

Annual Review



Financial
Ombudsman
Service

... the independent experts in settling financial disputes

- We were set up under the *Financial Services and Markets Act 2000* to help resolve individual complaints between consumers and businesses providing financial services – fairly, reasonably, quickly and informally.
 - We can look at complaints about a wide range of financial matters – from insurance and mortgages to investments and credit.
 - If a business can't resolve a consumer's complaint, we can step in to settle the dispute. But the business must have the chance to sort things out itself first.
 - We are independent and impartial. This means that when we decide a complaint, we look carefully at both sides of the story and weigh up all the facts.
 - If we decide a business has treated a consumer fairly, we will explain why. But if we decide the business has acted wrongly – and the consumer has lost out as a result – we can order matters to be put right.
 - Our service is free to consumers.
 - Consumers do not have to accept any decision we make. They are free to go to court instead. But if they accept an ombudsman's decision, it is binding on both them and the business.
 - 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.
 - 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 eliminate the causes of complaints.
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key figures about the Financial Ombudsman Service

... the power to settle financial complaints

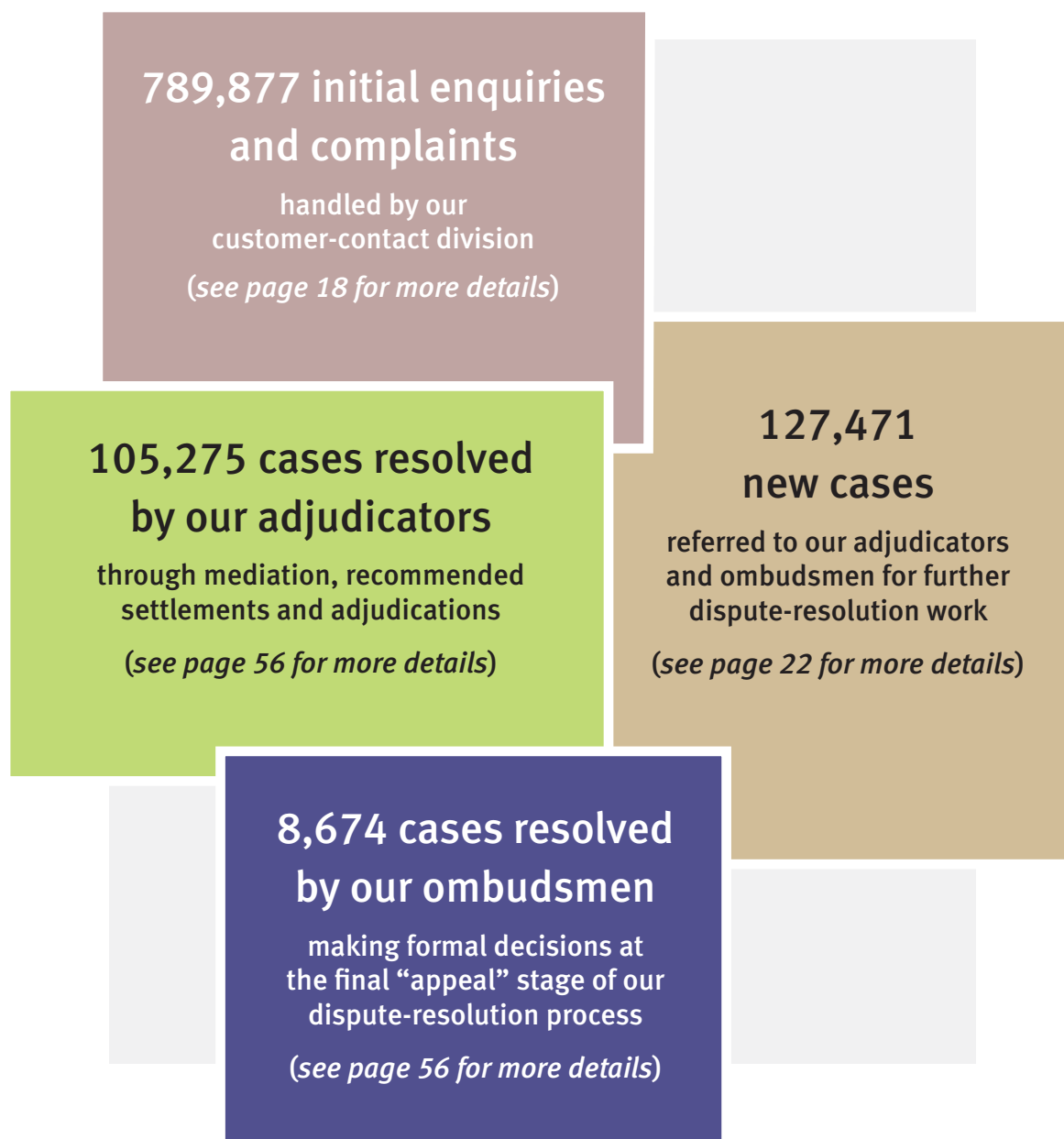
- We handled **789,877** initial enquiries and complaints from consumers – over 3,000 each working day.
- Around **one in six** of the initial consumer enquiries we received turned into a “full-blown” dispute requiring the involvement of our adjudicators and ombudsmen – a record **127,471** new cases.
- Mortgage endowment cases **fell by more than a half** – but numbers of insurance disputes **increased by 84%** (with complaints about payment-protection insurance tripling) and disputes about mortgages, credit cards and consumer credit **rose by 34%**.
- 52%** of the total number of cases we dealt with related to **six** of the UK’s largest financial services groups – broadly in proportion to the amount of business these groups as a whole carry out with consumers in the UK.
- We resolved **113,949** cases – a 14% annual increase – with our involvement resulting in compensation for consumers in **57%** of complaints.
- We resolved a third of all disputes within three months; and just under eight out of ten cases within nine months.
- We operated on a budget of **£60 million** and our total number of staff averaged **865**.
- We provided information and handled enquiries in **over 40** different languages and formats – from British Sign Language to Korean, mpeg to Braille.
- We took part in over **200** conferences, roadshows, trade fairs and consumer events.
- We handled **763** parliamentary enquiries and **15,650** calls to our technical advice desk.
- We were mentioned in over **4,500** articles in the press – and 74% of adults in the UK said they were aware of the Financial Ombudsman Service.

All figures relate to the year ended 31 March 2009.

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an overview of our case-handling process



All figures relate to the year ended 31 March 2009.

our **20%** increase in
productivity

meant we were able to achieve a

6% improvement on our

unit-cost target for the year – and resolve

14% more cases

than in the previous year.

Sir Christopher Kelly KCB

chairman's foreword





Sir Christopher Kelly KCB

In my foreword to last year's *annual review*, I wrote about the way in which complaint numbers can change very quickly – with the previous downward trend in complaint numbers reversing sharply to produce a record number of new complaints by the end of the year.

This volatility is now becoming a regular feature. We started the 2008/09 financial year expecting – after consultation with the financial services sector – to receive 90,000 complaints over the next 12 months. We ended the year exceeding this number by some 40 per cent – receiving a record 127,471 new cases between April 2008 and March 2009.

The rise in workload was driven by significant surges in complaints resulting from single-issue consumer campaigns. In particular, we received over 30,000 new cases about payment-protection insurance (PPI) and 18,500 complaints about credit cards – these two issues together making up around 40 per cent of our total workload.

chairman's foreword

We had been expecting high levels of complaints in these areas. But the volumes still exceeded our forecasts – and the forecasts of those we had consulted. The high volume of complaints about payment-protection insurance was especially disappointing. We had hoped that action by the regulator might result in the collective resolution of large numbers of complaints without the continuing need for consumers to refer individual cases to us. There is more information about these complaints on page 50 of this *annual review*.

The financial world is a very different place now from a year ago. The recent financial turmoil has affected the demand-led ombudsman service like so many other organisations. On top of the influx of new complaints about payment-protection insurance and credit cards, we are experiencing a significant growth in the number of complaints arising from the effects of the worsening economic climate.

These complaints have included buildings and contents insurance disputes – up by 29 per cent and 23 per cent respectively in the past year, as policyholders put in more claims and insurers resist them more vigorously; investment disputes – up by 30 per cent, and triggered largely by the falls in the stock market; and disputes relating to mortgages and unsecured loans – up by 11 per cent and 44 per cent respectively, as the “credit crunch” leads to increasing financial difficulty for many consumers.

We said in our *corporate plan and budget* in January 2009 that we could expect to see further increases in this kind of demand for our service as the country goes through difficult financial times. The likelihood must be that both consumers and businesses will tighten their belts and question their finances as never before.

Our challenge in responding to the substantial increase in workload has been to adapt our strategic and operational plans accordingly. We have recruited 175 additional adjudicators on a permanent basis together with a number of teams of contract and outsourced staff, to provide the flexibility to cope with volatility in complaint volumes.

The importance of monitoring the quality and consistency of our work becomes even more important as our output rises. More is said about the work we have done to reinforce our commitment in this area on page 62 of this *annual review*.

A key measure of our performance is the timeliness of our complaints handling. Our customer research continues to tell us that consumers and businesses want their cases settled as quickly as possible – as far as that is compatible with reaching a fair resolution.

It is disappointing that the improvement in timeliness that we expected could not be achieved, because of the heavier-than-forecast volume of new complaints and the inevitable lead-in time involved in recruiting and training the new adjudicators needed. I apologise to those who have had to wait longer than I would have liked for complaints to be settled.

That said, it is all the more pleasing to be able to report a 20 per cent increase in our productivity levels, measured by the number of cases resolved each week by each of our adjudicators – a tribute to the hard work and determination of our staff. The productivity increase has meant that we were able to achieve a 6 per cent improvement on our unit-cost target for the year – and to resolve 14 per cent more cases than in the previous year. There are more details about our budget and productivity on page 64.

Last year's *annual review* focused on the independent review that we asked Lord Hunt of Wirral to undertake, looking at the accessibility and openness of the ombudsman service. We described Lord Hunt's recommendations as a bold agenda for change, which would take time and resource to implement.

Given the pressing demands of the workload during the year, I am particularly pleased that we have also been able to prioritise progress on a wide range of accessibility and openness initiatives. The work I carry out as chairman of the Committee on Standards in Public Life brings home to me even more clearly than before how important it is for people and organisations carrying out public duties to be open and transparent about what they do.

The ombudsman service published policy statements in July 2008 setting out our strategic aims in relation to accessibility and openness. We followed these up with a detailed work-plan, set out as part of our *corporate plan and budget*.

We continue to update our website with details of our projects in these areas. These initiatives include practical arrangements for improving access for our customers (for example, extended opening-hours for consumer enquiries); targeted outreach work to raise awareness of the ombudsman among "harder-to-reach" and more vulnerable consumers; and the availability of more information, both about our own approach and about complaints volumes and uphold rates relating to individual businesses. There is more information about this work on page 93.

This *annual review* includes, as usual, the report from the independent assessor, Michael Barnes (on page 96). The independent assessor's role is to investigate complaints from businesses and consumers about the level of service provided by the Financial Ombudsman Service in cases which our in-house service-review team has itself been unable to resolve. There is more information about the work of our service-review team on page 63.

The independent assessor reports directly to me and my board colleagues. His annual report, published in full each year, gives an insight into how our actions and processes affect individual consumers and businesses. As in previous years, all the independent assessor's recommendations have been accepted both in relation to specific complaints and, more generally, in relation to the service we provide. I am grateful to Michael Barnes for his work. He provides a fair and impartial appeal for people unhappy with our service and at the same time gives us a valuable mechanism for feedback and scrutiny on our performance.



Sir Christopher Kelly KCB

May 2009

chief ombudsman's report





Walter Merricks CBE

Back in January 2008, when we were consulting on our *corporate plan and budget* for the 2008/09 financial year, the widespread assumption was that we could expect a fall in the number of new complaints reaching us. In fact, the total number we received during 2008/09 exceeded even the record level we saw in 2007/08.

Given the recent turmoil in financial markets, this increase is perhaps no great surprise. But what is new and very disappointing is that, of the complaints we have handled, we have found a record proportion – almost six out of ten – to be justified.

Before consumers bring a complaint to us they are required to complain first to the financial business they are unhappy with. This gives the business the chance to resolve the complaint before it ever reaches us. Businesses should usually be able to settle justified complaints early on. So we would normally expect only a minority of the complaints referred to us to turn out to have been justified. This has not been the case during the year under review.

For most of the eight years we have been in existence, the rate at which we have upheld complaints in the consumer's favour has usually been within the 30% to 40% range. So the increase we are now seeing in the proportion of cases we uphold has caused us to reflect more deeply on what has been happening – not only to those consumers who *do* reach our service, but also to those who may have complained to the business concerned but who have *not* then come to us. We have also reflected on the situation of those consumers who might have lost out, but who have never pursued a complaint.

Technically, of course, our direct concern is to ensure we deliver a fair resolution for those who enter our system – in each individual dispute between a financial business and its customer. But it is difficult to ignore the wider context – and its implications for the accessibility of our service.

When the ombudsman service began, complaints-handling and dispute-resolution operations were generally regarded as relevant only in isolated instances of misunderstanding or maladministration. At this level, the complaints procedure – in which the individual consumer identifies the problem, communicates it to the business, and comes to the ombudsman if still dissatisfied – remains an entirely appropriate model.

The complaints-handling rules set the framework for this procedure – specifically requiring businesses to examine expressions of dissatisfaction from individual consumers and to deal with these complaints within a prescribed timescale. Where businesses find that similar types of complaint are occurring, they should identify root causes and, where appropriate, pro-actively address the situation of customers who have not complained – but who may have been disadvantaged by that same root cause.

In addition, the regulators – the Financial Services Authority (FSA) and the Office of Fair Trading (OFT) – have powers to identify systemic issues that have resulted in detriment to consumers. Where a business has broken FSA rules, the FSA can require that business to pay redress to all its customers who have been disadvantaged by that breach of rules, not just to those individuals who have actually made a complaint.

If this complaints-handling framework – involving financial businesses following the rules and the regulators using their powers – was working well, then the number of complaints reaching us and the proportion we upheld would both be modest.

There are no published figures for the total number of consumer complaints made to financial businesses. FSA-regulated firms are required to report these numbers – and the FSA has expressed the view that publishing this data would be an effective regulatory tool. However, the FSA has not yet been able to go ahead with this. We understand that it will be issuing revised proposals for consultation shortly.

And while there is nothing to prevent businesses publishing their own complaints experience, few seem interested in doing so. This means it is likely to be some time before a full picture emerges of the complaints-activity of consumers in the financial sector – let alone of the extent to which consumers who make justified complaints are able to obtain redress from particular financial businesses.

One of the significant drivers of consumer complaints is the now substantially-increased number and activity of claims-management companies, encouraging disadvantaged consumers to complain. The Ministry of Justice reports that it has authorised over 900 of these companies to trade in the areas of financial products and services. And apparently the number of companies applying for authorisation has been growing rapidly during the past year. No figures are available for the number of complaints these companies have made on behalf of their clients – or the extent to which the companies have given their clients appropriate advice.

The vast majority of claims-management companies operate in well-trodden territory where consumer detriment has been already identified. So they are a *symptom* of the problem and not its cause.

Consumers can make a complaint direct to a business – or to the ombudsman service – free of charge. If they make their complaint through a claims-management company, on the other hand, that company will charge a fee – usually a percentage of any compensation awarded. These fees have been criticised as being disproportionate – especially in relation to the effort or expertise that some claims-management companies actually deploy. So it is questionable what advantage consumers gain by using such companies.

But it is also undeniable that the marketing activities of claims-management companies have succeeded in identifying a very large number of consumers who have suffered loss. And this has resulted in many people being paid redress when they would otherwise have received nothing. Indeed, over half of the complaints we received during the year about payment-protection insurance (PPI) were brought to us on behalf of consumers by claims-management companies. And, as we report in this *annual review*, we upheld a very high proportion of these cases. So it is clear that the wider system is not working as it should.

Large areas of un-remedied consumer detriment represent risks and opportunities for different parties. For businesses, the risk of having to remedy legacy-issues at substantial cost, for which no provision has been made, is a threat to profitability. For claims-management companies, this would be a tempting business opportunity. For regulators, there is the embarrassment of not having prevented the malpractice in the first place, and the challenge of arriving at a proportionate regulatory solution.

These issues have led commentators to take a particular interest in proposals that would harness the collective interest of consumers who have suffered loss – and allow them to be pursued in legal remedy. These proposals are under consideration in government in the UK (both north and south of the border) and in Europe.

The idea would be to allow a collective claim to be made on behalf of *all* those people who are adversely affected – without the need for them to register individually. This is seen as a more effective method of determining collective issues – and of generating redress, where appropriate. While this may not be a universal – or even an appropriate – remedy for *all* instances of widespread detriment, it does focus on the core of the bigger problem, rather than on the detail of individual cases.

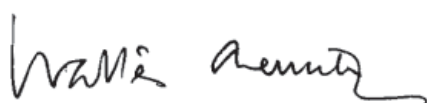
There are other possible redress mechanisms that could be considered. But what is clear is that the present system for dealing with large areas of un-remedied consumer detriment is in need of reform.

I would sum up the objectives of any reform in the following way. It should:

- Lead to the fair and timely resolution of a widespread issue.
- Resolve the issue generically for all affected consumers – not just for those who have the initiative to make a complaint to a business (and the persistence to then take their dispute all the way to the ombudsman, if necessary).
- Draw a line under the liability of financial businesses, so they know once and for all what amount (if any) they need to budget for.
- Avoid offering easy opportunities to claims-management companies to take disproportionately large slices of redress belonging to consumers.
- Involve a process which is transparent and open to reasoned input – from both the financial services industry and consumers.
- Provide incentives for consumers to accept fair redress, rather than pursuing individual claims in court.
- Lead to solutions that provide sufficient economic drivers to deter future behaviour that could be detrimental to consumers.

To meet these objectives, policy-makers will need to be imaginative. They will need help from consumer organisations, and positive and fair-minded input from the financial services industry. There are signs that the coming year may see energies focused on the issue.

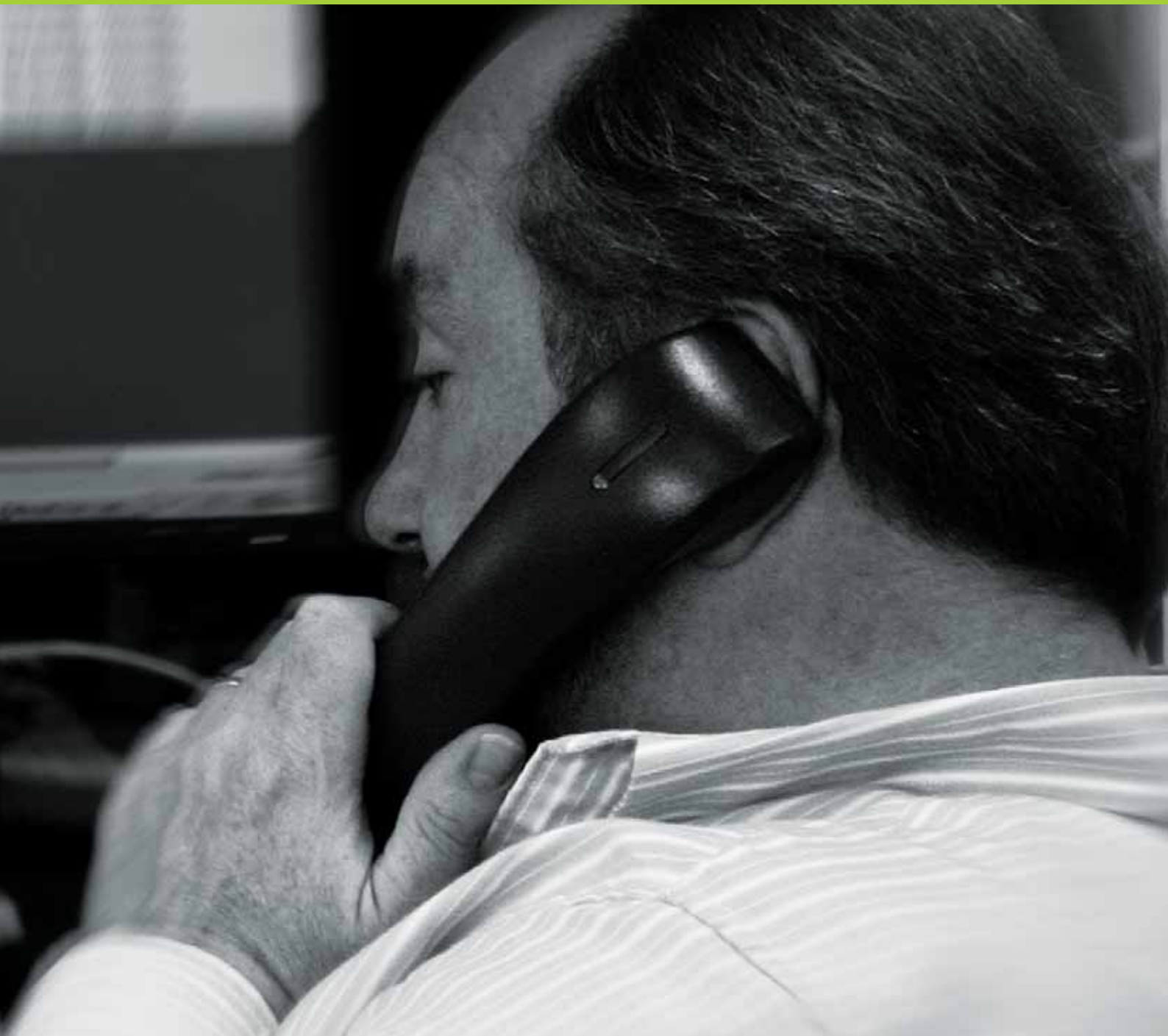
A solution to the problem would reduce the volatility of the ombudsman service's workload, adjust unrealistic expectations of what we can be expected to deliver, and ease tensions between the financial services industry, its regulator and its ombudsman. Above all, it would be a real step towards re-establishing the confidence of consumers in financial services.



Walter Merricks CBE

May 2009

the complaints we received



the complaints we received

our consumer helpline

Our customer-contact division provides our consumer helpline – for enquiries by phone, letter and email. In the 2008/09 financial year the number of people contacting us continued at record levels.

We handled **789,877** initial enquiries and complaints during the year. This means that each working day our customer-contact division dealt with around 3,150 phone calls and items of new mail from consumers – with questions, concerns and complaints about the way they had been treated by financial businesses.

initial enquiries and complaints from consumers

We recognise the importance of being easily accessible by phone. This is the preferred method of contact for most of our customers, and our process at this initial stage is largely structured around direct personal contact over the phone.

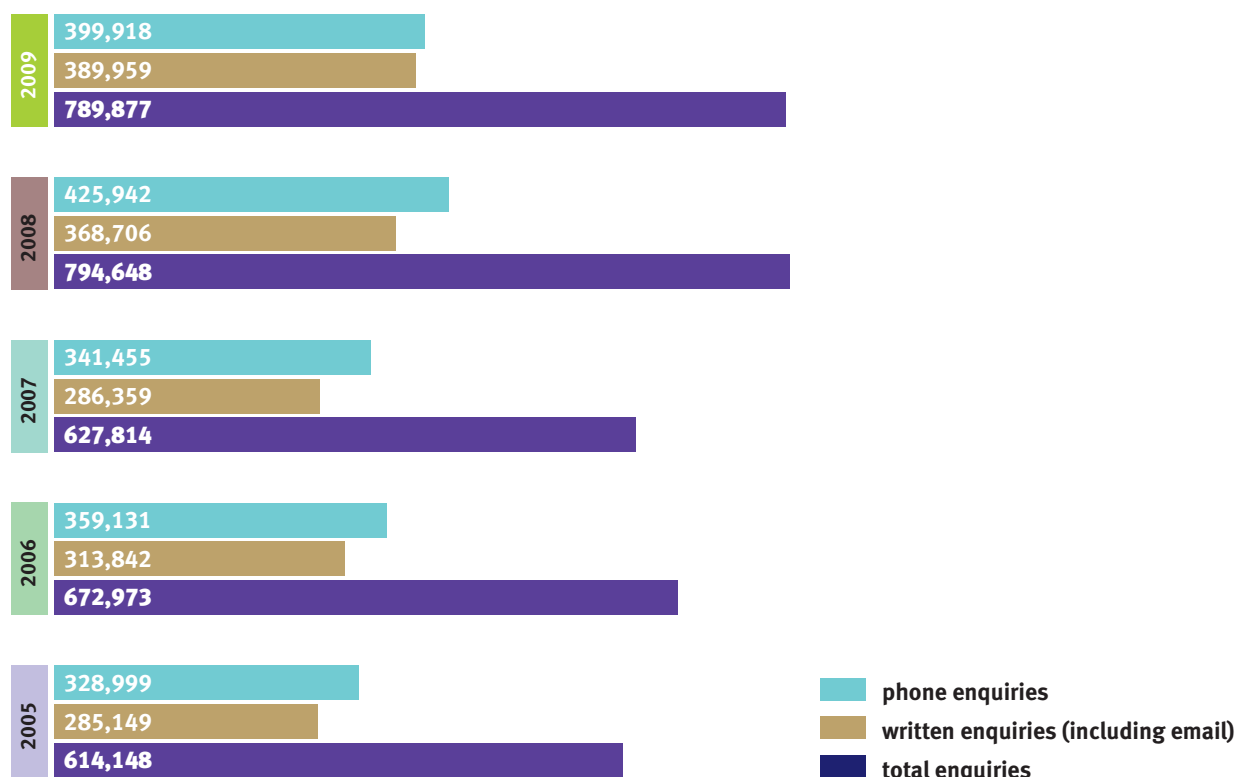
During the year we launched an additional phone number – 0300 123 9 123 – for consumers contacting our consumer helpline. This is one of a new range of “non-geographic” numbers available only to not-for-profit organisations. Phoning this number should be cheaper for some of our customers than calling us on our other well-publicised number (0845 080 1800). We also stress the message that we will phone back consumers if they are worried about the cost of calling us.

Consumers who phone the ombudsman service hear a short automated welcome-message – recorded personally by the chief ombudsman – giving three options to choose from. This helps to filter the call to an expert in our customer-contact division with the relevant technical knowledge. This filtering is essential, given the very wide range of complaints we cover – from pet insurance to payday loans.

We aim to answer 80% of phone calls to our consumer helpline within 20 seconds. This is a widely-accepted standard for organisations dealing with the volume of phone calls that we handle – and 96% of consumers surveyed during the year said their calls were answered promptly. From April 2009 our consumer helpline has been open for two extra hours each working day – so its operating hours are now from 8am to 6pm.

the complaints we received

initial enquiries and complaints from consumers *(continued)*



year ended 31 March

online contact

Many people prefer to phone us and talk through their enquiry with us personally. However, a significant number of consumers access the information they need straight from our website. During the year we launched an online complaint-enquiry form, available round-the-clock, so that people can contact us at times when our consumer helpline is closed.

During the year an average of 5,300 people continued to visit www.financial-ombudsman.org.uk each day – and 350,000 complaint forms were downloaded from our website (a 17% increase on the previous year). The other most-visited pages on our website included our news page (with 133 news updates added during the year) and the “*my story*” video clips, showing how we have been able to help people with different kinds of problems.

Visitors to our website used the voting buttons on the site a total of 9,008 times, to score how they found the usefulness of the information on various pages. 84% of these ratings gave us top scores.

the complaints we received

how we handle initial enquiries and complaints

Staff in our customer-contact division are able to respond to most consumers' problems and concerns at an early stage by:

- Explaining the complaints procedure that financial businesses have to follow.
- Reassuring consumers who feel intimidated by the formal process of complaining.
- Stressing that a business should have the opportunity to sort out matters with its customers, before the ombudsman can step in formally.
- Confirming the details of who consumers should complain to at a business – if they haven't already done this.
- Forwarding complaints direct to the relevant business.
- Reminding consumers that they can ask us to get involved formally – if a business isn't able to resolve their complaint within eight weeks.
- Clarifying the role of the ombudsman.
- Directing the consumer to relevant helplines and self-help websites.
- Providing the consumer with the facts they need, to resolve the problem themselves.
- Giving an early steer on the likely outcome of a complaint – from our informed independent viewpoint.
- Offering practical suggestions to both sides on sorting things out informally – without needing to escalate the case as a formal dispute.
- In cases where we don't believe it would be helpful or productive to pursue the matter further, explaining why we think this.
- Providing impartial guidance on any redress already on offer.
- Explaining the rules of our jurisdiction – for example, on time limits that may apply.
- Explaining the difference between the ombudsman and the regulator.
- Suggesting other relevant bodies or ombudsmen.

the value of our early involvement

As a result of our involvement in resolving as many enquiries as possible at this early stage, only around one in six potential complaints raised with our consumer helpline during the year went on to become cases that required the involvement of our adjudicators or ombudsmen.

Independent research carried out during the year showed that, of the consumers who contacted our helpline for initial help and guidance:

- 54% were subsequently able to resolve their problem themselves, without needing further help from the ombudsman service; *and*
- 94% of these consumers felt that it was our early involvement that had enabled them to sort things out satisfactorily at this early stage.

Of the 46% of consumers who were *not* immediately able to resolve their problem themselves, after contacting our helpline for initial help and guidance:

- 56% said they had continued to try to sort out the problem directly with the financial business involved (and might ask the ombudsman for further help later on);
- 44% said they had let the matter drop – and around half of these said this was because of the unhelpful approach of the financial business involved.

the complaints we received

meeting different needs

Our service is for everyone. We can adapt the way we communicate with our customers – to meet any particular needs people may have.

For example, we use an instant over-the-phone interpreting service to handle calls in languages other than English. And our website has information about the ombudsman service in over 25 languages (including video and audio clips in mpeg and mp3-format).

We use TypeTalk and sign language, and we regularly provide information in alternative formats such as large print, CD/DVD and “accessible text” (sometimes called “EasyRead”), to suit individual customers’ needs.

There is more information about our accessibility and diversity work on page 80.

other languages

During the year 1,700 consumers from 107 countries outside the UK brought complaints to the ombudsman service about UK financial services and products.

The range of languages in which we are asked to communicate reflects the extent of global business carried out by financial services companies that are covered by the UK ombudsman service. It also reflects the diversity of languages spoken across the UK, including more recently the growth of Eastern European languages.

During the year we worked in English, Welsh and 38 other languages – including handling correspondence in Sylheti, phone calls in Hebrew and emails in Hungarian. Around half of our interpreting and translation work involves Asian languages and the other half mostly involves European languages (of which two thirds are Western European languages and one third Eastern).

languages we worked in during the year

Afrikaans	Danish	Japanese	Somali
Arabic	Dutch	Korean	Spanish
Bengali	Farsi	Lithuanian	Sylheti
Bulgarian	French	Malayalam	Tamil
Cantonese	Greek	Polish	Thai
Chinese (simplified & traditional)	Gujarati	Portuguese	Turkish
Congolese Swahili	Hebrew	Punjabi	Urdu
Croatian	Hindi	Romanian	Vietnamese
Czech	Hungarian	Russian	
	Italian	Slovakian	

the complaints we received

new cases referred to our adjudicators

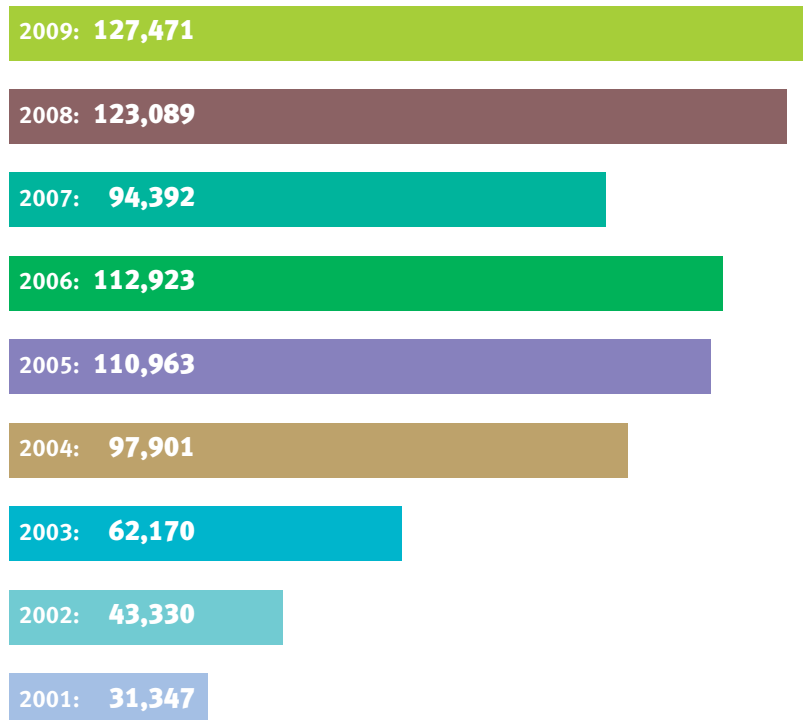
Where consumers have already complained to the business they are unhappy with – and contact us to say they are dissatisfied with the business’s final response – our customer-contact division sorts out the paperwork and details we need in order to take on the complaint formally as a new case.

Under the complaints-handling rules set by the Financial Services Authority (FSA), businesses are required to send a final response to a consumer within eight weeks of the original complaint. However, in 28% of the complaints we took on formally as new cases during the year, the businesses involved had not issued a final response – even though their customers had already been waiting longer than eight weeks.

This figure was higher for banking-related complaints where – in around 40% of the cases we dealt with – businesses had failed to send consumers a final response within the required timescale.

The complaints-handling rules also require businesses’ final responses to include information about the consumer’s right to refer an unresolved complaint to the ombudsman service. During the year 22% of consumers said they heard about us from the business they complained to and 34% told us they knew about the ombudsman through the media.

number of new cases



year ended 31 March

the complaints we received

In the 2008/09 financial year, our customer-contact division referred a record **127,471** new cases to our adjudicators and ombudsmen for more detailed dispute-resolution work – out of a total 789,877 enquiries and complaints raised with our consumer helpline.

This is a 4% increase on the 123,089 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.

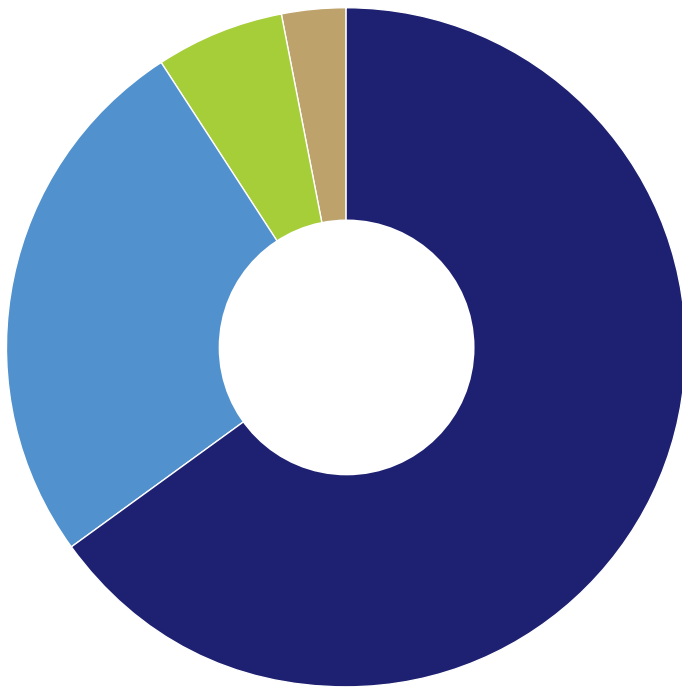
This record level of new cases resulted from trends including:

- Complaints about payment-protection insurance (PPI) rising three-fold (see page 50 for more information about these complaints).
- Complaints about credit cards rising by 32% (see page 35).
- Complaints involving investments (other than mortgage endowments) increasing by 30% (see page 43).
- Complaints about buildings and contents insurance increasing by 29% and 23% respectively (see page 53).

Increases in the volume of complaints about these financial products masked the continued fall in the number of mortgage endowment disputes. These cases have fallen from a record high of 69,737 in the 2004/05 financial year – and 13,778 in the year ended 31 March 2008 – to 5,798 in the 2008/09 financial year.

There is more information about mortgage endowment complaints on page 44.

the complaints we received



65%

complaints made by consumers themselves

26%

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

3%

complaints made by smaller businesses

who these new cases are from

Most 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 smaller businesses, charities and trusts that have an annual turnover, income or net asset value of up to £1 million.

The proportion of complaints referred to us by smaller businesses increased slightly during the year. This may reflect the outreach activities we have carried out – including liaising more closely with smaller-business trade associations and networks, taking part in events such as Business Start-Up shows, and arranging targeted coverage in specialist business-to-business publications.

However, sole traders and people running small businesses may not always register their complaint specifically as a *business* dispute, as they often see the issues as essentially personal rather than commercial. So the proportion of complaints made by smaller businesses may, in practice, 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 a quarter of cases referred to the ombudsman service, consumers employed a commercial claims-management company to handle their complaints for them. The number of cases we dealt with where the consumer was represented by a claims-management company increased by 40% during the year.

the complaints we received

cases referred by claims-management companies

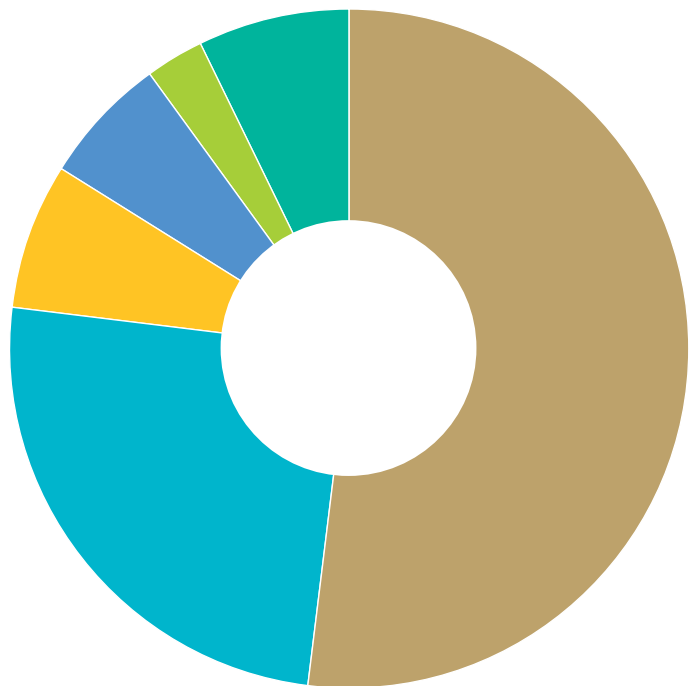
The continuing rise in the number of complaints referred to the ombudsman service by claims-management companies – increasing annually from 19% to 26% of all cases – reflects the substantial increase in complaints about payment-protection insurance (PPI) during the year. 14% of cases brought by claims-management companies in the 2007/08 financial year related to PPI complaints – but this number has now risen to over 50%.

A high proportion of the complaints we received about credit cards were also brought by claims-management companies on behalf of consumers.

Six claims-management companies accounted for over half of all the cases we handled during the year where consumers were represented by commercial third-parties.

We continue to 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.

And we are a free service for consumers – while commercial organisations charge consumers to bring a complaint on their behalf.



52%

payment-protection insurance (PPI) complaints

25%

credit card complaints

7%

current account complaints

6%

mortgage endowment complaints

3%

pensions

7%

other types of complaint

new cases by area of complaint

17.5% investments & pensions

43% banking & credit

insurance **39.5%**

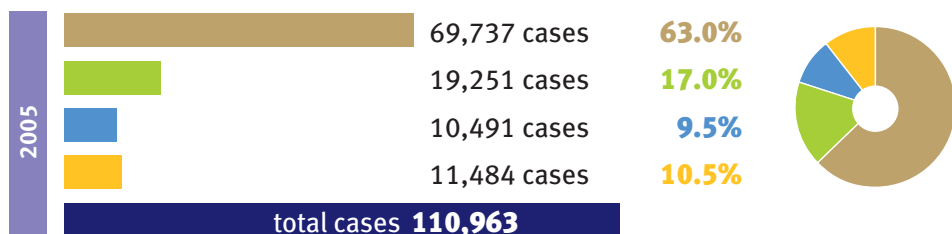
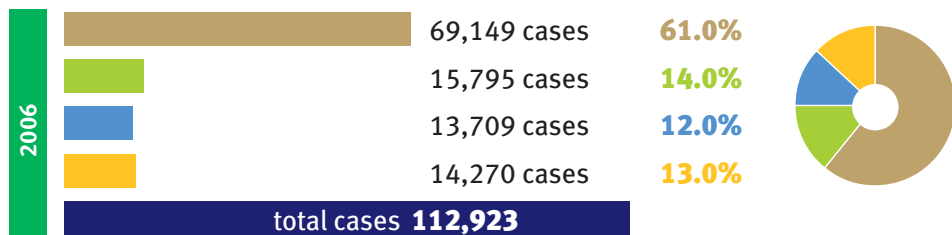
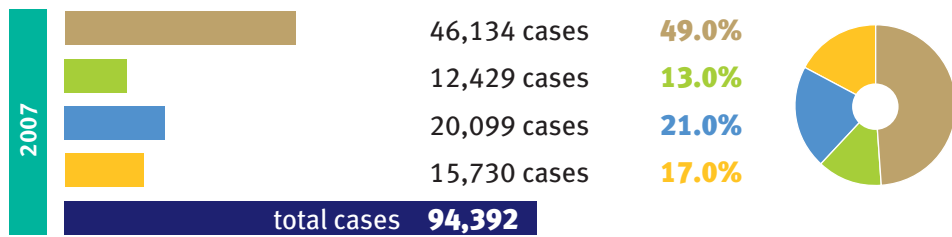
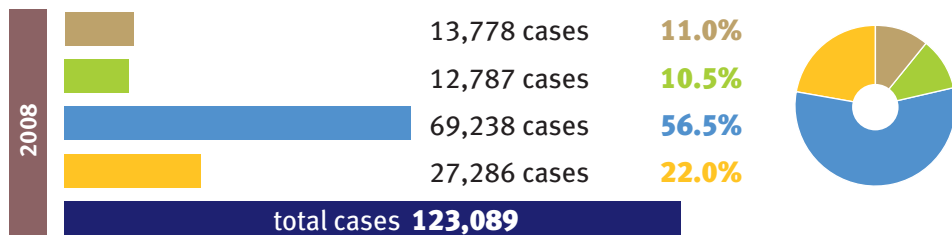
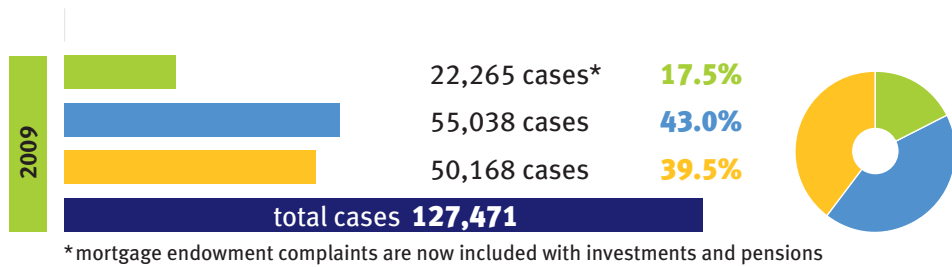
total cases **127,471**

what the complaints were about



what the complaints were about

new cases by area of complaint

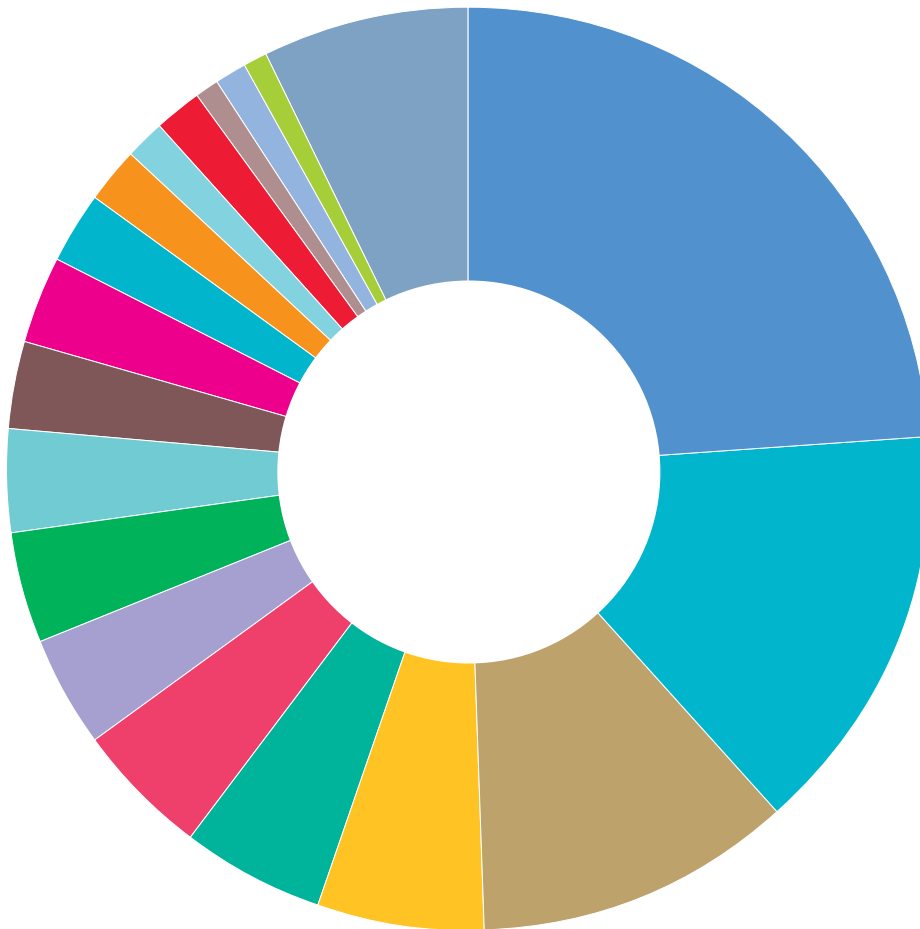


year ended 31 March 2009

- mortgage endowments
- investments and pensions
- banking and credit
- insurance
- new cases in total

what the complaints were about

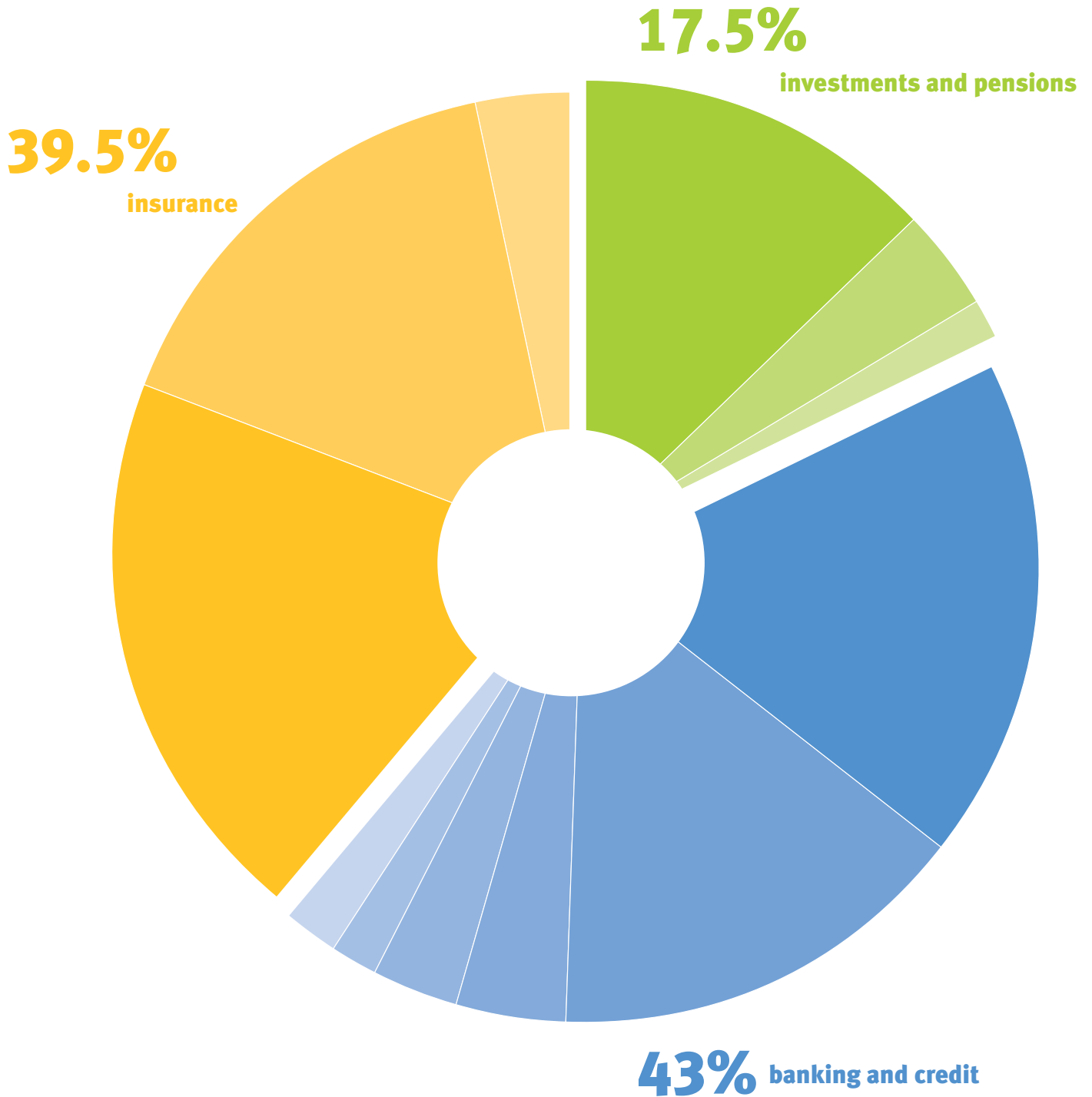
what financial products the new cases involved



24.0% payment-protection insurance (PPI)	4.0% pensions	1.5% stockbroking and portfolio management
14.5% credit cards	3.5% unsecured loans	1.0% contents insurance
11.0% current accounts	3.0% buildings insurance	1.0% income protection and critical illness insurance
6.0% mortgages	3.0% whole-of-life policies and savings endowments	1.0% investment ISAs
5.0% motor insurance	2.5% consumer-credit products and services*	7.0% other products
4.5% mortgage endowments	2.0% “with-profits” and unit-linked bonds	
4.0% savings accounts	1.5% travel insurance	

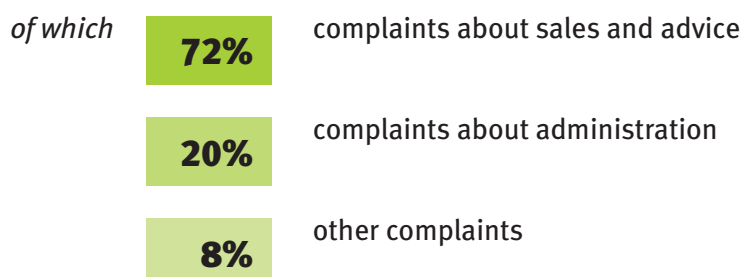
*eg hire purchase, debt collecting and store cards

what issues the new cases involved

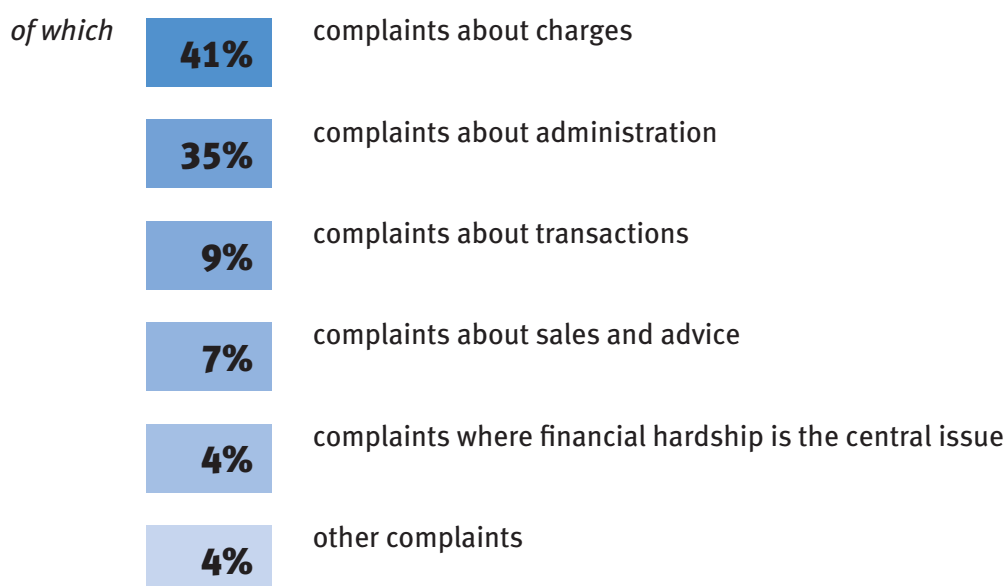


what the complaints were about

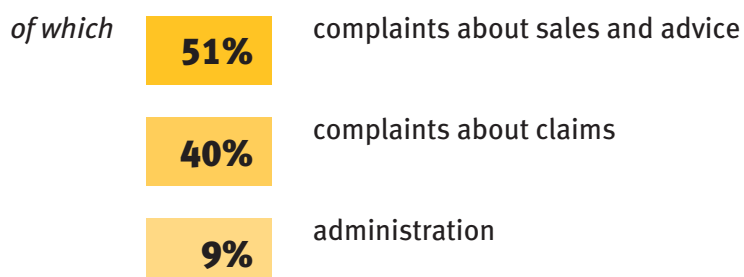
17.5% investments and pensions



43% banking and credit



39.5% insurance



what the complaints were about

new cases by financial product or service	year ended 31 March 2009	year ended 31 March 2008
payment-protection insurance (PPI)	31,066	10,652
credit cards	18,590	14,123
current accounts	13,682	39,263
<i>including complaints about</i>		
● charges	2,736	31,618
● direct debits and standing orders	725	562
mortgages	7,602	6,824
motor insurance	6,267	6,009
mortgage endowments	5,798	13,778
other investment-linked products	5,798	2,750
<i>including complaints about</i>		
● “with-profits” and unit-linked bonds	2,959	1,192
● investment ISAs	1,221	729
● guaranteed-income bonds	610	296
● PEPs	211	162
● “structured” products	203	49
● unit trusts	191	114
savings accounts	5,183	2,675
pensions	4,825	5,297
<i>including complaints about</i>		
● personal pension plans	2,173	2,211
● SERPs	1,468	2,183
● annuities	611	383
● small self-administered schemes (SSASs) and self-invested personal pensions (SIPPs)	373	299
● income draw-down	130	88
unsecured loans	4,242	2,940
whole-of-life policies and savings endowments	3,515	3,211
buildings insurance	3,447	2,669
consumer-credit products and services	3,014	849
<i>in relation to activities covered since April 2007 by our consumer credit jurisdiction – including complaints about</i>		
● “point-of-sale” loans	770	167
● hire purchase	762	212
● debt collecting	407	179
● store cards	372	110
● catalogue shopping	316	40

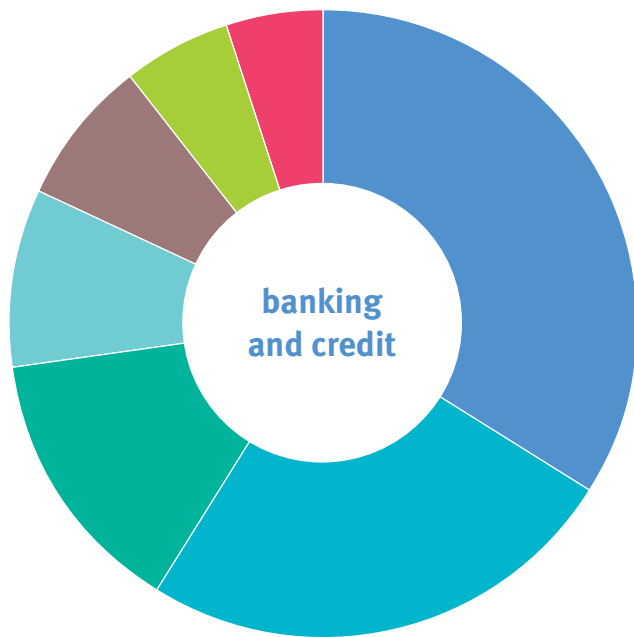
what the complaints were about

new cases by financial product or service <i>(continued)</i>	year ended 31 March 2009	year ended 31 March 2008
other banking services	2,725	2,643
<i>including complaints about</i>		
● cash machines	821	883
● cheque clearing	676	612
● money transfer	516	415
● electronic payment	514	502
● safe custody	69	52
other types of general insurance	2,428	1,710
<i>including complaints about</i>		
● commercial policies	493	368
● pet insurance	392	329
● roadside assistance	179	218
● caravan insurance	82	64
travel insurance	1,973	1,628
contents insurance	1,671	1,363
stockbroking	1,208	776
portfolio management	870	433
income protection insurance	774	832
extended warranty insurance	754	701
critical illness insurance	586	638
private medical insurance	514	369
legal expenses insurance	489	474
personal accident insurance	199	238
derivatives	136	73
<i>including complaints about</i>		
● spread-betting	109	58
free-standing additional voluntary contribution (FSAVC) schemes	115	171
total number of new cases	127,471	123,089

what the complaints were about: banking and credit

banking and credit

Complaints relating to banking and credit made up 43% of the total number of new cases that we received during the year. This chart shows how these banking and credit complaints were spread across different products and services.



34.0% credit cards

25.0% current accounts

14.0% mortgages

9.0% savings accounts

7.5% unsecured loans

5.5% consumer credit*

5.0% other banking services

* (eg hire purchase, debt collecting and store cards)

credit card complaints







The further substantial increase in the number of disputes involving credit cards reflects the fact that we have continued to receive a steady stream of complaints about so-called “default charges” – applied by credit-card companies where a customer pays late or misses a payment, and sometimes where a customer exceeds the credit limit on the card.

No credit-card company has so far chosen to request a formal ombudsman decision on the merits of these cases. Instead, the companies have all preferred to settle the complaints informally by meeting their customers’ claims.

In last year’s *annual review* we mentioned an emerging type of complaint, where credit-card companies made substantial increases – sometimes by as much as ten percentage points – in the rate of interest charged on certain customers’ credit-card accounts. The companies said that this reflected a move to “risk-based pricing”. We have continued to receive complaints of this type this year, and it seemed to us that the issue was one that had wider significance both for consumers and for credit-card companies.

what the complaints were about: banking and credit

credit card complaints *(continued)*

2008/09	18,590	
2007/08	14,123	
2006/07	2,731	
2005/06	2,124	
2004/05	1,599	
2003/04	1,444	







We therefore raised the matter under the formal “wider-implications” procedure that we share with the Office of Fair Trading (OFT – the body that regulates consumer credit) and the Financial Services Authority (FSA). Having considered the matter, the OFT decided that it would not at this time pursue a regulatory solution to the issue. This meant we were able to continue our own investigations into the individual complaints that consumers had referred to us about rate changes already made. Separately, the government agreed a set of principles with credit-card companies about future rate changes. These principles took effect from 1 January 2009.

As part of our investigation into these complaints, we issued questionnaires to the credit-card companies involved, to obtain information about – among other things – the actual assessments of risk that had been carried out in relation to these customers, and how the new rates had been calculated. Almost all the credit-card companies subsequently chose to settle the complaints that had been brought against them, rather than have our investigation continue.

Complaints about disputed credit- and debit-card transactions – made at retail outlets, cash machines or over the internet – continued to form a significant part of our workload during the year. In line with our experience in previous years, most complaints turned on practical issues to do with the particular case in hand, rather than on any complex technical issue.

what the complaints were about: banking and credit

current account complaints

2008/09	13,682	
2007/08	39,263	
2006/07	8,061	
2005/06	3,543	
2004/05	2,521	
2003/04	2,106	

The reduction this year in the number of cases involving current accounts reflects the substantial decrease in complaints about charges for unauthorised overdrafts – in the light of the OFT’s ongoing legal “test case” and the FSA’s decision to provide banks with a continued complaints-handling waiver on these complaints.

The Court of Appeal recently agreed with the High Court’s ruling – which in effect means that the OFT could look at the fairness of these charges. However, the legal case continues. And in keeping with the approach still being taken by the county courts, we have confirmed that we will continue to put most of our work on this type of complaint on hold, until the outcome of the legal proceedings is known.

However, consumers who are experiencing financial hardship can continue to bring their complaints to us. Many current-account providers have taken proper steps in these cases to assess their customer’s circumstances, and to make fair proposals to ease their financial difficulty. This has helped us to mediate a satisfactory settlement of these complaints.

On the other hand, we have been disappointed to see that some current-account providers have been very slow to engage with customers in such cases – and have needed to be prompted by us before coming up with any meaningful proposals. This is of particular concern, given that these consumers are already in financial hardship.

During the year we have seen more cases relating to “phishing”. This fraud involves a consumer responding to an email, ostensibly from their bank, asking for the consumer’s security and access details for their online banking facility. In fact, these emails are sent by opportunistic fraudsters who then use the information to gain access to the consumer’s bank account.

The issues we have to consider in these cases include the circumstances in which the consumer came to respond to the email and the extent of the relevant security warnings that the bank gave its online banking customers.

what the complaints were about: banking and credit

complaints about mortgages

2008/09	7,602	
2007/08	6,824	
2006/07	4,366	
2005/06	3,942	
2004/05	3,001	
2003/04	3,220	

During the year we saw an 11% increase in complaints about mortgages. A significant proportion of these cases involved disputes about the handling of mortgage arrears – reflecting the challenging conditions in the property and mortgage markets over the year.

We continued to see complaints where the mortgage had already been redeemed following the sale of the property, a re-mortgage or repossession. We prioritise cases where the consumer involved is facing financial hardship – for example, where the lender is repossessing a consumer’s home.

During the year we were able to settle many disputes about the handling of mortgage arrears by mediating between the lender and the consumer – leading to a positive and constructive outcome for the consumer.

Guidance published by the FSA during the year also seems to have helped focus the minds of lenders – particularly in the sub-prime sector – and has resulted in lenders reviewing their arrears-handling procedures. The regulatory requirement is that lenders should treat borrowers in arrears fairly. And the implementation of the “pre-action court protocol” in November 2007 was also intended to improve the treatment of borrowers.

Despite these developments we have continued to see cases where mortgage lenders have clearly not treated borrowers in arrears fairly.

Many of the complaints we have seen about mortgage arrears involved disputes about fees charged in connection with arrears. These fees sometimes take the form of a monthly management fee applied to accounts that have reached a certain level of arrears – or they may be charged as other costs, for example, litigation or debt-counselling fees. During the year we settled a significant proportion of cases in favour of the consumer, where we found that fees had been applied incorrectly or had been charged for work that had not been done.

The terms of a mortgage will usually allow a lender to recover additional costs arising from the administration of arrears. But by law these costs should be a reasonable “pre-estimate” of the actual cost to the lender. This is not always easy to determine, where fees are charged as a tariff amount rather than as a direct cost. In settling cases about the level of fees charged, we have considered information provided by lenders about their costs, as well as the way in which the fees have been applied as part of a fair arrears-handling process.

what the complaints were about: banking and credit

complaints about mortgages *(continued)*

During the year we have dealt with a significant number of less straightforward mortgage-related complaints – generally involving mortgages arranged on a “self-certification of income” basis – where the central issue is the affordability of the mortgage arrangements. The downturn in the property market over the year has meant that it is often now less easy for borrowers to resolve an affordability problem themselves – for example, by selling the property or by re-mortgaging.

In these cases, the consumer’s complaint is generally that they were encouraged to inflate their income when applying for a mortgage – or that the broker completed the application for them and included income details that were incorrect.

When considering these cases we look at the actions of the broker and the process under which the mortgage advice was given. We also consider the extent to which the consumer was aware of – and involved in – the mortgage application-process.

Where we uphold these complaints in favour of the consumer, redress is not always straightforward – as we are often unable to return the borrower to the position they would have been in *before* they were given the advice on their mortgage. In most cases we recommend a lump sum as compensation, based on what we consider to be a fair amount.

The turmoil in the financial markets over the year has involved significant changes to the UK mortgage market. Some lenders have effectively become nationalised and others have withdrawn from the market – for example, where wholesale funding was no longer available to them. This has resulted in a number of consumers coming to the end of their existing preferential mortgage deals – and complaining to us about the unavailability of mortgage funding on similarly competitive terms.

As the Bank of England base rate fell during the year, some lenders said they would not pass on the full benefit of the rate cuts to customers with tracker-mortgages (mortgages where the interest rate charged follows the base rate). However, decisive intervention by the FSA almost certainly prevented a significant number of complaints about this being referred to us.

During the year we saw cases where the consumer was unfairly trapped in a mortgage by a change of lending policy. In the circumstances of these particular cases, we did not consider the lender was acting fairly in seeking to apply contractual clauses that triggered early-payment charges.

what the complaints were about: banking and credit

complaints about savings accounts

2008/09	5,183	
2007/08	2,675	
2006/07	1,438	
2005/06	1,233	
2004/05	1,154	
2003/04	806	

The two-fold increase we have seen in complaints about savings accounts has related primarily to problems with account administration – especially opening and closing accounts. In the first half of the year we saw a significant rise in complaints about administrative delays in relation to cash-ISAs. This is a topic we have covered in our newsletter, *ombudsman news*, and in previous *annual reviews*.

During the year we also received complaints involving newer issues – such as the “safety” of savings institutions. Consumers in these cases complained that they found themselves locked into fixed-term savings accounts, which they now regarded as “riskier” than they had been led to believe from the product literature.

The “risk” the consumers complained about related to savings that exceeded the maximum amount protected by the UK Financial Services Compensation Scheme (FSCS) – either because they had made a large initial deposit with a single institution, or because the subsequent merger of savings institutions had the effect of amalgamating their savings above the upper limit of the FSCS.

In these cases, we have not generally upheld complaints that the product literature was misleading in describing the accounts as *not* involving risk.







This is because the product literature we have seen discusses “risk” purely in the context of the risk of loss of capital through investment performance.

As savings institutions compete to attract customers with eye-catching rates, consumers continue to complain to us about unusual or unexpected features of savings accounts. These complaints generally relate to conditions or exceptions in the “small print” – which affect eligibility for the “headline” offer, and which consumers say they found out about only *after* opening the account.

Unusual or unexpected account-terms must be fairly brought to a customer’s attention *before* they open a new account. If we conclude that this has not happened in a particular case – and the consumer has lost out as a result – we are likely to uphold the complaint in favour of the consumer.

what the complaints were about: banking and credit

complaints about unsecured loans

2008/09	4,242	
2007/08	2,940	
2006/07	1,755	
2005/06	1,507	
2004/05	1,133	
2003/04	1,116	

The number of complaints that we received about unsecured loans during the year rose by 44%. A significant proportion of these cases involved consumers having difficulty repaying loans. Clearly, this partly reflects the credit difficulties that began to emerge last summer. In these cases, consumers generally complain to us that their lender has not treated them fairly in relation to their debt.

The outcome of these complaints varies, depending on the individual circumstances. Our approach often involves mediating an informal settlement, which provides a fair and practical outcome for both the consumer and the lender. For many consumers, the loan in question is just one of a range of pressing debts. In such cases we provide the consumer with details of agencies that provide free debt advice, so that they can also get help to deal with their wider financial problems.

We also continue to receive complaints from consumers who are unhappy with the quality of goods they have bought with a loan – and who believe that the lender is liable to them under section 75 of the *Consumer Credit Act 1974*. Under section 75, the lender is jointly liable with the supplier of the goods or services for any breach of contract or misrepresentation – provided that there is the necessary “borrower-lender-supplier relationship”, and subject to certain other conditions.

These complaints often require us to form an opinion about the quality of the goods provided by the supplier. We are normally able to do this with the aid of evidence provided by both sides – often in the form of photographs or estimates – or expert reports that we can commission.

Disappointingly, we still see cases where a lender has responded to a section 75 claim by maintaining that the consumer has first to sue the supplier – before being able to bring a complaint against them as the lender. This is not what the law says. If we find that a consumer has been misled by their lender in this way – and has incurred unnecessary additional costs and inconvenience as a result of what they have been told – we will require the lender to compensate the consumer appropriately.

what the complaints were about: banking and credit

complaints about unsecured loans

(continued)

We have received a number of complaints during the year from consumers who believe their loan agreements may be “unenforceable at law”.

Because the ombudsman service is not a court, we have no power to declare a loan agreement unenforceable – and so the ombudsman is not the best forum for this kind of complaint.

However, in these cases it often seems to us that the consumer (or in some cases, their advisers) may not have entirely understood the effect of the law on which they are basing their claim.

In any case, we do not expect consumers to bring complaints to us as legal pleadings. We decide individual complaints on their particular facts and merits – not on how expertly or persuasively the case is argued.

So while it would be for a court of law to consider the specific issue of the enforceability of a loan agreement, we can deal with general complaint-issues relating to whether a loan was unaffordable from the outset, and whether information provided by the lender was misleading about the cost (or benefit) of taking out the loan.

complaints about consumer credit

2008/09	3,014	
2007/08	849	







We are starting to receive a much wider range of complaints relating to consumer credit. The range of credit we cover now extends beyond the loans and credit cards provided by banks and building societies (which have been under our remit since we were first set up) – and includes, for example, credit-related complaints about hire-purchase firms, debt collectors and catalogue-shopping companies, whose customers may now have access to the ombudsman for the first time.

This year saw a more than three-fold increase in the number of consumer-credit complaints compared with the 2007/08 financial year – which was the first year that we covered the wider consumer-credit sector under our “consumer credit jurisdiction”.

A significant feature of this wider range of consumer-credit complaints are cases involving “point of sale” loans. These are loans provided to the consumer specifically to finance the purchase of particular goods or services. The loan is arranged by (or through) the retailer, and the money from the loan is paid directly by the lender to the retailer.

what the complaints were about: banking and credit

complaints about other banking services

2008/09	2,725	
2007/08	2,643	
2006/07	1,748	
2005/06	1,360	
2004/05	1,083	
2003/04	1,106	

The new cheque-clearing arrangements introduced in November 2007 should reassure consumers that it is safe to draw on a UK cheque, if it has not been returned unpaid by “day six” of the clearance-cycle.

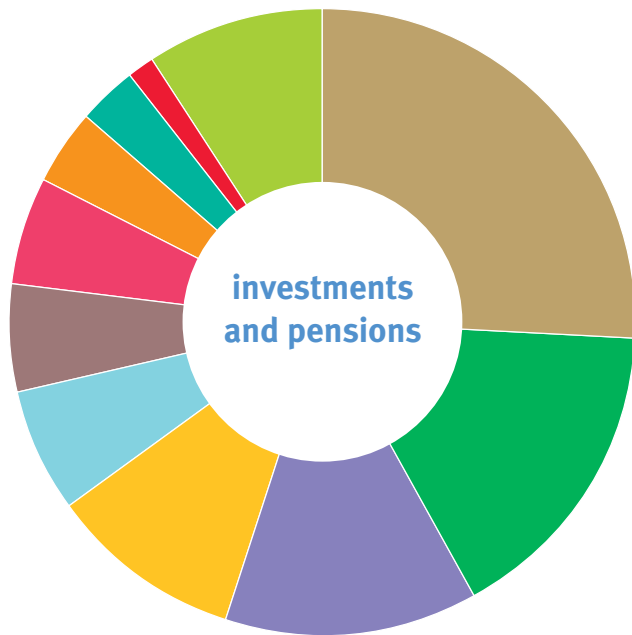
However, the complaints we have continued to see in this area suggest that consumers still struggle to understand fully how this cycle actually works. Banks and building societies also sometimes struggle to provide clear explanations when asked. There are more opportunities for misunderstanding between the bank and its customer where the situation involves a cheque drawn in euros or on a foreign bank.

During the year we continued to deal with complaints about international money transfers, carried out both within Europe and worldwide. In our last *annual review* we highlighted some of the problems in this area – which we continue to see.

From November 2009 the ombudsman service will – for the first time – cover complaints about money-transfer operators who are *not* currently regulated by the FSA or licensed by the OFT. This will be under the European Payment Services Directive (see also page 92).

During the year we have seen a small reduction in the number of complaints about electronic-payment services. These cases relate mainly to the payment services that consumers use to buy and sell goods over the internet. Most of these complaints have been about the clarity and terms of the “buyer protection” and “seller protection” policies of the payment-service providers. We are usually able to settle cases like this informally at the early stage of our dispute-resolution process.

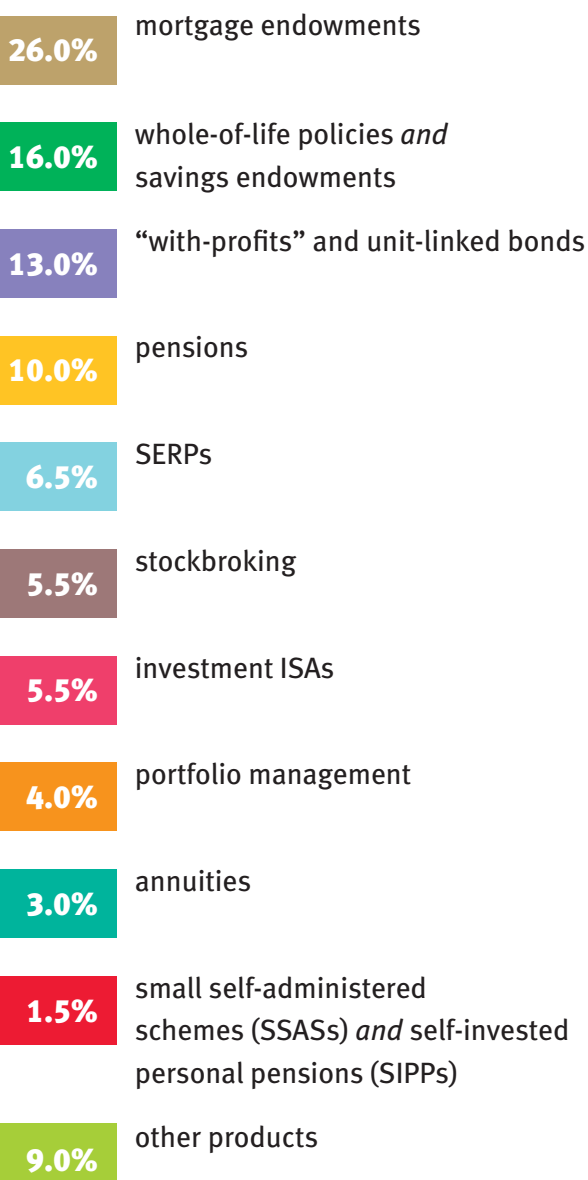
what the complaints were about: investments and pensions



investments and pensions

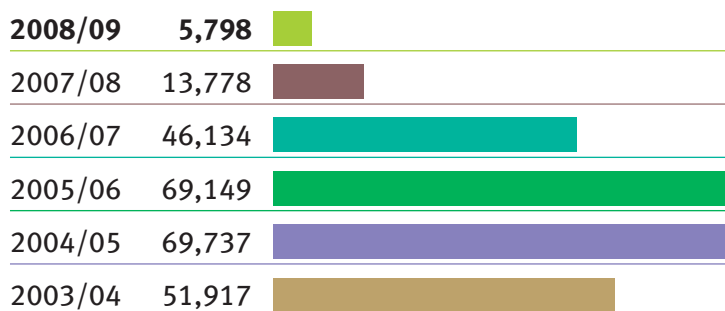
Complaints relating to investments and pensions made up 17.5% of the total number of new cases that we received during the year. This chart shows how these investment and pension-related complaints were spread across different products and services.

While the number of new complaints about the mis-selling of mortgage endowments more than halved during the 2008/09 financial year, the number of new complaints relating to all other types of investments increased by 30%.



what the complaints were about: investments and pensions

complaints about mortgage endowments



During the year we continued to see declining numbers of complaints about mortgage endowment policies. This is a trend we have seen for some time, as the time-limits set by the FSA for making a complaint expire for an increasing number of consumers.

We received 5,798 new complaints during the year, an average of around 110 new cases each week. This is less than half the number of cases received in the previous year – and less than a tenth of the number we were receiving when mortgage endowment complaints formed up to two thirds of our total workload between 2004 and 2006.

Among the mortgage endowment cases we dealt with during the year, we saw a small rise in the number of complaints about policies that have not been in force for a long time – for example, where they have been surrendered. These cases can present evidential problems which make it difficult for us to decide fairly the merits of the complaint. And we have sometimes been unable to proceed with cases where neither the consumer nor the business could provide enough information to allow us to make a proper assessment of the complaint.

While the volume of mortgage endowment complaints has reduced significantly, mortgage endowment policies remain the single most-complained about investment product that we see. It is likely that we will continue to receive complaints in this area for some time, although not at the levels we have previously dealt with.

For example, it is possible that recent stock market falls may lead to an increase in mortgage endowment complaints, particularly if consumers have not previously received a “re-projection letter” warning of a shortfall on maturity. We may also see a rise in complaints in the next few years, as the large numbers of endowment policies that were sold with 25-year mortgages in the mid- to late 1980s start to mature.

what the complaints were about: investments and pensions

complaints about whole-of-life policies and savings endowments

2008/09	3,515	
2007/08	3,211	
2006/07	3,734	
2005/06	4,163	
2004/05	4,506	
2003/04	5,442	

During the 2008/09 financial year the level of new complaints we received about whole-of-life policies and endowment savings-plans rose by just under 10%.

The continuing flow of complaints about increased premiums (or reduced sums-assured) in relation to so-called “reviewable” whole-of-life policies stresses the need for businesses to explain clearly at the outset how these policies work.

Too often in the complaints we see, the fact that the premium can rise dramatically to maintain the sum-assured comes as an unwelcome surprise to the consumer, who may face a considerable increase in premiums at the very time – perhaps following retirement – when it can least be afforded. As these policies are often sold to mitigate potential liabilities to inheritance tax, it is important that the consumer understands at the outset that the premium may well rise in the future.

In the complaints we see, consumers investing in endowment savings-plans generally expect them to perform better than a deposit account. Businesses selling these products often argue that the structure of the plan brings a discipline to regular saving. This may well be true – but the cost of the life-cover and other charges built into these products can mean that a reasonable return is unlikely to be achieved in poor market conditions. In the complaints referred to the ombudsman service this had not always been made clear when the consumer took out the policy.

what the complaints were about: investments and pensions

complaints about investment-linked products

2008/09	5,798	
2007/08	2,750	
2006/07	3,644	
2005/06	5,810	
2004/05	8,213	
2003/04	10,627	

The stock market volatility that we have seen over the year means that investment-linked products are unlikely to have performed as expected. This has been reflected in the number of complaints referred to us about investments more than doubling over the year.

Under our rules we have the discretion to decide not to deal with (to “dismiss”) complaints that are purely about investment performance. But it is evident that poor stock market conditions can also expose poor advice and sales – for example, where consumers who were willing to accept only a low risk to their capital find they have actually invested in a higher-risk product.

In complaints like this we have to look carefully at the circumstance of each sale, to ensure that the product was suitable for the consumer at the time the investment was made. Clearly, it is important that we do not apply hindsight in these cases – and we place much reliance on evidence from the actual point of sale. This means we look at what advice was given to the consumer, and we examine “suitability letters” or reports issued at the time of the sale, to see how clearly any risks were drawn to their attention.

If we decide that warnings were inadequate – and that the product appears to be of a higher risk than the consumer was willing to accept – we may conclude that the sale was unsuitable. On the other hand, if we consider that the risks were clearly set out, and that the consumer was given adequate warning that the investment appeared to be too risky for them, the consumer is likely to have difficulty persuading us that they were misled – if they decided to go ahead anyway.

Over the year we have seen a growing number of complaints about the management of “with-profits” funds – as bonuses have been cut or removed, and “market-value reductions” have been imposed on investments that were cashed-in early. In our experience, consumers fail to understand how products aimed at “smoothing out” the effects of stock market volatility can have suffered so much in bad times – yet benefited them so little when times were good.

The way “with-profits” funds operate is complex – and it is for the FSA, as the regulator, to consider how such funds are managed, taking account of the interests of all policyholders. This is why we usually use the formal “wider-implications” procedure (see www.widerimplications.info for more details) to find out if the regulator has expressed a view – before we decide whether we can pursue such cases.

what the complaints were about: investments and pensions

Similar problems arise with investments in property funds – also mentioned in relation to complaints about pensions on page 49.

If a significant number of investors in a property fund want to withdraw their money immediately in a falling market, the forced sale of property owned by the fund would drive down values even more. So to protect investors remaining in their property funds, a number of businesses imposed deferral periods on consumers wanting to withdraw their investments.

The right of a business to do this is usually contained in the fund's terms and conditions – and the timing or extent of a business's actions in this matter are generally questions of legitimate commercial judgement that we do not look at. However, these issues may well impact on the suitability of this type of fund for a particular consumer, especially if the money invested in the fund was likely to have been needed at a specific date. When we look at complaints about property funds, we also consider carefully the extent and clarity of the information made available to the consumer.







The failure of the investment bank, Lehman Brothers, during the year led to a number of complaints being referred to us about so-called “structured” products. Some years ago, we dealt with a significant volume of complaints about “structured capital-at-risk” products – commonly called “precipice bonds”. The cases we are now seeing are different from those complaints, in that the capital in these more recent cases appears to have been “guaranteed” to some extent – although the level of investment return depended on certain factors.

However, when the investment bank (Lehman Brothers) backing these bonds failed, investors learned that the capital had not, in fact, been guaranteed in the way they had thought – and in many cases they had no access to the Financial Services Compensation Scheme (FSCS). We have agreed with the FSA that complaints about Lehman-backed “structured” products should be dealt with under the “wider-implications” procedure.

it's **important** that we
don't apply **hindsight** – we place
much reliance on **evidence**
from the actual point of sale

what the complaints were about: investments and pensions

complaints about pensions

2008/09	4,825	
2007/08	5,297	
2006/07	3,687	
2005/06	4,053	
2004/05	4,214	
2003/04	5,303	

The total number of pensions-related complaints we received during the year declined by 9% – largely as a result of SERPs complaints falling by a third. These complaints involved advice to transfer out of SERPs (the state earnings-related pension scheme, replaced by the state second pension – S2P – from April 2002).

A significant number of SERPs complaints had been submitted in the previous year by a small handful of claims-management companies. Most of those cases had no realistic chance of success, given the circumstances involved and the fact that the claims-management companies had done little work themselves to look at the actual merits of the individual cases. The claims-management companies involved in this area are no longer in operation.

Like these SERPs cases, most of the pension-related complaints we handled during the year continued to turn broadly on the suitability of the pension policy and/or investment funds selected for the particular consumer involved.

The pensions simplification changes that came into effect in April 2006 – mentioned in previous *annual reviews* – have also now featured more regularly, both in the complaints themselves and in our approach to redress in cases we uphold. Because payments into pension arrangements typically have to be treated as contributions from the member, the ability of the member to make contributions, and the tax treatment of those contributions, directly affect any compensation we may tell a business to pay.

Unsurprisingly, the impact of volatile stock markets on pension-fund investments featured frequently in the complaints we saw during the year. The financial fall-out from the “credit crunch” has affected not only the performance of stocks and shares, and the value of bricks and mortar, but even the security of cash funds in some cases.

This has highlighted issues where consumers and their financial advisers have not sufficiently considered their tolerance to risk. An investor may have been identified as willing to accept a *medium* degree of risk, in the hope of a *medium* degree of growth. But in the complaints we have seen this year, advisers have not always considered the consumer’s ability, or willingness, to absorb a corresponding decline in values.

what the complaints were about: investments and pensions

complaints about pensions *(continued)*

Property funds have featured in many pension-related complaints during the year. (We also mention property funds on page 47 in relation to complaints we have received about investment bonds.) Historically, property funds have offered attractive returns with stability. However, property values go down as well as up – and in the current economic environment it can be difficult to dispose of both residential and commercial property.

As more investors have sought to switch out of property funds during the year, the downward pressure on values has increased, creating a spiral of dissatisfaction among the investors who have brought their complaints to us. Some fund managers have relied on the “deferral” period – typically associated with property funds – to force investors to defer cashing in their investment. Not being able to access their investments when they want to can be worrying for any investor – and the worry is clearly greater where the consumer is wanting the money in order to retire.

complaints about stockbroking and portfolio management

2008/09	2,078	
2007/08	1,209	
2006/07	1,052	
2005/06	975	
2004/05	1,056	
2003/04	1,353	

The 72% rise in complaints referred to the ombudsman service about stockbroking and portfolio management has almost certainly resulted from the stock market volatility during the year.

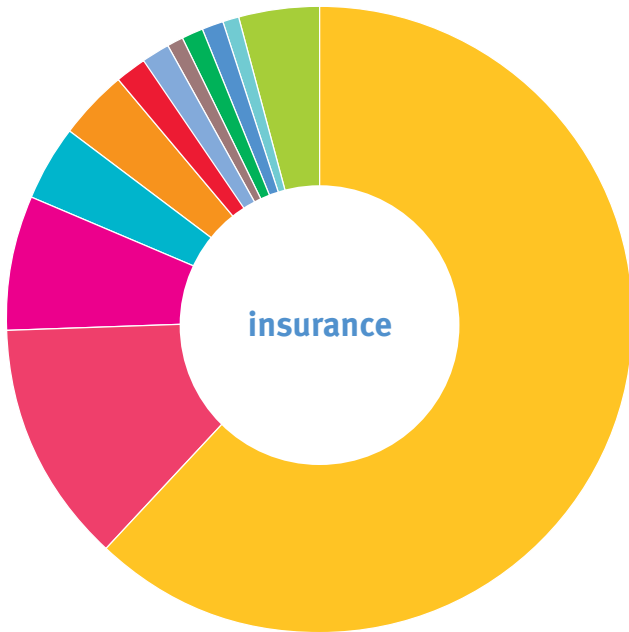
The types of case we have seen include, for example, disputes over instructions to sell the stock of institutions that were subject to adverse public comment and speculation. Where these instructions were not executed as requested – or were not executed as promptly as the customer would have liked – there may have been significant loss. In these cases we consider the evidence – often listening to recordings of phone conversations – to decide if the business did anything wrong. We do not uphold complaints on the grounds of disappointing investment performance alone.

During the year the FSA took enforcement action against the stockbroking firm, Pacific Continental Securities. This firm provided advice to retail customers on smaller-capitalised and emerging companies. A significant number of complaints had been referred to us about this firm, which caused the FSA some concern about whether the firm could remain adequately capitalised. In fact, the firm went into administration and complaints were subsequently referred to the Financial Services Compensation Scheme (FSCS). We are still receiving a disproportionate number of stockbroking complaints about the sale of smaller-capitalisation shares – an area clearly susceptible to high-pressure selling.

what the complaints were about: insurance

insurance

Complaints relating to insurance made up 39.5% of the total number of new cases that we received during the year. This chart shows how these insurance complaints were spread across different types of policy.



payment-protection insurance (PPI)

During the year the volume of complaints we received about payment-protection insurance (PPI) tripled – following a five-fold increase in the previous year. The vast majority of these cases continued to involve disputes about the sale of PPI policies – rather than disputes about the rejection of claims made under PPI policies.







The PPI complaints we see mostly concern policies that were paid for with a single premium, where the up-front cost was added to an unsecured or second-charge loan. We also see a significant number of cases relating to payment-protection insurance sold alongside credit cards. However, mortgage payment-protection insurance (MPPI) and other forms of payment protection have not given rise to significant volumes of complaints to the ombudsman service.

Many consumers complain to us that they were pressurised into purchasing these policies. Some say that they did not realise they had, in fact, even agreed to purchase a policy. Or they say that they would not have done so, if they had understood the restrictions contained in the policy. Particular issues occur in the case of single-premium PPI products, where consumers may not have realised that they were borrowing the money up-front to pay for the policy – and that if they cancelled the policy before the end of its planned term, they would get back only a relatively small rebate on the premium they had paid.

Our investigation of these issues can involve listening to phone recordings made at the time of the sale, or considering sales scripts and staff training-material – as well as looking at the documentation available during the sale.

what the complaints were about: insurance

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

2008/09	31,066	
2007/08	10,652	
2006/07	1,832	
2005/06	1,315	
2004/05	833	
2003/04	802	

We have worked closely over the year with the FSA, trade associations and major businesses, to ensure that our approach is well understood across the sector. At its simplest, we decide most complaints about the *sale* of PPI on the basis of whether the seller recommended a policy that they should have known was unsuitable for their customer – or whether they provided the information that the customer needed, to be able to decide whether to buy the policy.

If we decide that the business gave poor advice or insufficient information, we normally consider what the consumer would otherwise have done. In most cases, this means returning all the premiums paid plus interest. There is more information about our approach to these cases on our PPI online-resource on our website. The approach we adopt follows our well-established process for considering the possible mis-selling of products – while recognising the particular features of insurance and insurance law.

The substantial increase in complaints about PPI – and the exceptionally high proportion (89% of cases) where the outcome is changed in favour of the consumer following our intervention – suggests there is still a widespread problem involving businesses rejecting complaints that they know, or should know, we will uphold. This only adds to the inconvenience suffered by consumers.

And it gives rise to concern about the treatment of those who, for whatever reason, decide not to “appeal” their complaint to the ombudsman service.

It also seems that few businesses have conducted the kind of “root-cause” analysis into the background to these complaints that they are required to carry out under the FSA’s complaints-handling rules.

In July 2008 we therefore raised the general issue of PPI complaints with the regulator, the FSA, under the formal “wider-implications” procedure (see www.widerimplications.info). We asked the FSA to consider whether – in the light of the evidence available to us, its own regulatory findings, and the findings of the Competition Commission – it should take wider regulatory action. We have worked closely with the FSA as it considers the position.

In February 2009 the FSA announced that it had asked all businesses still selling single-premium PPI with unsecured personal loans to withdraw the product by the end of May 2009. And in April 2009 the FSA announced that it would bring forward guidance on PPI complaints-handling in its *Handbook*.

We have seen a steady increase over the year in the proportion of PPI complaints referred to us by claims-management companies, which now represent consumers in over half of the PPI cases we handle. Many of these cases involve mis-selling claims presented in a standard format, with little

what the complaints were about: insurance

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

information about the specific circumstances in which the individual policies were sold. This can make it difficult both for businesses and for us to get to the bottom of what actually happened in a particular case. To help improve the position, we are talking to claims-management companies and the Ministry of Justice (which is responsible for the regulation of these companies).

During the year the review into how the PPI market-place operates, initiated by the OFT and subsequently taken up by the Competition Commission, has come to a conclusion.

This has led to a proposed ban on the sale of single-premium PPI policies, as well as to a series of other measures aimed at giving consumers more choice and more time to understand the PPI policy they may be about to buy.

This should mean that the potential for disputes to arise about future sales of these policies will diminish. However, significant concerns remain about widespread mis-selling of these policies in the past – which may lead to substantial numbers of complaints in the future.

motor insurance complaints

2008/09	6,267	
2007/08	6,009	
2006/07	4,230	
2005/06	3,372	
2004/05	2,571	
2003/04	2,727	

During the year we continued to receive motor insurance complaints at record levels.

Motor insurance disputes are a long-standing and familiar part of the ombudsman's work. Our approach in these cases is well established and widely known across the sector.

The continuing increase in the number of these cases – and the rise in the uphold rate in favour of consumers in recent years (see page 58) – is therefore disappointing.

We are discussing this with individual insurance companies and the main industry trade-body, to see if there are issues that need to be addressed. This work is progressing well and complaint volumes started to decline in the last quarter of the 2008/09 financial year.

We published a technical note on our website during the year, reminding insurers about our approach to disputes about the valuation of cars that have been “written-off”. We believe this will help to reduce the significant number of complaints we receive on this topic.

Other major areas of dispute in relation to motor insurance continue to include the quality of the repair service provided after an accident, and a variety of administrative and service issues that the parties have been unable to resolve themselves. Most of the complaints we deal with arise after consumers have made a claim under a motor policy. We see relatively few complaints about the *sale* of motor policies – which means we continue to deal with only modest numbers of complaints about general-insurance intermediaries and “aggregators” (for example, information-comparison services).

what the complaints were about: insurance

complaints about buildings and contents insurance

		buildings insurance		contents insurance
2008/09	3,447		1,671	
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	

During the year the number of complaints referred to the ombudsman service about buildings and contents insurance rose by 27%. This increase related to all types and areas of household insurance – and probably reflects the recessionary environment, in which consumers and insurers are now clearly taking a tougher line in protecting their financial position. Cost-cutting and redundancies in the insurance sector, together with increased financial uncertainty among consumers, can lead to disputes being fought more tenaciously on both sides.

There has also been speculation about the increased incidence of insurance fraud during a recession. While we remain vigilant in this area, the issue of fraud is relevant in only a very small number of disputes we see. And we continue to have concerns about the extent of the discretion that some insurers give themselves in their policy terms – in the form of provisions which they say they may need to invoke to protect themselves from potential fraudsters.

travel insurance complaints

2008/09	1,973	
2007/08	1,628	
2006/07	1,670	
2005/06	1,787	
2004/05	1,525	
2003/04	1,453	

The number of travel insurance complaints we received during the year increased by 21% – and the proportion of cases we upheld in favour of consumers (39%) has remained at a similar level to previous years.

From 1 January 2009 travel agents and tour operators selling “connected travel insurance” (travel insurance sold alongside a holiday or other travel) have been regulated by the FSA – and covered by the Financial Ombudsman Service.

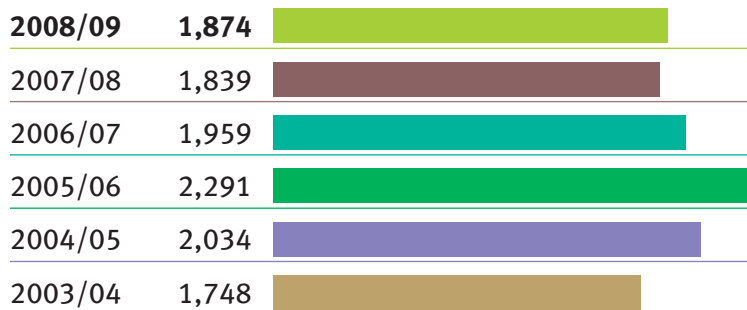
what the complaints were about: insurance

travel insurance complaints *(continued)*

We worked closely with the travel sector to ensure that businesses were prepared for this change – and that they understood their complaints-handling responsibilities and the role of the ombudsman.

So far, we have seen very few sales-related complaints. Our experience is that most disputes over travel insurance involve an actual claim, rather than the sale of a policy. However, complaints about a travel claim may raise issues about how the insurance was originally sold by the travel business – and this is an aspect that we are now able to look at.

health and medical insurance complaints



The number of complaints we received during the year in relation to health and medical insurance remained at a similar level to the previous year. This clearly reflects improvements in the way in which insurers are now dealing with income protection and critical illness disputes, where the consumer's medical history is an issue.

The introduction in January 2008 of the Association of British Insurers' *guidance on non-disclosure* in claims relating to long-term protection policies (upgraded to the status of a code of practice from January 2009) has had a beneficial effect for policyholders. It has also brought the sector clearly in line with the approach that we have been adopting for some time. This has resulted in fewer cases about the non-disclosure of a consumer's medical history now being referred to us. And in those cases we do see, we are now agreeing more often than before that the insurer acted fairly.

We continue to receive complaints from consumers who have entered into so-called "reviewable" insurance policies, where the insurer has the right to review the premium at intervals of five or ten years. These disputes generally involve reviews that have been carried out after many years – and have resulted in a significant increase in the premium.

In these cases, we consider the evidence to see whether the consumer was made aware, at the time of the sale, of the possibility of the premium being reviewed. We also consider whether the term that permitted the review was fair under the terms of the *Unfair Terms in Consumer Contracts Regulations* – and if so, whether the review was carried out in accordance with these terms.

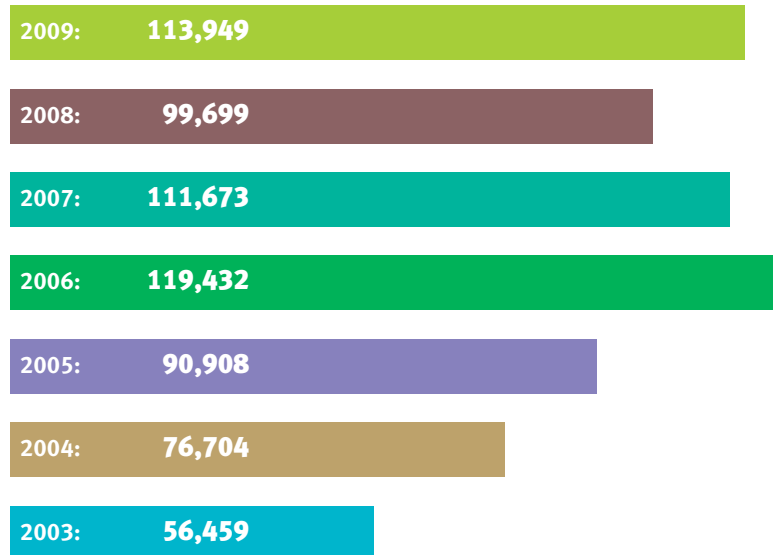
how we dealt with the complaints



how we dealt with the complaints

number of cases we resolved

We resolved a total of **113,949** cases in the financial year 2008/09 – a 14% increase on the previous year.



year ended 31 March

how we resolved the cases

The approach we take to resolving disputes is largely determined by the individual facts of each case – and by the level of formality required to settle matters appropriately.

Our preference is to resolve complaints informally – getting both sides to agree at an early stage to any recommendation or informal settlement that our adjudicators may suggest.

But more complex or sensitive disputes – involving hard-fought arguments and entrenched views – may require detailed investigations and lengthy reviews, including an “appeal” to one of our panel of ombudsmen for a final decision. An ombudsman becomes directly involved in a case in fewer than one in ten complaints.

51%

Resolved by an adjudicator settling the dispute informally – through mediation and recommended settlements.

41%

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

8%

Resolved by 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 41 ombudsmen is final – it is the last stage of our dispute-resolution process.

how we dealt with the complaints

As part of our consideration of complaints, our rules allow us to hold hearings – face-to-face meetings – held either in public or in private. We can also hold hearings over the phone – which is useful where it might be difficult to arrange a location convenient for all parties. Hearings are generally as informal as possible – and held only in cases where the documentary evidence is very finely balanced and the facts of the case are at issue.

We do not hold hearings automatically on request, and if we are asked for a hearing by either a consumer or a business, we consider carefully what value it will add. We do not believe that hearings should be held simply to allow either side to confront the other in person. During the year we held fewer than 20 hearings in cases where the ombudsman involved considered that it would help them get to the bottom of a case.

how we record the outcome of cases

We record the outcome of a consumer’s complaint as “changed” – meaning we upheld the complaint – in cases where:

- The financial business told the consumer in its final response that it had done nothing wrong – but after the complaint was referred to us, we decided (or the business belatedly accepted) that it *had* done something wrong after all.
- or*
- The financial business’s final response offered the consumer inadequate compensation – but after the complaint was referred to us, we required the business (or it belatedly agreed) to increase its offer to an appropriate level.

We record the outcome of a complaint as “*not* changed” – meaning we did *not* uphold the consumer’s complaint – in cases where:

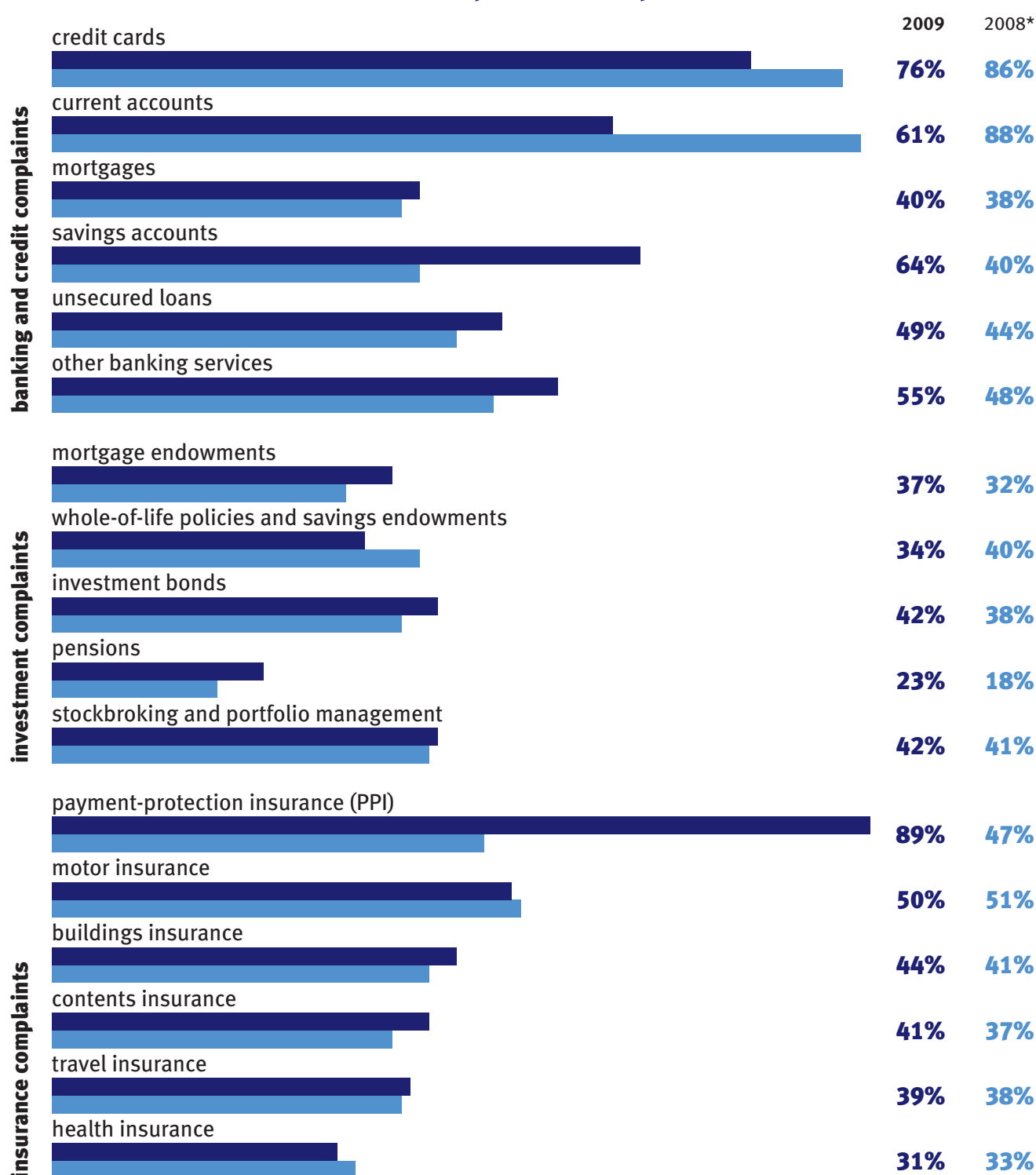
- The financial business had done nothing wrong.
- or*
- The financial business had done something wrong, but had already offered the consumer appropriate redress (before the complaint was referred to us).

how we dealt with the complaints

outcome of cases

In the financial year 2008/09 we upheld **57%** of the complaints we dealt with. This means that in almost six out of ten cases, the outcome of a consumer's complaint following investigation by a financial business was *changed in favour of the consumer* as a result of our subsequent involvement. This uphold rate is higher than in any previous year.

% of complaints where the outcome changed as a result of our involvement ("we upheld the complaint")



how we dealt with the complaints

outcome of cases *(continued)*

From the autumn of 2009, we will also be publishing information on the outcome of complaints referred to us about *individual named businesses*. Following public consultation, we will

be making available on our website the number of new complaints – and the proportion of complaints we uphold in favour of consumers – in relation to businesses that have 30 or more new and closed cases in each six-monthly period.

putting things right

Where we *uphold* a complaint in favour of a consumer, 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 or inconvenience. We did this in around a quarter of the complaints we upheld during the year – generally awarding an amount between £150 and £500.
- 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.

Where we do *not* uphold a complaint in favour of a consumer, our aim is to give a clear explanation – from an entirely impartial standpoint – as to why we believe the financial business has done nothing wrong (or has already offered the consumer appropriate redress).

In many cases it was poor communication between a financial business and its customer that led to a simple misunderstanding escalating to the stage where the ombudsman service had to get involved.

Consumers can sometimes pursue grievances in an unfocused and unbalanced manner that may make them appear unreasonable to the business they complain to. On the other hand, businesses sometimes respond to customer concerns unhelpfully and defensively – aggravating problems that a clear and careful explanation might easily have resolved.

A consumer's failure to present a coherent and reasoned argument does not automatically mean that a case has no merit – or that the complaint should be considered "frivolous and vexatious". Of the 113,949 complaints we settled during the 2008/09 financial year, we concluded that only 98 cases (less than 0.1% of the total) could reasonably be categorised in that way.

* These numbers combine the two categories, "we agreed with the consumer's complaint" and "mixed outcome", that we showed in the *annual review* for 2007/08. The chart excludes complaints that were withdrawn or were outside our remit.

how we dealt with the complaints

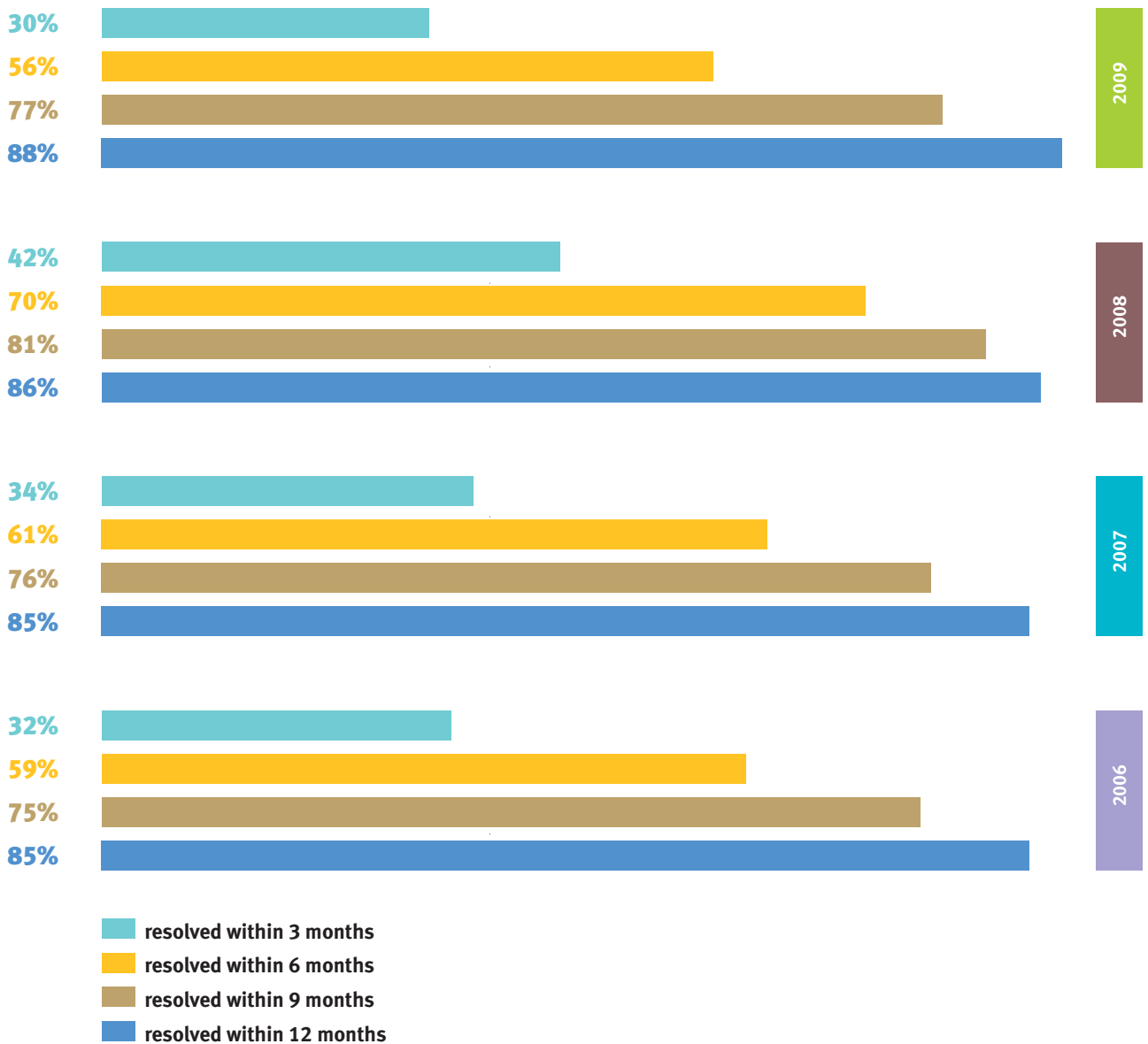
timeliness

The chart below shows the time it takes to settle disputes that are referred to the ombudsman service.

The greater-than-forecast number of complaints we received during the year (127,471 actual cases rather than the forecast 90,000) meant

that our expectations of improving the average time to resolve and close a case were not fulfilled. We resolved around a third of disputes within three months (compared with 42% in the previous year), upholding over 70% of these cases in favour of the consumer. And we resolved just under eight out of ten disputes in nine months.

time taken to resolve cases



year ended 31 March

how we dealt with the complaints

We want to be able to settle cases as quickly as possible – and our aim for 2009/10 is to resolve 45% of disputes within three months and 65% within six months. To help us achieve this, we have recruited 175 additional adjudicators during the year, together with a number of teams of contract and outsourced staff, to provide the flexibility to cope with volatility in complaint volumes.

We also continue to put resource into our “early assessment” teams of adjudicators – who focus on new cases where there are opportunities to intervene early on and encourage informal settlement.

We prioritise cases where, for example through financial hardship or for medical reasons, consumers might be disadvantaged by having to wait longer. During the year we expanded the information on our website, explaining how we allocate and prioritise cases.

The complaints we deal with can change suddenly and unexpectedly – both in terms of their numbers and their subject matter. And receiving unexpected volumes of complaints – as has happened this year – can sometimes mean it takes longer than we would like to allocate new cases to an adjudicator or ombudsman.

Many cases can be resolved quickly, once we have allocated them to an adjudicator. But complex cases can take longer. During the year we have noted an increase in the number of disputes involving hard-fought arguments and entrenched attitudes on both sides – as businesses increasingly take a legalistic approach to dispute resolution and consumers become more demanding and less willing to concede.

our **aim** for 2009/10 is to
resolve 45% of disputes within
3 months and **65%** within 6 months

how we dealt with the complaints

quality and consistency

We are committed to monitoring the quality and consistency of our work. In response to the substantial increase in the volume of new cases we are now dealing with, our quality committee – a sub-committee of our board of “public interest” non-executive directors – reviewed our quality-assurance arrangements during this year.

This led to our implementing a range of initiatives to enhance our existing quality-assurance framework, reflecting our heavier workload. These initiatives included:

- Commissioning a comprehensive expert assessment of our quality-checking procedures.
- Re-assessing the core definition of “quality”, around which our quality-assurance work is built.
- Expanding our quality team by recruiting additional experienced adjudicators – to carry out increased quality-checking across all areas of casework.

- Introducing a range of operational process-changes to underpin the efficiency and consistency of our checking procedures.
- Refining the production of performance data and management information.
- Strengthening internal mechanisms to ensure prompt and effective communication between our quality-checkers and our adjudicators.

Work in this area is co-ordinated by our quality team, which reports directly to our recently-appointed director of business-planning and assurance. This team also provides support for our process-improvement and project-management work, and produces and verifies management information and performance data for operational and strategic purposes.

learning and development

The knowledge, experience and expertise of all our staff is central to ensuring high quality and consistency in our work. This is why the training and development of our staff remains a high priority – reflected in our focus on continuing professional development and training at all levels.

Over the year our staff spent a total of 14,250 hours in training activities – an average of three and a half days of training for each employee. This ranged from tailored induction-courses for new starters to refresher training and technical updates for experienced adjudicators. As part of our commitment to the continuing professional development of our casehandling staff, we are developing a formally accredited training-programme involving ongoing testing and assessment.

“quality” is where a case is well-handled, the outcome is reached fairly and reasonably, and communication is clear and prompt.

how we dealt with the complaints

knowledge and information

Sharing knowledge is an essential part of learning and improving. We share up-to-date casework news and information across the organisation by using our intranet-based knowledge-management “toolkit”. Running regular in-house clinics, briefings and seminars also helps ensure the consistency and accuracy of our approach in handling individual cases.

We are also committed to sharing our knowledge with the outside world. Making information increasingly available about our approach to particular types of cases should make it easier for consumers and financial businesses to resolve more complaints themselves – without referring them to the ombudsman service.

To help us do this we have created a new senior post of head of practice. This post – filled in March 2009 at the level of lead ombudsman – has responsibility for co-ordinating, consolidating and documenting information and guidance on casework-policy issues and on the ombudsman’s approach.

Our commitment to continuous improvement is supported by our programme of stakeholder and market 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. 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 service-review team

We know that – like all organisations – we can and do get things wrong. We believe that an important test by which we should be judged is the way in which we recognise, deal with and learn from any shortcomings. 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 team of complaints handlers – our service-review team – reporting directly to our director of business-planning and assurance. In the 2008/09 financial year, this team handled 1,307 complaints about our service – 1% of our total workload (compared to 0.7% in the previous year). Around one in ten of these complaints were made by businesses and the others were all from consumers.

The service-review team upheld a quarter of the complaints they reviewed during the year. They paid compensation in 69 cases in recognition of the inconvenience caused by delays or administrative errors on our part. The average payment was under £200.

Where our service-review team is unable to resolve a complaint about our service, it can be referred to the independent assessor – for a formal review of the level of service we have provided. The independent assessor’s annual report is published in full as part of this *annual review* (see page 96). As the chairman has noted in his foreword, all the independent assessor’s recommendations in individual cases have been accepted – as have his helpful suggestions more generally on the way we provide our service.

how we dealt with the complaints

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 businesses for settling disputes referred to us about them.

However, in the 2008/09 financial year we did not charge businesses case-fees for the *first three* disputes involving them that we settled during the year. Businesses were 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 88.

Our budget is calculated on the basis of workload forecasts that we consult on publicly each year. Following feedback in January and February 2008 on our proposed budget and workload for the 2008/09 financial year, we increased by 18,000 our forecast for the number of new complaints we could expect to receive – taking the estimated total number of new cases up to 90,000. We also increased by an additional 26,000 the number of cases we estimated we would resolve and close during the year – bringing that total to 110,000.

Taking these increased numbers into account, the boards of the FSA and the Financial Ombudsman Service approved a budget for the ombudsman service – for the 2008/09 financial year – that assumed income of £62.7 million, expenditure of £60 million, and a unit cost of £543.

The actual final figures for the year showed total income of £65.8 million, expenditure of £58 million, and a unit cost of £508. Income from case fees was £2.8 million higher than the budgeted figure – reflecting the fact that we resolved 4% more cases during the year than we had forecast in the budget.

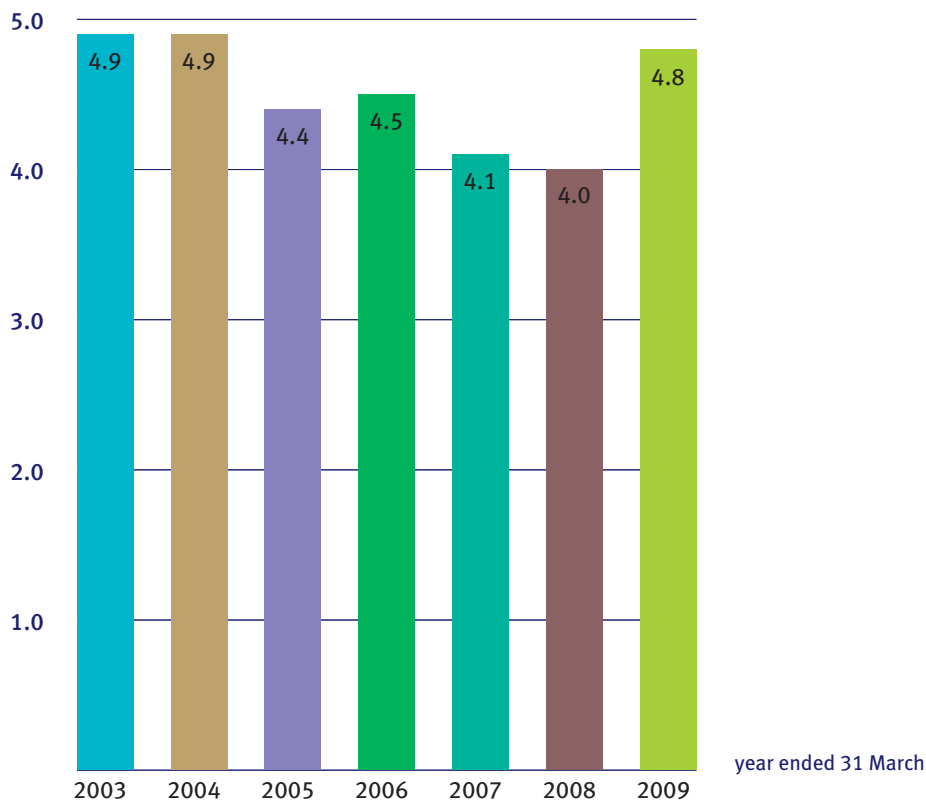
Our productivity – which we define as the average number of cases resolved weekly by each adjudicator – increased by 20% during the year. This was despite the fact that we recruited and trained 175 additional adjudicators – who in many cases became fully productive only towards the end of the year.

In addition to recruiting new adjudicators on a permanent basis, we put in place a number of teams of contract and outsourced staff to help tackle sudden surges in complaints – giving us further flexibility to meet both long-term and short-term demand.

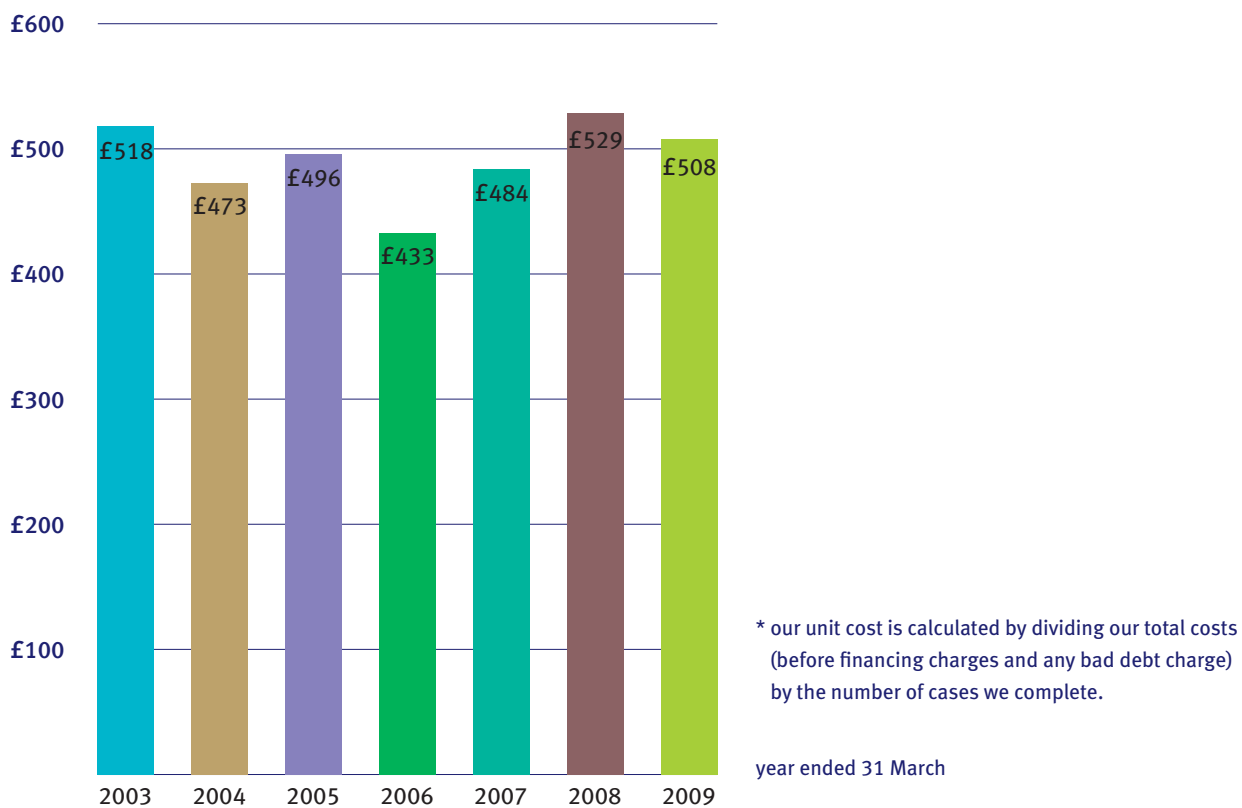
The amount of bad debts during the year was £0.3 million – resulting from firms we cover going out of business, leaving case fees unpaid with no realistic chance of recovery. Over 90% of these costs related to firms that have either been liquidated or placed “in default” by the Financial Services Compensation Scheme (FSCS).

how we dealt with the complaints

average number of cases resolved weekly by each adjudicator



our unit cost *



how we dealt with the complaints

our income and expenditure (summary)

	actual year ended 31 March 2009 £ million	budget year ended 31 March 2009 £ million	actual year ended 31 March 2008 £ million	actual year ended 31 March 2007 £ million
income				
annual levy	19.3	19.0	19.6	16.6
case fees	46.1	43.3	35.5	36.1
other income	0.4	0.4	0.4	0.4
total income	65.8	62.7	55.5	53.1
expenditure				
staff-related costs	47.8	48.2	41.2	42.5
other costs	8.7	9.2	10.0	9.7
financing charges	0.1	0.4	0.2	0.3
depreciation	1.4	2.2	1.7	2.5
total expenditure	58.0	60.0	53.1	55.0
exceptional costs	–	–	2.9	–
surplus/(deficit)	7.8	2.7	(0.5)	(1.7)

These figures are drawn from our unaudited management accounts. The directors' reports and audited financial statements are available separately on our website and as hard-copy.

who complained to us



who complained to us

what kind of consumer uses the ombudsman service?

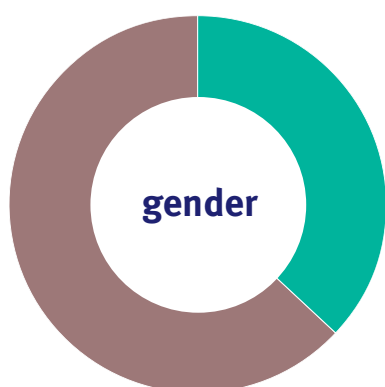
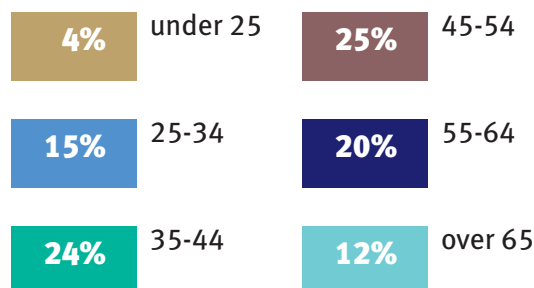
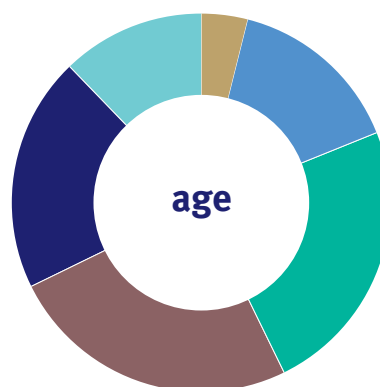
Collecting demographic information about the kind of consumers who bring complaints to the ombudsman service gives us a closer understanding of the people who use our service – and their expectations and requirements. It also helps us identify specific areas and groups in the community where our service is less well known and used.

We also use this information to prioritise further work – for example, targeting specific outreach and awareness-raising activities, or adjusting our case-handling procedures to address particular accessibility issues.

what age are consumers who complain to the ombudsman?

Around seven out of ten consumers who brought complaints to the ombudsman service during the year were between the ages of 35 and 64. Around half the UK population are between these ages. This “over-representation” of people in the middle age-brackets who complain to us appears to reflect their wider ownership of financial products – as well as their greater awareness of our service.

However, the proportion of under 35s and over 65s using our service is continuing a gradual upward trend. We hope this reflects the outreach work we have carried out with people in these age groups – to help raise their 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 80.

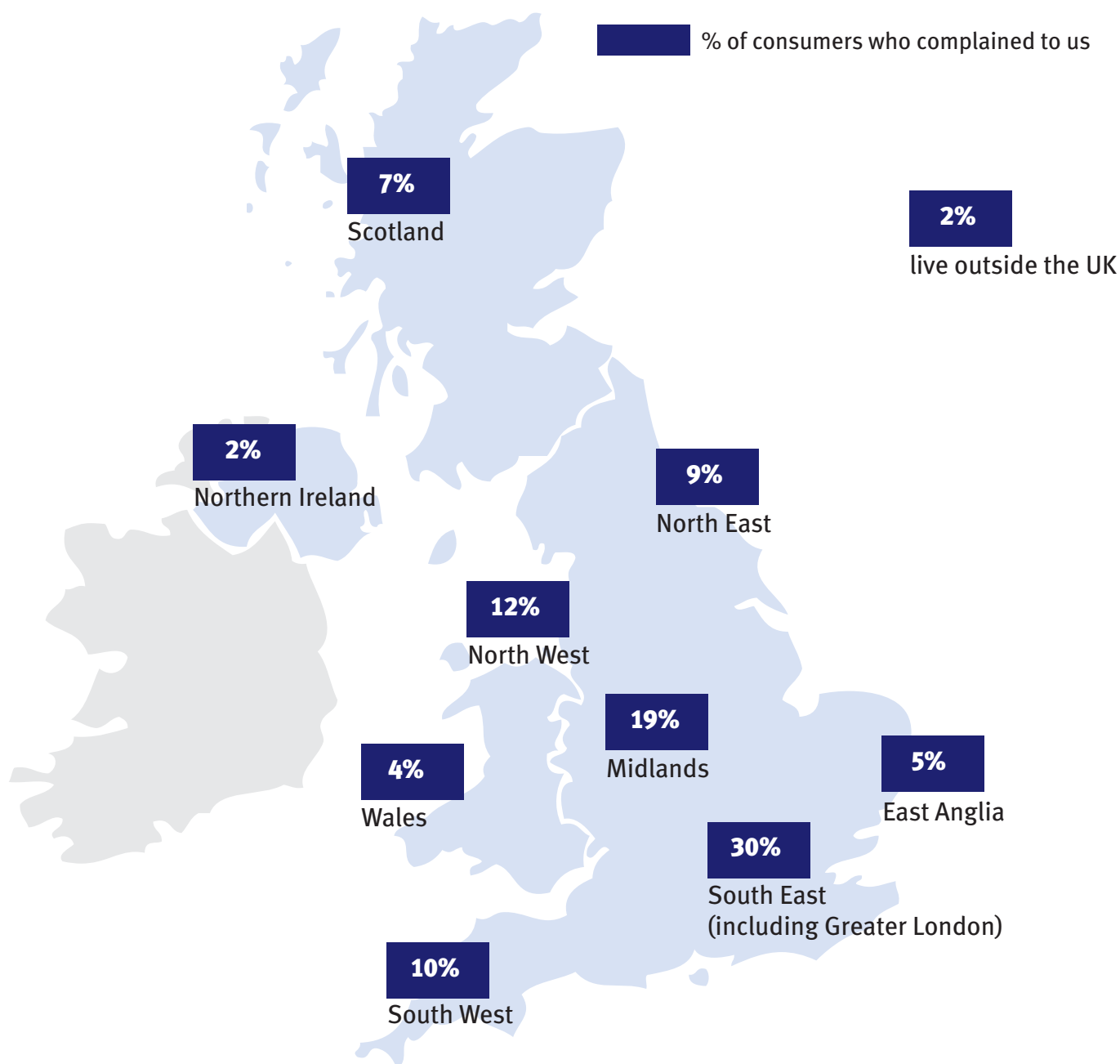


... and what gender are they?

We continue to receive more complaints from men than from women. The proportion of male and female consumers bringing complaints to us during the year was identical to the previous year. However, many complaints relate to accounts and policies that are held jointly where – conventionally – the first-named account-holder (the name our system records) is a male partner.

“of our own employees, **58%** are male and **42%** female – and their average age is **37**”

where do consumers live who complain to us?

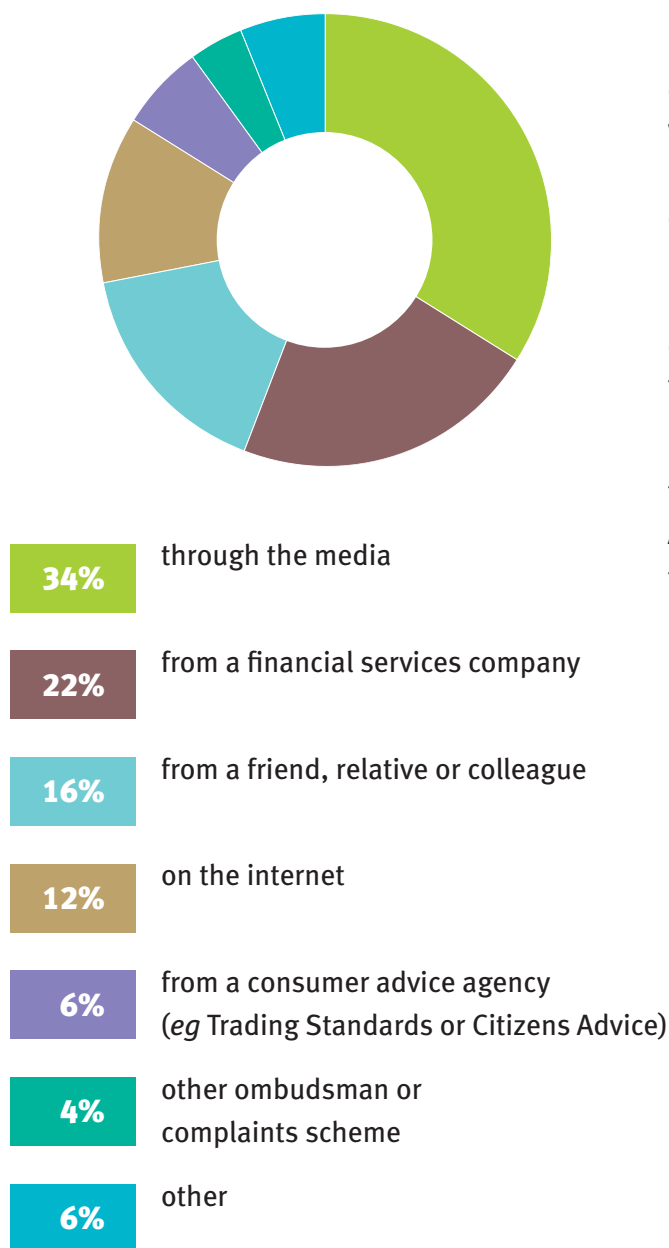


This map shows where consumers live who brought complaints to the ombudsman service this year. Comparing these figures with regional population data helps us monitor awareness and use of our service across the regions and nations.

Looking at where people live across the UK, we received proportionately *fewer* complaints from consumers in East Anglia, Wales, the North

East and Scotland; and proportionately *more* complaints from people living in the Midlands, the South East, the South West and the North West. Broadly, however, the location of people using the ombudsman service continues to reflect the general spread of the population across the UK as a whole.

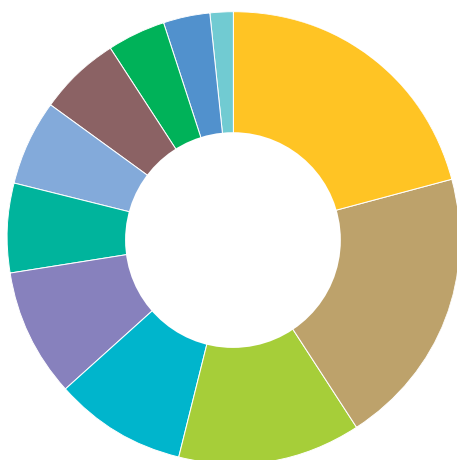
how did consumers hear about the ombudsman?



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. However, more consumers continue to say they first heard about us through the media – rather than from the business they complained about.

96% of people who got in touch with us said that finding our contact details had been easy. And 86% said that they had already heard about the Financial Ombudsman Service before they needed to complain.

what newspapers do consumers read who complain to the ombudsman?



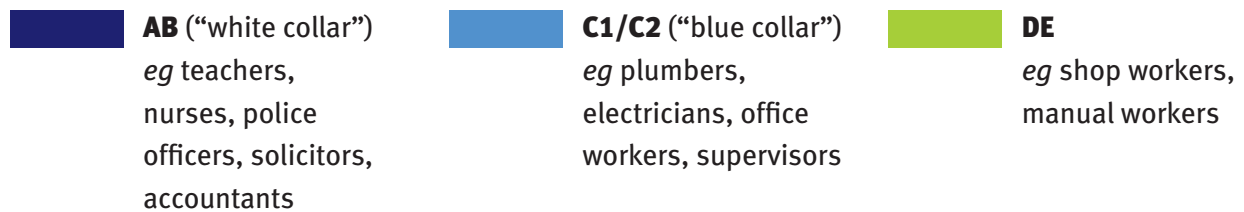
Knowing which newspapers are read by consumers who bring complaints to us gives us a useful insight into the socio-economic background of our customers. The general pattern of newspaper-reading among people who use the ombudsman service – as recorded in our market research – remains broadly similar to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

- 21.0%** regional and free papers (mostly the Metro newspaper)
- 20.0%** Daily Mail/Mail on Sunday
- 13.0%** The Times/Sunday Times
- 9.5%** The Telegraph/Sunday Telegraph
- 9.0%** The Sun/News of the World
- 6.5%** The Mirror/Sunday Mirror
- 6.0%** The Express/Sunday Express
- 6.0%** The Guardian/Observer
- 4.0%** Financial Times
- 3.5%** The Independent/Independent on Sunday
- 1.5%** The Star

who complained to us

what's the socio-economic background of consumers who complain to the ombudsman?

Our analysis of the occupations of people who refer complaints to the ombudsman shows a distinct socio-economic shift among the consumers who now use our service. Over the last couple of years, the proportion of complaints to the ombudsman from so-called “blue collar” workers has risen by 17%, while complaints from people from professional backgrounds (“white collar” workers) have fallen by 18%.



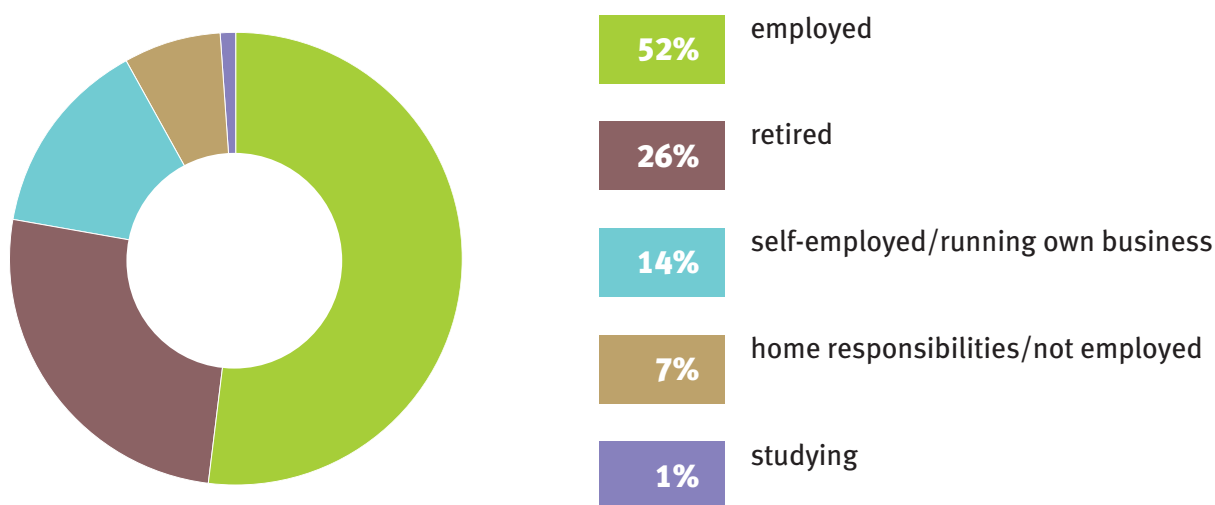
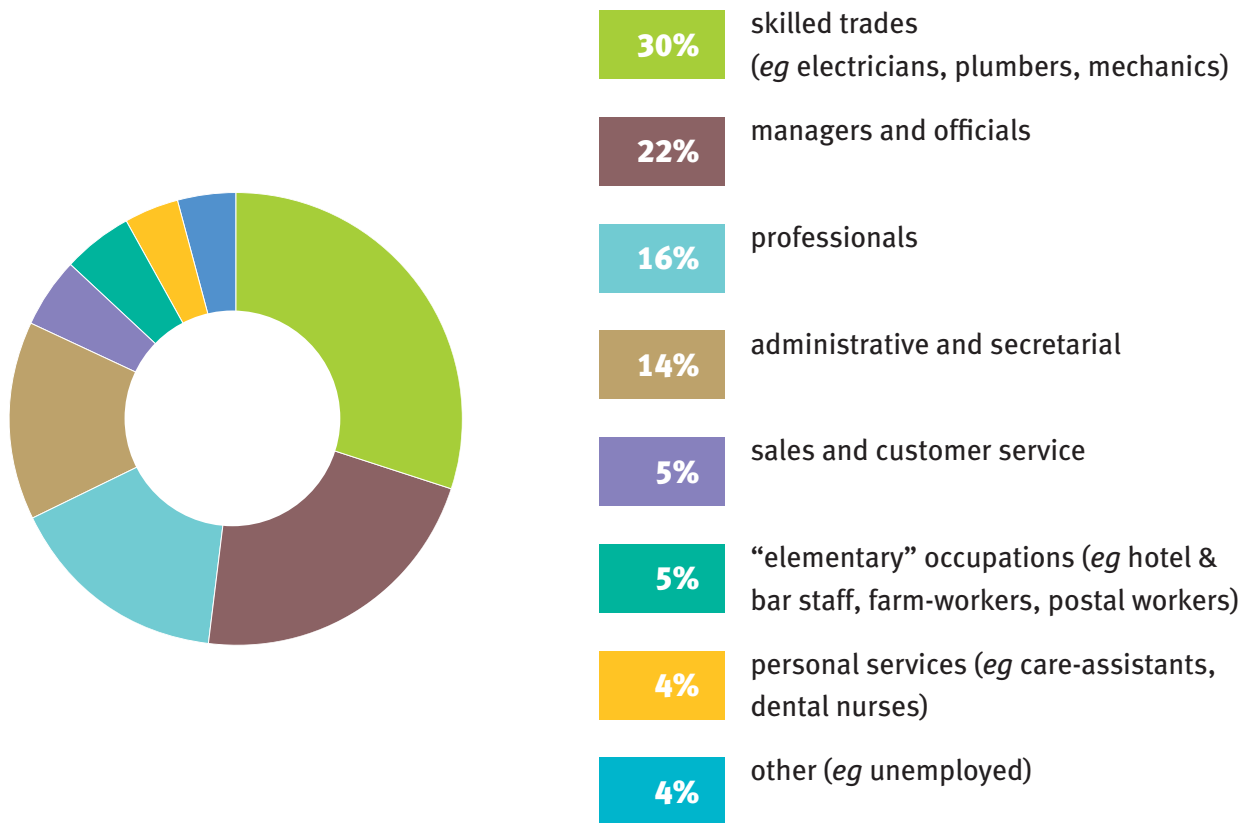
This shift largely results from the changing pattern of complaints that consumers refer to the ombudsman service. From 2004 to 2007, between a half and two-thirds of all complaints related to mortgage endowments and were brought by mainly middle-aged homeowners.

But this has changed more recently as our remit has extended to cover consumer-credit businesses – for example, hire-purchase firms, debt collectors and catalogue-shopping companies, whose customers may now have access to the ombudsman for the first time.

People who bring consumer-credit complaints to the ombudsman service are younger, on average, than other consumers who use our service. And almost half of consumer-credit complaints are brought by women (who account for just over a third of complaints generally).

Consumers in the socio-economic groups C1 and C2 complained to the ombudsman service proportionately more about motor and household insurance (making up 57% of people complaining to us about these products) and less about investments. On the other hand, people from AB socio-economic backgrounds accounted for only 36% of complaints about motor and household but over a half of all complaints about investments.

what's the occupational background of consumers who complain to the ombudsman?



what's the occupational background of consumers who complain to the ombudsman? *(continued)*

The socio-economic shift among the consumers who use our service also reflects the focus of our outreach work with groups whose knowledge and use of us is lower than average. This work aims to help raise awareness of the right to bring financial disputes to the ombudsman service. There are more details later in this section about our awareness-raising and accessibility work.

We monitor the outcome of the complaints we resolve – looking at the age, gender, ethnicity and occupation of the consumers involved. The results of this monitoring continue to show that the proportion of cases we uphold in favour of the consumer is broadly consistent – regardless of who consumers are or what their background is.

consumers who do *not* use our service

As well as analysing demographic information about the consumers who use our service, we carry out market research into levels of consumer awareness of the ombudsman more generally across the adult population.

According to research during the year, 74% of people said they were aware of the Financial Ombudsman Service. Organisations with similar levels of awareness included the Greater London Authority (70%), the charity *Mind* (73%), *Which?* (75%) and the London Olympic Committee (79%). The research showed that people trusted the Financial Ombudsman Service more than the Church of England but less than Citizens Advice.

We also track how many people can actively name us on an *unprompted* basis. As part of our ongoing consumer research, a cross-section of adults – selected to reflect the adult population of the UK as a whole – are asked to “*name the organisation whose job it is to help consumers sort out individual disputes with financial companies*”. During the year an average of 11% of consumers were able to name the Financial Ombudsman Service without prompting.

Our research includes monitoring how general awareness of the ombudsman varies over the year across different demographic and geographic areas. For example, the proportion of people who could name us, unprompted, at different times in the year ranged from 2% (of 18 to 24 year olds) to 22% (for those in the 35 to 54 age bracket). Awareness of the ombudsman service during the year has been highest in the North and South East and lowest in Northern Ireland (see page 84).

consumers who do *not* use our service (continued)

During the year we launched a number of targeted consumer initiatives to help raise levels of awareness and use 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 later in this section about this aspect of our awareness-raising and accessibility work.

Our research with consumers who do *not* use our service shows consistently that around 12% say they have recently complained to a financial services business. Of those who say they remained unhappy after their complaint, usually over half take no further action.

We are particularly interested in the reasons why people do not refer unresolved complaints to the ombudsman at this stage. This helps us understand what barriers – real or perceived – may exist in accessing our service, and where we need to target specific outreach and awareness-raising activities or adjust our case-handling procedures to address particular accessibility issues.

how do consumers respond to the ombudsman “brand” and identity?

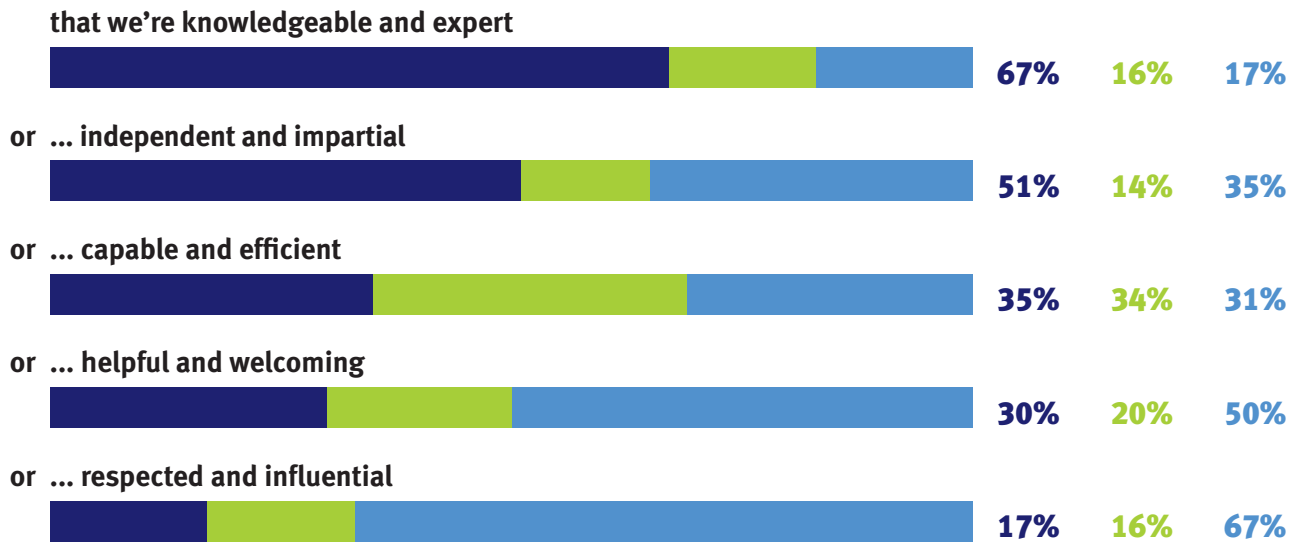
During the year we commissioned market research into how consumers understand and respond to our branding and corporate identity. This involved face-to-face interviews with a range of consumers on issues such as our logo, our name, the look of our website and publications, and our core values.


The consumers interviewed showed a preference for formality rather than approachability in the way they felt the ombudsman service should position itself. When asked which of our core values they felt were most important, consumers ranked “knowledgeable and expert” significantly higher than “helpful and welcoming”.


The fact that our service is free – and that we have the power to direct businesses to put things right – were also seen as very much more important than the fact that we were set up by Parliament or that we have a heritage going back 25 years.




which of our “core values” are the most important to consumers?

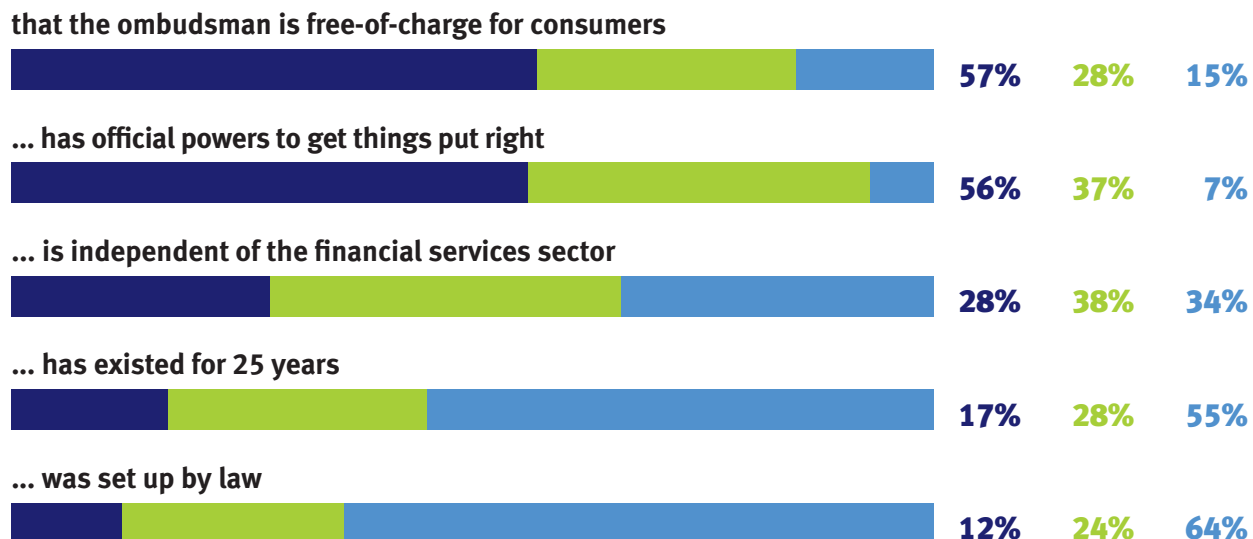


 % of consumers who say this is the most important “core value”

 % of consumers who express no view

 % of consumers who say this is the least important “core value”

what's the most important feature about the ombudsman to consumers?

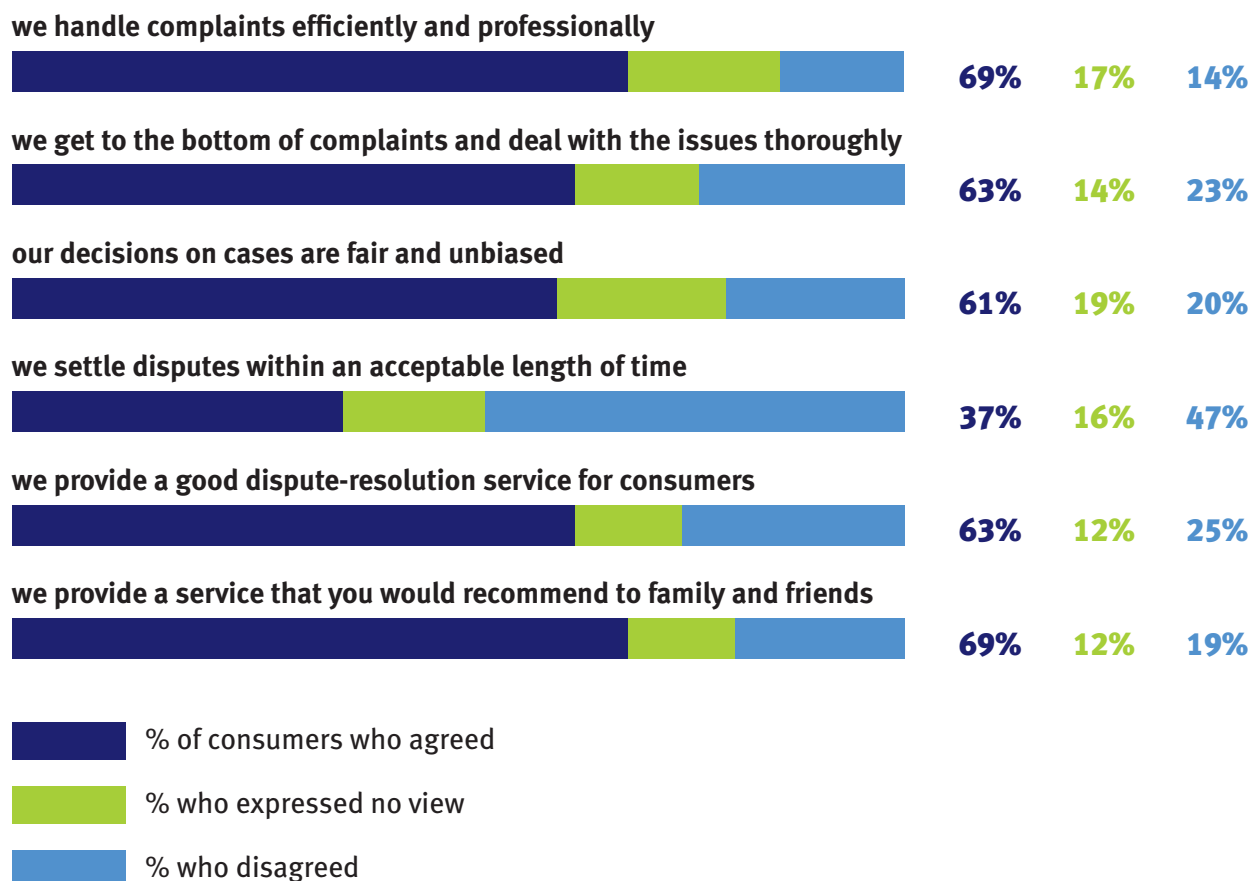


% of consumers who say this is the most important feature
 % of consumers who express no view
 % of consumers who say this is the least important feature

Generally, the word *ombudsman* was not popular. However, 80% of those who took part in a follow-up survey on our website – on what people thought about our name – voted to keep the name *ombudsman*. And virtually no suggestions were made as to alternative names that might capture the special nature of what we do.

In the market research we commissioned, 76% of consumers were positive about the look of our website, with 82% feeling confident that they clearly understood our role from the homepage. 89% of consumers also found our consumer leaflet clear – with no difference between age groups or between male and female responses.

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



The market research that we carry out continues to tell us that consumers want their complaints resolved as quickly as possible – as far as this is compatible with reaching a fair resolution. We have not been able to deal with complaints as quickly as we would have liked, because of

the heavier-than-expected volume of new cases this year and the inevitable lead-in time involved in recruiting and training the new adjudicators needed. Improving the timeliness of our complaints handling remains a key priority for us (see also page 60).

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



- % of consumers who were satisfied with our handling of their case
- % who expressed no view
- % who were dissatisfied

88% of consumers who felt they had “won” their complaint said they would recommend our service to their friends and family. But only 50% of consumers who felt they had “lost” their case said they would do so. This suggests that 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 on page 62 about our work to measure and improve quality.

69% of people whose complaints were resolved said they’d **recommend** us to family and friends

who complained to us

accessibility and consumer diversity

Being accessible is something we take very seriously. An individual’s background or ability should not act as a barrier to their having a complaint handled by the ombudsman service. We decide cases on the facts themselves, not on how well either side argues and *presents* the facts.

Our work in this important area is informed by the high-level strategy set by our board, and co-ordinated and championed by our *accessibility taskforce* – comprising senior staff from across all areas of the ombudsman service. We also feed back on our accessibility work to the *accessibility and transparency discussion group*, made up of financial services practitioners and representatives from consumer organisations.

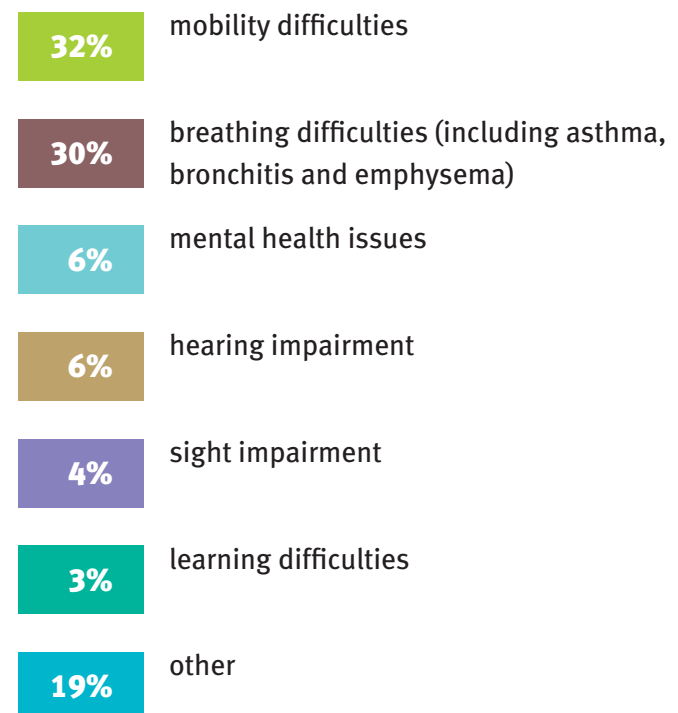
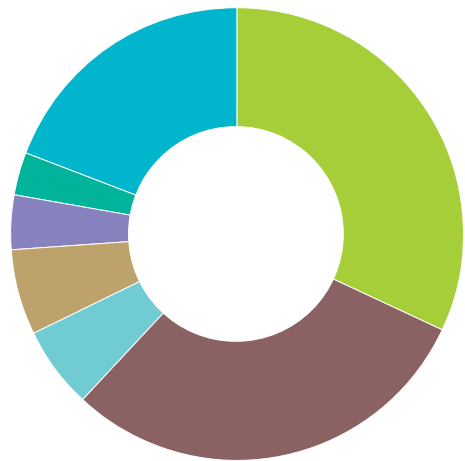
Our commitment to providing an accessible service involves recognising that a range of barriers can exist for many of our customers. Our demographic and market research helps us identify these barriers and better understand the impact they may have on particular groups.

In the section below we highlight the key areas during the year where, following research, we have prioritised specific outreach and awareness-raising activities – or adjusted our case-handling procedures to address particular accessibility issues.

disability

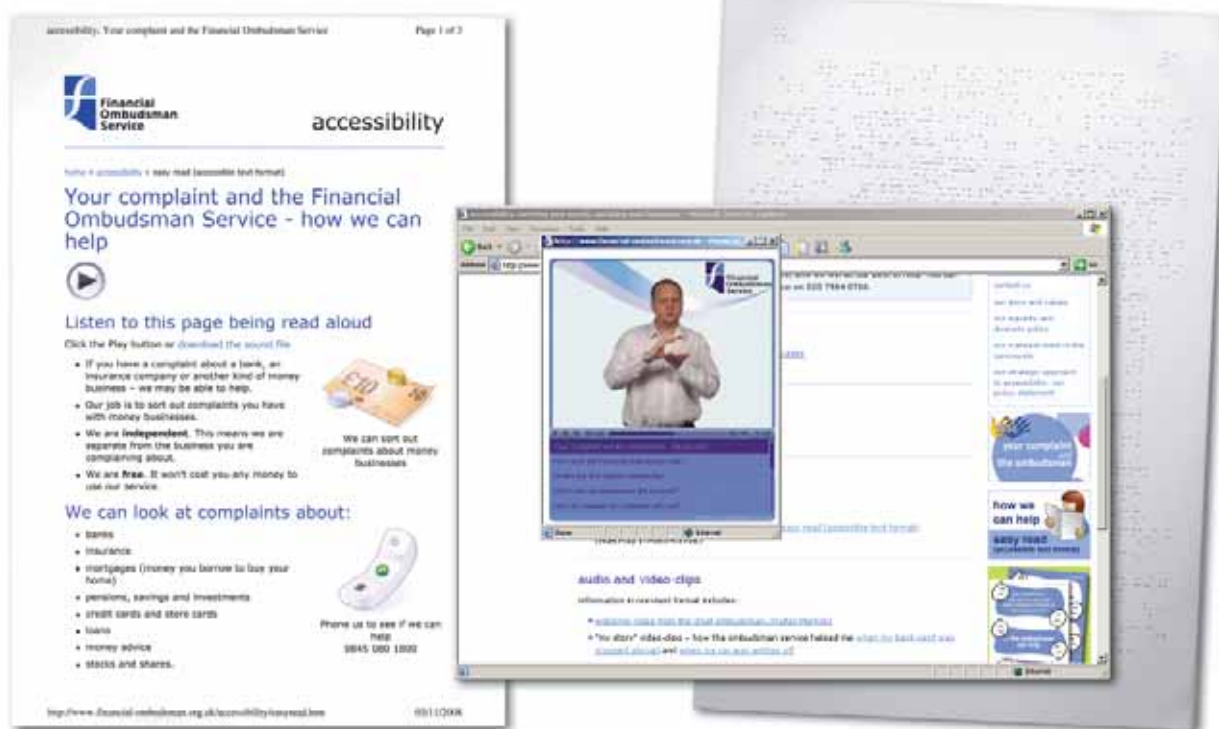
14% of consumers whose disputes we settled during the year (13% in the previous year) told us they had some form of disability – predominantly mobility difficulties. Many of our disabled customers do not ask for – or require – any adjustment in the way we deal with their case. But we ask all consumers when they first contact us whether they would like us to adapt the way we communicate with them, to meet any particular needs they may have.

disabled consumers who complain to the ombudsman



Demand continued to increase during the year for information in alternative formats such as Braille, large print and on CD/DVD. We also use TypeTalk, sign language and “accessible text” (sometimes also called “EasyRead”).

who complained to us



To be able to understand better the issues that disabled people face in dealing with financial services or making a complaint, we took part in a range of events during the year – including Mobility Roadshows in Coventry and Edinburgh, the *Beyond Boundaries* disability lifestyle-show in Kent, and the *EnAble'08* event in the West Midlands.

We worked in partnership with *Able* – the disability magazine and website – to help raise the profile of the ombudsman both as an employer and as a dispute-resolution service. And we also advertised in magazines such as *Disability Review*, *Progress* and *Disability Now*.

We worked closely with PALS (the Patient Advice and Liaison Service) and RADAR (the disability network) – as well as taking part in the national *Nursing in Practice* show. This formed part of our outreach programme with “trusted individuals” in the community. Health issues can have a far-reaching impact, involving possible financial problems that could lead to complaints. So it is useful for front-line health workers and carers to know about the ombudsman – to be able to “signpost” people to our service where appropriate.

During the year we set up our in-house *different needs* group – made up of operational staff across the organisation. This group has responsibility for promoting confidence in dealing flexibly and practically with customers’ different needs in individual cases. This group helped to organise our different needs awareness-event, held in partnership with six disability charities. This was a two-day in-house training event, attended by 700 staff and our board. It involved learning first-hand about the range of barriers that people with different disabilities can face.

consumers from black and minority ethnic (BME) backgrounds

During the year we took part in national melas (Asian lifestyle festivals) in Glasgow and London, as well as a range of local and community events including a women’s day organised through the East London Mosque and *Vaisakhi* celebrations for the Sikh new year.

We marked Black History Month with a feature in the official *Black History Month* magazine profiling one of our ombudsmen – who was the first BME ombudsman in the UK. We also continued our partnership with Zee, the Asian media group, and with *Network News*, the magazine and website aimed at a younger BME audience. This resulted in a series of features, articles and information pieces across the Black and Asian media.

These initiatives are part of our response to research that suggests that consumers from minority ethnic backgrounds are generally less likely to know about the ombudsman – either as a dispute-resolution service or as a potential employer. Just over 9% of people who used our service during the year defined themselves as belonging to a non-white ethnic group (8% in the previous year).



15% of employees at the ombudsman service come from black and minority ethnic backgrounds.

Consumers from ethnic minority backgrounds complain proportionately more to us about bank accounts and about motor and household insurance – and less about pensions, annuities and bonds.

younger consumers

The proportion of complaints to the ombudsman service brought by younger people – though larger than in earlier years – does not appear to correspond to their increasing ownership of

who complained to us

financial products, which typically includes travel, motor and mobile-phone insurance, bank accounts and store cards. Our research continues to show that, of all age groups, consumers under 25 have the lowest level of awareness of the ombudsman.

Younger people generally access information in different ways from their parents. So we have explored different ways of communicating with this age group – and we work with a range of specialist partners to get our message across. This includes featuring tailored messages in a range of niche youth-magazines (print and online) – as well as developing an internet presence for the ombudsman on social-networking sites such as YouTube, Bebo and Facebook.



Building on coverage in *The Graduate Guide* and the *What's On* student guide, we took part in a number of freshers' fairs – to meet students face-to-face and hear about their experience of financial services and complaining. And we continued to provide targeted information for teachers, lecturers, school governors and youth-workers – as the “trusted individuals” to whom young people are likely to turn with a financial problem or complaint.

Following on from the poster-campaign that we unveiled at last year's Trading Standards *Young Consumers of the Year* competition, we launched a new series of posters and postcards during the year, specially designed with younger consumers in mind. We also sponsored the regional finals of 2009 *Young Consumers of the Year*.

To show how the ombudsman could be relevant to younger women, we focused on the link between fashion and finance – taking our exhibition stand to *Clothes Show Live* at Birmingham NEC and supporting a student fashion show in Glasgow.

'top tips' on how to get your complaint taken seriously

1. **What's the problem?** Before you complain, be clear in your own mind about what's gone wrong.
2. **Stay calm – even if you're upset.** This helps you get your points across clearly.
3. **Keep a record.** Always have the relevant policy or account numbers to hand and keep a note of who you contacted – and when.
4. **Keep it brief.** Tell the firm what's gone wrong and how you would like it to put things right.
5. **Take it further.** Financial firms have 8 weeks to try and resolve complaints. After that, you can ask the ombudsman to help.



Financial
Ombudsman
Service

older consumers

Focusing on a period in life when consumers are likely to face significant change – and important financial challenges and decisions – we launched an initiative during the year to remind older and retired people about their right as consumers to use the ombudsman service, should they have a dispute with a financial business.

We launched this initiative at the *Retirement Show* held at London Olympia and Glasgow SECC. We also took part in the *Caravan and Motorhome Show* at Birmingham NEC, where we met large numbers of consumers and heard at first hand about their experience of financial services and complaining.



We formed media partnerships with *Choice*, a lifestyle magazine for people over 50, and *Retirement Today* – resulting in a series of features and articles about our work. Other publications targeting this age bracket that covered the ombudsman service during the year ranged from *Arthritis Times* to *silversurfersguide.com*.

A significant element of our outreach work with older consumers has involved engagement with “trusted individuals” in the community – including Age Concern, Help the Aged, RNID, PALS, the Women’s Institute and the Retired and Senior Volunteer Programme (RSVP).

Money matters especially if it is yours

Northern Ireland Student Challenge

Aged 16-21? Win cash prizes for you and your school or college in our PR and media competition

- designing a web page (or social networking page) or
- producing the script for a podcast or online video or
- writing an article or feature or
- designing an advert or an advertising campaign

closing date 30 April 2009

visit our website to find out more www.financial-ombudsman.org.uk

The ombudsman is a free service for consumers.

Complained to your bank or insurance company – but still not happy?

The ombudsman can help. Set up by law as a free service for consumers, we have official powers to settle complaints about banking, insurance, mortgages and finance advice.

Highlands and Islands ombudsman tour

The ombudsman will be on tour in May 2009 – to meet people who need help settling out problems with their bank, insurance company or finance firm. Places are limited. To book your free 15 minute appointment now by phoning the contact number below.

Date	Time	Location	Contact number
Monday 18 May	10am-12pm	Inverness Service Point	0845 600 4722 (land press 2)
Tuesday 19 May	10am-12pm	McDonald's (at Oban) Tour Hall	01842 817576 (ext. 2621)
Wednesday 20 May	10am-12pm	Oban Council Chambers	01848 434126
Thursday 21 May	10am-12pm	Blannaway (at Lewis) Tour Hall	01871 700000

Northern Ireland and the Highlands and Islands of Scotland

In response to research showing lower levels of awareness of the ombudsman in Northern Ireland and the remoter parts of Scotland, we launched awareness-raising campaigns in these areas in the late spring of 2009.

These campaigns included running a competition for younger people in Northern Ireland – to see how they would explain and promote the role of the ombudsman using new media. The competition was a joint initiative with the Northern Ireland Consumer Council and the Northern Ireland Youth Forum.

We also organised an “ombudsman tour” in Scotland, meeting consumers and advice workers at advice-clinics and drop-in days held in Inverness, Oban, Orkney and the Outer Hebrides.

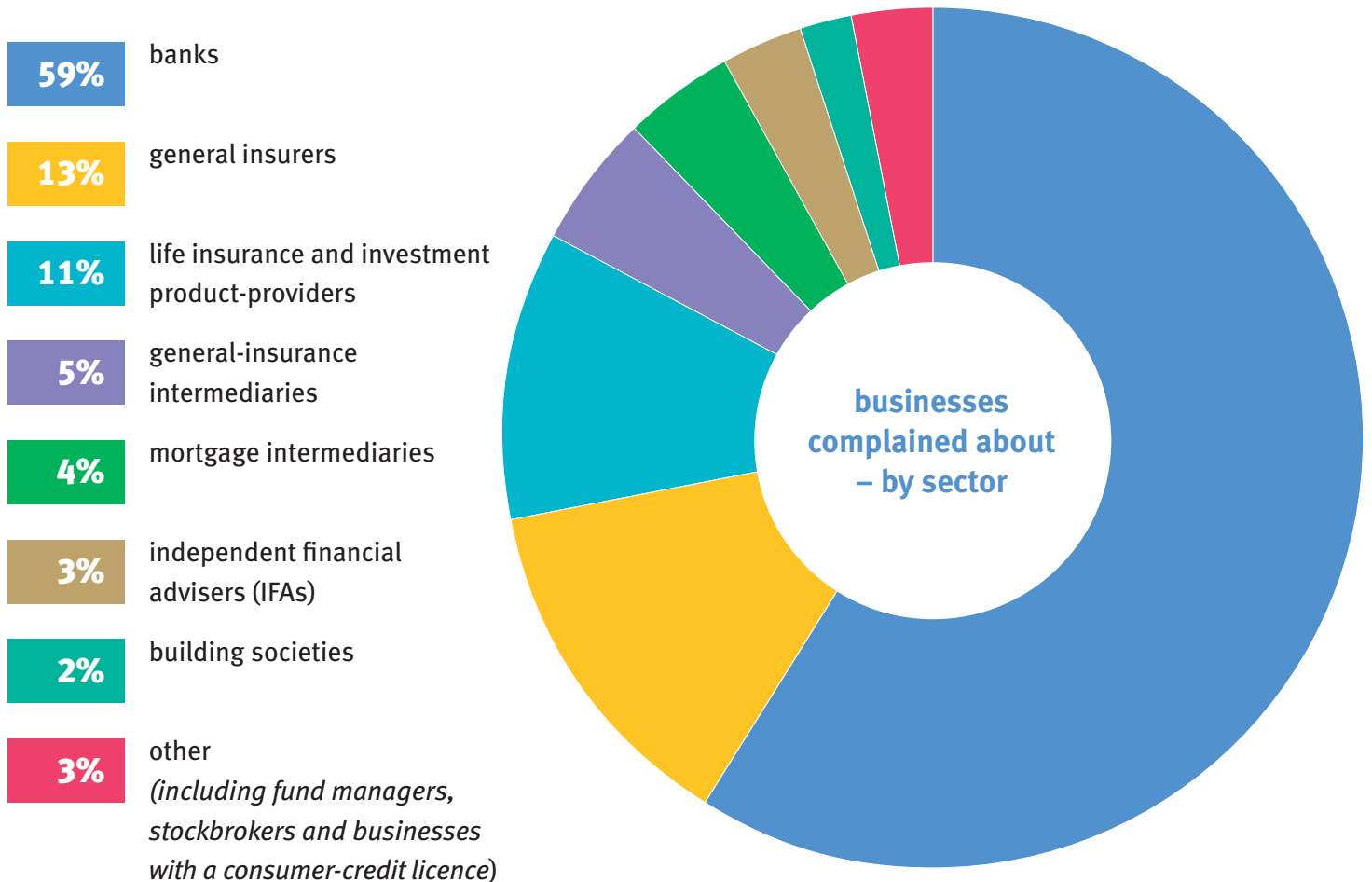
who the complaints were about



who the complaints were about

These charts show how the new complaints we received during the 2008/09 financial year were spread across the different sectors of the financial services industry.

businesses complained about – by sector



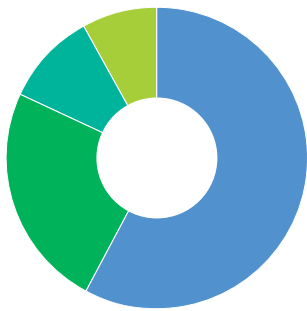
The overall proportion of disputes relating to banks remained exactly the same as in the previous year. We saw a small increase in the number of complaints about mortgage intermediaries, and about general-insurance companies and intermediaries.

However, the proportion of cases involving life insurance and investment product-providers continued to decline – as did the number of disputes involving independent financial advisers (IFAs). This largely reflects the significant decrease in complaints about mortgage endowments during the year.

The charts opposite show how new complaints involving the products most frequently complained about to the ombudsman service were spread across the different sectors of the financial services industry.

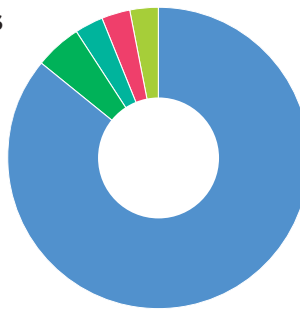
who the complaints were about

financial products most frequently complained about – by sector



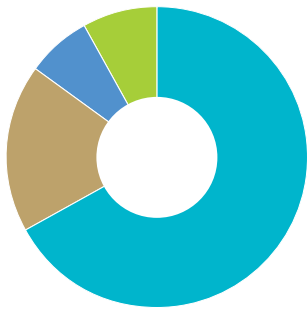
complaints about mortgages

- 58%** banks
- 24%** mortgage intermediaries
- 10%** building societies
- 8%** other (including IFAs)



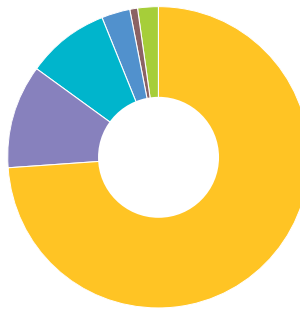
complaints about banking and credit

- 86%** banks
- 5%** mortgage intermediaries
- 3%** building societies
- 3%** businesses with a consumer-credit licence
- 3%** other



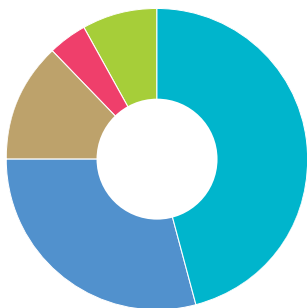
complaints about pensions

- 67%** life insurance & investment product-providers
- 18%** IFAs
- 7%** banks
- 8%** other (including building societies and stockbrokers)



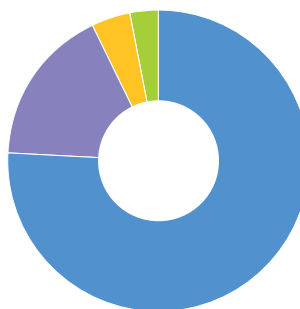
complaints about general insurance

- 74%** general insurers
- 11%** insurance intermediaries
- 9%** life insurance & investment product-providers
- 3%** banks
- 1%** Society of Lloyd's
- 2%** other (including cash-plan health insurers)



complaints about investment products

- 46%** life insurance & investment product-providers
- 29%** banks
- 13%** IFAs
- 4%** stockbrokers and fund managers
- 8%** other (including building societies, friendly societies and credit unions)



complaints about payment-protection insurance

- 76%** banks
- 17%** insurance intermediaries
- 4%** general insurers
- 3%** other (including building societies)

who the complaints were about

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 well over 100,000 businesses that provide financial services now have the statutory protection of the Financial Ombudsman Service, should a dispute arise.

These businesses range in size from global financial services groups to sole traders providing credit as a sideline to their main business. This range in size is reflected in the number of disputes we receive about the different businesses we cover.

Again this year, six of the UK's largest financial services groups accounted for 52% of all the

complaints we received. At the other end of the scale, 182 cases (0.1% of all complaints) related to friendly societies, and 17 complaints involved credit unions.

Fewer than 5% of all the businesses we cover actually had disputes referred to the ombudsman service during the year. And 75% of these businesses had fewer than four complaints brought to us – which meant they paid no case fees. This was because we did not charge businesses case-fees for the first three complaints in the 2008/09 financial year – an arrangement we are continuing for the 2009/10 financial year.

2,007 businesses each had **1 complaint** referred to the ombudsman service during the year



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

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

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

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

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

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

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

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

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

who the complaints were about

how do financial services businesses rate our service?

We carry out quarterly market-research 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 financial services industry can have confidence in the ombudsman service



our service is good value for businesses who pay the levy/case fees that fund us



our decisions on cases are fair and unbiased





our decisions are consistent



we provide a good dispute-resolution service for businesses



 % who agreed

 % who expressed no view

 % who disagreed

The proportion of businesses who agreed with these statements this year is broadly similar to the previous year's results. The rating where we recorded the most change year-on-year was the question about the consistency of our decisions – where businesses responded more positively than in previous years. However, it remains slightly disappointing to see a significant number of businesses unable or unwilling to express a view on our performance in these areas.

The levels of satisfaction expressed by smaller businesses continue to be higher than those recorded for larger businesses. This may reflect our continued focus – through our *smaller businesses' taskforce* – on identifying and meeting the different needs of smaller businesses.

On page 94 of this *annual review* we highlight some of the external-liaison work we have carried out during the year with the financial services sector – including training and guidance on complaints-handling and the work of our technical advice desk in supporting and educating businesses.

feedback

stakeholder-engagement

conferences
and events

web

print radio

other work we have done



other work we have done

To support our work in settling disputes between consumers and businesses providing financial services, we feed back the lessons learned from our work to a wide range of stakeholders and customers.

This section highlights some of these stakeholder-engagement activities. There is more information about this work in our *corporate plan*, published in January each year (and available in the “publications” section of our website).

extensions to our remit

From October 2008 the scope of the consumer-credit complaints we can look at was extended further, to cover two new categories of consumer credit licensee – debt administrators and providers of credit information services (“credit repairers”).

From January 2009 “connected travel insurance” (sold by travel agents and tour operators alongside a holiday or other travel) came into our “compulsory jurisdiction”, which already covered other types of insurance broking. There is more information about this on page 53.

And we made arrangements for freight-forwarders to join our “voluntary jurisdiction” – to maintain ombudsman coverage of complaints involving insurance arrangements for customers, following the de-regulation of these activities from 6 April 2009.

preparing for further extensions to our remit

We have been working with HM Treasury and the Financial Services Authority (FSA) on the complaints-handling arrangements arising from:

- The implementation of the European Payment Services Directive, which will bring new types of financial businesses within our “compulsory jurisdiction” from November 2009.

- The transfer of dormant bank and building society accounts to one or more “reclaim funds” that are likely to come within our “compulsory jurisdiction” during 2009.
- “Sale and rent-back” (by homeowners who can no longer afford their mortgages but wish to stay on as tenants), likely to come within our “compulsory jurisdiction” during 2009.

pensions

Following the government’s decision that the Financial Ombudsman Service and the Pensions Ombudsman should remain separate organisations for the time being, we have been working with the Department of Work and Pensions (DWP), and the Pensions Ombudsman, to explore ways of improving “signposting” for users and closer co-operation between the ombudsmen.

national and international role

We have maintained close relations during the year with a number of government departments that have a particular interest in what we do – including HM Treasury, the Department of Business, Enterprise and Regulatory Reform, and the Ministry of Justice.

We have provided input to the European Commission on a number of its initiatives, including the proposed updated directive on consumer protection and proposals for harmonising the collection and recording of consumer-complaint data.

The Financial Ombudsman Service model continues to be a yardstick for dispute-resolution. We have helped a number of public bodies, at home and abroad, in creating or adapting dispute-resolution processes that build on our expertise.

other work we have done

Through the British and Irish Ombudsman Association (BIOA), FIN-NET (the European network of financial redress schemes) and INFO (the international network of financial ombudsman schemes) we have continued to share best practice with other ombudsman schemes worldwide.

working with the FSA, the OFT and other authorities

We have continued to work closely with the FSA (as regulator of financial services) and with the OFT (as regulator of consumer credit) on issues that affect both our dispute-resolution role and their regulatory roles.

This included input to the FSA's *retail distribution review* (planning the future market for the sale of investments and savings products) – as well as liaison with the FSA and the Financial Services Compensation Scheme (FSCS) on issues arising from failing financial businesses.

accessibility and transparency

It is important that those people who need our help know what we do, and are able to access our services without difficulty. And it is also important that we are clear and transparent with people and financial businesses about what we do.

In July 2008 we published strategic plans for accessibility and transparency. And our *corporate plan* published in January 2009 reported fully on the progress we have made on increasing both the accessibility and openness of our service.

During the year our accessibility initiatives have included:

- Introducing an additional “non-geographic” phone number for our consumer helpline (0300 123 9 123), which will be cheaper for some consumers to phone, and offering to call people back.

- Making the arrangements to extend the opening hours of our consumer helpline.
- Launching an online complaint-enquiry facility on our website.
- Increasing resource for our technical advice desk – our dedicated service for people handling complaints in the financial services sector and the consumer-advice world.
- Expanding our community-outreach programme (for more details see pages 80 and 94).

In discussion with industry and consumer representatives, we have also been developing proposals for improving our more formal liaison-arrangements.

A key part of our work on transparency has been the creation of the new senior-management post of head of practice. The new lead ombudsman appointed to this role in March 2009 has taken charge of developing the online digest of our approach to different types of complaints. Meanwhile, a number of law faculties at leading universities have expressed interest in working with us on publishing selected ombudsman decisions.

Linked to our accessibility and transparency initiatives, we have also developed further our extensive quality-assurance systems. This area of our work is now being led by our newly-appointed director of business-planning and assurance. There is more information about our work on quality assurance on page 62.

publishing complaint data

An aspect of our transparency plans that attracted particular attention during the year was our proposal to publish business-specific complaint data – covering the number of new cases referred to us by consumers about individual businesses and the proportion of cases we uphold.

other work we have done

Following public consultation on the practical issues involved, in March 2009 we published details of how we will issue this data from autumn 2009 (see page 59). We are liaising closely with the FSA on its own intentions regarding data about complaints received by the financial businesses it regulates.

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 15,650 enquiries to our technical advice desk – our dedicated service for people handling complaints in the financial services sector and the consumer-advice world.
- Handling 608 parliamentary enquiries and 155 ministerial questions and requests for information.
- Taking part in industry conferences and events – including national trade fairs such as *Mortgage Business Expo* in Manchester, the Credit Show in London and *Financial Adviser Expo* in Glasgow.
- Organising visits, meetings and training for businesses and trade bodies – including a relationship-management programme involving the 45 financial services groups that together accounted for over 85% of complaints referred to the ombudsman service during the year.
- Meeting and training regional advice workers – from Truro to Dumfries, Norwich to Belfast – 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 Glasgow *Mela* (a multi-cultural festival), *Clothes Show Live*, *Beyond Boundaries* (the disability-lifestyle event), the *Caravan and Motorhome Show*,

Nursing in Practice (for carers and primary-care workers), *The Education Show* and *The Retirement Show*.

- Speaking at seminars and conferences hosted by organisations ranging from the Money Advice Liaison Group to the Chartered Institute of Loss Adjusters.
- Targeting specific audiences – those less likely to use, or be aware of, the ombudsman service – with advertising in magazines including *Black History Month*, the *What's On?* student guide, *Jump* (the parenting magazine), *Disability Now*, *Adviser* magazine (for community and advice workers), *Matters Arising* (the National School Governors' Association's magazine) and *Women's Health*.
- Adding 300 new pages to our website – including 133 news updates and more 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 other languages and formats).



- Answering media questions and providing information for publications ranging from the *Wigan Evening Post* to *Mortgage Adviser*, *Fast Bikes* to *Your Cat* – and taking part in broadcast programmes ranging from Martin Lewis' *It Pays to Watch* to Radio Ulster's *On Your Behalf*, BBC News 24 to Asian community Panjab Radio.

the independent assessor's annual report



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 2009 a total of 265 cases were referred to me, compared with 281 in 2007/08.

Of these cases, 185 required a full investigation and review of the file (an increase of 15 on the previous year) – of which I upheld 83 cases, either wholly or in part. In all but five of the complaints I upheld, I made recommendations for financial compensation.

The amounts of compensation that I recommended during the year ranged from £50 to £600, with most awards falling between £200 and £450. In around one in five of the complaints that I upheld, the Financial Ombudsman Service's in-house service-review team had already offered apologies and/or some compensation – but not always enough, in my view, to provide sufficient redress.

Of the cases which did not require my investigation, 44 were referred to me too early in the process (before the ombudsman's service-review team had been given the opportunity to deal with the complaint); 25 were general enquiries; 11 were outside my jurisdiction because they were “out of time” or unrelated to the ombudsman service; and two cases were withdrawn by the person complaining.

During the year, complaints about the way in which the ombudsman service had dealt with mortgage endowment complaints continued to figure prominently among cases referred to me – with delay being a frequent cause of complaint. The volume of mortgage endowment complaints referred to the ombudsman service in recent years (though now declining) has been such that I have had to accept that many investigations would not be completed within the service's normal timescales.

In the small number of cases where mortgage endowment complaints had been with the ombudsman service for as long as two to three years, I have, however, looked carefully to see whether there were any periods during which delay might perhaps have been avoided. And I have recommended compensation for the inconvenience caused, where I considered that to be appropriate.

The ombudsman service has introduced various measures in recent years designed to speed the throughput of mortgage endowment cases. One of these measures has involved senior adjudicators carrying out further assessments of complaints – in addition to the assessments carried out by adjudicators at an earlier stage in the investigation. I understand that the purpose of these further assessments is to clarify, as far as possible, any outstanding issues – so that the reviews and final decisions by the ombudsmen can then be carried out more swiftly than might otherwise be the case.

I see no objection to this in principle – provided that adjudicators are alert to the fact that there will be some cases where the need remains for a fully-detailed review by the ombudsman. In two cases I handled during the year, I felt that not enough account had been taken of the importance of this.

Delay has also been a feature in the handling of a number of complaints that I reviewed during the year about Equitable Life. To some extent, this was an inevitable consequence of the “lead case” procedure adopted by the ombudsman, under which various groups of similar cases were put on hold, pending the outcome of the linked “lead case”. Occasionally, however, cases have been held back longer than they need have been – for example, where there was an error in categorising cases at an earlier stage. I have recommended that the ombudsman service pay compensation for inconvenience caused in these cases.

Given the large volumes of complaints handled by the Financial Ombudsman Service, the practical arrangements that form part of its administrative procedures can sometimes give rise to problems referred to me to review. During the year I handled a clutch of complaints about the customer-contact division's practice of sending all paperwork back to a consumer – if key items were not included with the complaint. The two key items required by the customer-contact division are a signed complaint form (giving the ombudsman the authority to pursue the complaint with the business or any other party involved) and the business's final response letter.

As I understand it, the reason for returning incomplete paperwork is that the sheer volume of documents handled by the ombudsman service means it is not practicable to file some papers, while waiting for others to arrive later. I understand that consumers may also need to refer to documents they have already sent in – for example, if they subsequently have to complete a complaint form or request a final response letter from the business they are complaining about.

In my view it is reasonable for paperwork to be returned to a consumer once – or perhaps even twice – before a complaint can be processed. But it is not acceptable for this to happen three times – or even four times, as in the case of one particular consumer who complained to me about this.

I understand that staff in the customer-contact division *do* sometimes retain documents sent in by consumers, while waiting for other items to be sent in later. I consider it particularly important that this is done when there appears to be a continuing problem, preventing progress, which needs to be resolved. For example, it may only need a phone call to one or other of the parties, to sort out any misunderstanding about whether the

the independent assessor's annual report

necessary final response letter has been issued within the eight weeks given to businesses to respond to a complaint.

In one case I saw like this, a business had not treated the consumer's letter as a complaint, even though the consumer began with the words, "*I am writing to complain in the strongest terms ...*". In this particular case, it was not until seven months later that the business eventually issued a final response letter that met the requirements laid down in the FSA's rules – and gave the consumer the right to refer his unresolved complaint to the ombudsman service.

In my previous annual reports I have drawn attention to the difficulties that can arise *after* an ombudsman's final decision has been issued – in cases where the ombudsman has made a "formulaic" award. In many of these cases, only the business has the data needed to calculate the actual amount of the award. However, the ombudsman service is able to check calculations in a limited number of cases, where there are particular reasons for doing so.

In one case I saw during the year, the consumer was unwilling to accept that the business's calculations were correct, and two years after the ombudsman's final decision had been issued, the award had still not been paid. In this case, the ombudsman service's in-house actuary had carried out various calculations, but the ombudsman had not provided them to the consumer for comment before indicating the basis on which he considered settlement should be made.

At this point, the consumer referred his concerns to me. I suggested that the ombudsman service should disclose its actuary's calculations to the consumer and – once the consumer had been given the opportunity to comment – the ombudsman should issue a further direction, to settle the matter once and for all. The ombudsman service agreed to do this.

Disclosure is an issue that consumers feel strongly about. A complaint I reviewed during the year involved a retired solicitor who had received an adjudication early on in an investigation,

and who was in no doubt that certain documents should have been disclosed to him. I took the view that the adjudication had been issued prematurely. I asked the ombudsman service to send the solicitor a copy of the document that the business had provided – as (in their words) their “defence” to the complaint – so that the solicitor would be able to comment on it, before he had to make his own final submission to the ombudsman.

The ombudsman service is obliged to disclose to someone with a complaint *only* the evidence or arguments that an ombudsman is likely to rely on, in reaching a decision on their case. The ombudsman service can do this either by sending a copy of the actual paperwork in question or by providing it in summary form.

In the cases I see, submissions to the ombudsman service from businesses only rarely contain confidential or privileged information. I consider that it is always preferable to disclose in its entirety – at an early stage – information on which an adjudicator or ombudsman is likely to rely. If this is not done, people with complaints will often suspect that important evidence is being withheld from them – or that the summary of the business’s case may not accurately reflect what the business has said.

Some of those who contact me complain that they have been denied an oral hearing. My understanding is that an ombudsman would normally consider holding a hearing only in cases where the documentary evidence is inconclusive and credibility is an issue. That is likely to apply only in a very small number of cases. The expectations that either party to a complaint might have, that a hearing will be held, are therefore frequently going to be disappointed. In fact, no case has been referred to me in recent years where a hearing has been held – and my impression is that they take place only very rarely.

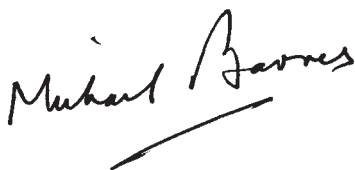
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Ombudsmen sometimes decline to hold a hearing on the grounds that they are not able to require the parties to a complaint to give evidence under oath. In my view this misses the point, because an ombudsman's hearing should not be a "court-like" procedure. A hearing would be conducted informally, and would provide an opportunity for the ombudsman to take into account (among other things) the general demeanour and credibility of the respective parties. In my opinion, the ombudsman process would be the poorer if the provision in the rules for hearings to be held fell into disuse.

During the year the areas of financial services most frequently involved in the complaints referred to me were banking matters of one kind or another – no doubt a sign of the times – and mortgage endowments. I received fewer complaints about the handling of insurance claims than in recent years.

Complaints referred to me by businesses – all independent financial advisers (IFAs) or brokers – increased to 24 during the year (compared with 13 in 2007/08). Most of these complaints were about the case fee charged.

In conclusion, I should make clear that the complaints referred to me represent only 0.16% of the ombudsman service's total workload. So care should be taken in applying any conclusions drawn from my work to the ombudsman service's work as a whole.



Michael Barnes CBE

April 2009

The independent assessor, Michael Barnes, presented this report to the board of the Financial Ombudsman Service, having discussed his views and findings in detail at an earlier meeting of the board's sub-committee on quality. The board accepted the report and its recommendations in full and undertook to use the independent assessor's findings to help improve service quality.

our board and senior people



our board as at 31 March 2009

Sir Christopher Kelly KCB – chairman

- chairman of the Committee on Standards in Public Life
- chairman of NSPCC
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
- a non-executive board member at the Department for Transport
formerly
- chief executive of National Savings and Investments (NS&I)
- chief operating officer at Prudential

Joe Garner

- group general manager of personal financial services at HSBC Bank plc
formerly
- at Procter & Gamble and DSG International

John Howard

- a non-executive director of National Counties Building Society
formerly
- a council member of Energywatch
- 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

- chair of NHS Brighton & Hove
- a commissioner at the Legal Services Commission
- a non-executive director of the Maritime and Coastguard Agency
- Justice of the Peace to the North Sussex Bench
- crisis & change management consultant
formerly
- a non-executive director of the South East Coast Ambulance Trust
- chairman, then chief executive, of the Allied Carpets Group plc
- joint managing director of British & Commonwealth Holdings plc
- partner in Arthur Andersen

Roger Sanders OBE

- head of employee benefits, Helm Godfrey Partners Ltd
- chairman of the financial services committee of the Insurance Institute of London and a council member of the Institute
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

- a commissioner at the Equality and Human Rights Commission (EHRC)
- a non-executive director of the Child Maintenance and Enforcement Commission
- chair of the National Student Forum
- currently doing research for a doctorate at Durham University
formerly
- chief executive of the Refugee Council
- chief executive of the charity One Parent Families
- a member of the Council of Economic Advisers in the Treasury

our senior people as at 31 March 2009

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

Ian Sansbury
director of business-planning
and assurance

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

lead ombudsmen:
head of practice
David Baker

general insurance
Peter Hinchliffe

banking & credit
Jane Hingston

general investment
and mortgages
Caroline Mitchell

mortgage endowments
and special projects
Caroline Wayman

ombudsmen:

Greg Barham
Audrey Baxter
David Bird
Mike Boyall
Juliana Campbell
Melissa Collett
Paul Daniel
Reidy Flynn
Dawn Griffiths
Adrian Hudson
Michael Ingram
Simon Leach
Steve Lilley
Harriet McCarthy
Doug Mansell
Amanda Maycock
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
Lindsey Woloski
Sue Wrigley
Roger Yeomans

senior operational staff

Tracy Campbell

Simon Coe

Nathan Horner

Garry Wilkinson

heads of
casework divisions
*managing our teams
of adjudicators*

Paul Kendall

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

**communications
and policy:**

Fiona Boyle
Adrian Dally
Alison Hoyland
Emma Parker
Caroline Wells
Sally Young

general counsel:

Paul Bentall

Yvette Bannister (deputy)

Mike Harris
head of quality

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

Mark Boyle
facilities manager

Sharon Jones
head of IT operations

Jacque Wiggett
human resources

Chris Smith
financial controller

our aims and values

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 advice-workers

how we can help

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.

020 7964 1400

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.

020 7964 0132

liaison.team@financial-ombudsman.org.uk

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

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

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