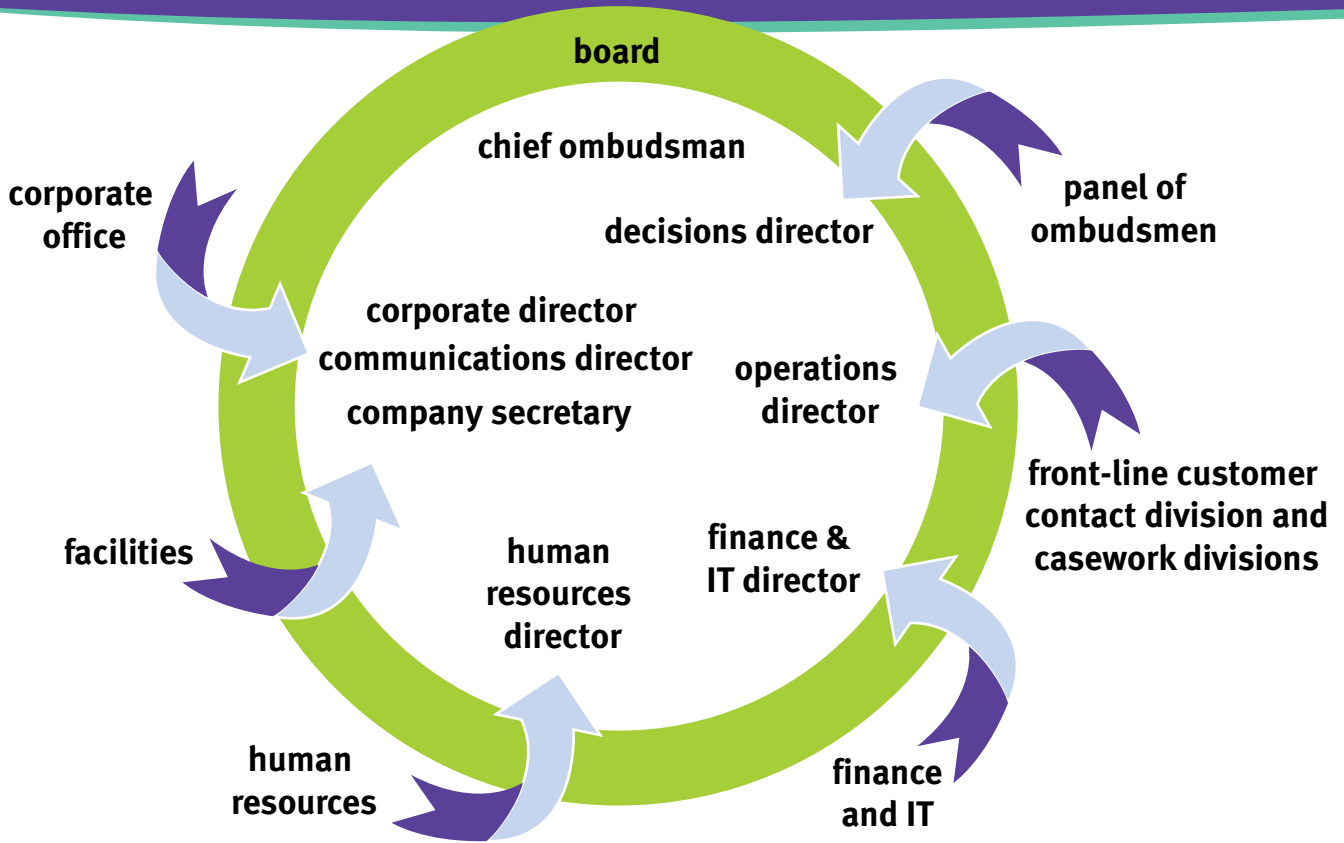


**Michael Barnes CBE**

April 2008

The independent assessor, Michael Barnes, presented this report to the board of the Financial Ombudsman Service at its meeting on 9 April 2008. The board accepted the report and its recommendations in full.

# our organisation and senior people



## executive team

**Walter Merricks CBE**  
chief ombudsman

**Tony Boorman**  
principal ombudsman  
and decisions director

**Barbara Cheney**  
company secretary

**David Cresswell**  
communications  
director

**Roy Hewlett**  
operations director

**Jeremy Kean**  
finance and IT director

**Peter Stansfield**  
human resources  
director

**David Thomas**  
principal ombudsman  
and corporate director

## panel of ombudsmen

**Walter Merricks CBE**  
chief ombudsman

**Tony Boorman**  
principal ombudsman  
and decisions director

**David Thomas**  
principal ombudsman  
and corporate director

### ombudsmen with lead responsibility for:

general insurance  
**Peter Hinchliffe**

banking & credit  
**Jane Hingston**

general investment  
**Caroline Mitchell**

mortgage endowments  
**Caroline Wayman**

### ombudsmen:

Greg Barham  
Audrey Baxter  
David Bird  
Cathy Bovan  
Mike Boyall  
Juliana Campbell  
Melissa Collett  
Reidy Flynn  
Dawn Griffiths  
Adrian Hudson  
Michael Ingram  
Simon Leach  
Steve Lilley  
Doug Mansell  
David Millington  
Roy Milne  
Clare Mortimer  
Claire O'Connor  
Nigel Pope  
Richard Prior  
Philip Roberts  
Mark Sceeny  
Robert Short  
Charlie Sweeney  
Richard Thompson  
Chris Tilson  
Claire Wells  
Richard West  
Sue Wrigley  
Roger Yeomans

## senior operational staff

**Roy Hewlett**  
operations director

**Simon Coe**  
**Garry Wilkinson**  
heads of  
casework divisions  
*managing our teams*  
*of adjudicators*

### communications and policy:

Fiona Boyle  
Adrian Dally  
Alison Hoyland  
Emma Parker  
Caroline Wells

**Yvette Bannister**  
deputy general counsel

**Paul Bentall**  
general counsel

**Paul Kendall**  
head of customer  
contact division  
*front-line consumer*  
*enquiries*

**Mike Harris**  
head of quality

**Sharon Jones**  
head of IT

**Ray Neighbour**  
service review manager  
*handling complaints*  
*about our service*

**Chris Smith**  
financial controller

**Jacque Wiggett**  
deputy HR director

as at 31 March 2008

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



**Sir Christopher Kelly KCB – chairman**

- chairman of the Committee on Standards in Public Life
- chairman of NSPCC
- a board member 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

**Alan Cook CBE**

- managing director of Post Office Ltd *formerly*
- chief executive of National Savings and Investments (NS&I)
- chief operating officer at Prudential

**Joe Garner**

- group general manager of personal finance services at HSBC Bank plc *formerly*
- director at Procter & Gamble in the UK and Eastern Europe
- director at DSG International

**John Howard**

- a council member of Energywatch *formerly*
- chair of the Financial Services Consumer Panel
- principal presenter of BBC Radio 4 *You and Yours*
- a member of the Mortgage Code Compliance Board

**Elaine Kempson CBE**

- professor and director of the Personal Finance Research Centre at the University of Bristol
- a member of the Social Security Advisory Committee
- a member of the Financial Inclusion Taskforce
- a member of the Department for Business, Enterprise and Regulatory Reform (BERR) advisory group on over-indebtedness *formerly*
- a member of the Banking Code Standards Board
- independent reviewer of the Banking Code
- a member of the DTI taskforce on over-indebtedness
- a member of the DTI foresight sub-panel on personal financial services
- a member of a Treasury policy action team about access to financial services

**Kate Lampard**

- an associate of Verita Limited, consultants in incident investigations and inquiries
- a trustee of Esmée Fairbairn Foundation
- a non-executive director of RHS Enterprises Ltd *formerly*
- chair of Kent and Medway Strategic Health Authority
- chair of the Independent Housing Ombudsman Limited
- chair of the Invicta Community Care NHS Trust

**Julian Lee**

- chairman of Brighton & Hove City Teaching PCT
- crisis & change management consultant
- a non-executive director of the Maritime and Coastguard Agency
- Justice of the Peace to the North Sussex Bench *formerly*
- a non-executive director of the South East Coast Ambulance Trust
- chairman, then chief executive, of the Allied Carpets Group
- chief executive of the Bricom Group

**Roger Sanders OBE**

- director and deputy chairman of Helm Godfrey Partners Ltd *formerly*
- joint chairman of the FSA's Smaller Businesses Practitioner Panel
- deputy chairman of the Association of Independent Financial Advisers
- a member of the Financial Services Practitioner Panel
- a director of the Personal Investment Authority (PIA) Ombudsman Bureau
- a PIA board member

**Maeve Sherlock OBE**

- currently studying for a PhD at Durham University *formerly*
- chief executive of the Refugee Council
- chief executive of the National Council for One-Parent Families
- a member of the Council of Economic Advisers in the Treasury

as at 31 March 2008

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 businesses – fairly, reasonably, quickly and informally.

### fairly

**Established by law, we are neither a consumer champion nor an industry trade-body.**

**We are completely independent and deal with disputes fairly and impartially.**

**Our service is for everyone. We aim to be accessible and to meet any particular needs our customers may have. This includes, for example, communicating with them in the format or language they need.**

**We look at the facts of each complaint – not at how well people present 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 businesses 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 we 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 businesses and consumer advisers

Contact our **technical advice desk** for:

- an informal steer on how the ombudsman might view particular complaints
- help finding the information you need about the ombudsman service
- information about how the ombudsman service works.

*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
- take part in events and exhibitions.

*phone* **020 7964 0132**

*email* **liaison.team@financial-ombudsman.org.uk**

Our website **[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)** gives you online access to:

- news and frequently-asked questions (FAQs)
- help for consumers and technical guidance for businesses
- publications, briefing notes and *ombudsman news*  
– our regular newsletter with 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**

*(calls should cost no more than 5p a minute for BT customers  
– other networks may vary)*

**020 7964 0500**

*(this number may be cheaper for calls from some  
mobile phones and other networks)*

*switchboard 020 7964 1000*



### **email us**

[complaint.info@financial-ombudsman.org.uk](mailto:complaint.info@financial-ombudsman.org.uk)

### **look at our website**

[www.financial-ombudsman.org.uk](http://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.**

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