Plans and budget for 2020/21

Financial Ombudsman Service

Covid-19

The plans and budget presented in this document were consulted on and highly developed before the widescale outbreak of Covid-19 (coronavirus) in the UK.

Although there's ongoing uncertainty about the impact of Covid-19 on our operations, our aspiration remains that – while our plans will need to adapt – we will deliver on the commitments set out in this document, and provide the effective service people need and expect from us. This includes being ready to resolve disputes between businesses and their customers that arise from Covid-19, and proactively sharing what we're seeing to prevent further complaints.

Having discussed the position with the FCA, we have made adjustments to our budget and funding arrangements to help mitigate the financial pressures on firms.

We'll reassess the situation throughout the financial year, and keep in touch with our stakeholders about how we can best work together to meet the challenges ahead.

About us

We were set up by Parliament under the Financial Services and Markets Act 2000 to resolve individual complaints between financial businesses and their customers – fairly and reasonably, quickly, and with minimal formality. On 1 April 2019, our remit was extended to complaints made by more small businesses about financial services, and to complaints made by customers of claims management companies.

If a business and their customer can't resolve a problem themselves, we can step in to sort things out. Independent and unbiased, we'll get to the heart of what's happened and reach an answer that helps both sides move on. And if someone's been treated unfairly, we'll use our powers to make sure things are put right. This could mean telling the business to apologise, to take action or to pay compensation – in a way that reflects the particular circumstances. On 1 April 2019, the amount we can tell a business to pay changed to £350,000, and will rise in line with inflation each year. For 2020/21, the limit is £355,000.

In resolving hundreds of thousands of complaints every year, we see the impact on people from all sorts of backgrounds and livelihoods. We're committed to sharing our insight and experience to encourage fairness and confidence in the different sectors we cover.

Contents

Chairman's foreword

As I write my foreword, I do so against the background of the most extraordinary and worrying circumstances. As the world finds itself in the grip of Covid-19, countries, communities, organisations and individuals are contemplating an outlook very different from the one that anyone might have imagined just a few short months ago.

We are all adapting and finding new ways to live and work. We present this annual plan and budget as every one of us faces a great deal of uncertainty, and of a kind never seen or felt before. As the chief ombudsman highlights in her introduction, we should be in no doubt that this crisis will impact our service, even though the extent of that impact is far from clear.

At a time that is anything but normal, we are nonetheless committed to maintaining business as usual as far as is humanly possible. I have been encouraged by the speed with which the service has adapted to its changing circumstances, so that our teams can continue their important work remotely. The board is continuing to evaluate the impact of the unfolding situation on our operations and I am being kept apprised of developments. I am reassured by the clarity and frequency of communication between our executive team and our people.

Like other employers, our priority must be our people's safety and welfare. We have been clear that, as the situation develops, we will continue to follow official advice about how best that can be achieved.

My ambition, one that is shared by the whole board, is that these developments do not compromise our ability to meet people's expectations of our service. Our customers' confidence in us depends on our having the right skills, experience and resources in place to resolve complaints fairly and consistently. In a fast-moving world, it is also crucial we do so in a timely way, and that is why a commitment to reducing waiting times is at the heart of our plans for 2020/21. At the same time, we will be doing our utmost to support consumers and businesses affected by this crisis. We have agreed with the Financial Conduct Authority (FCA) adjustments to our budget that support this aim.

We do not underestimate the challenge that we face, however; it will be a test of our flexibility, adaptability and resilience. The strong relationships we have with our stakeholders – including the FCA, and also those representing businesses and consumers – will come into their own in these testing times.

I am proud of our service's record in encouraging fair outcomes. And as the world navigates new challenges, we will continue to lend our support, insight and experience to this end.

I wish our people, customers and stakeholders the very best for the year ahead.

Z. Manzoor

The Baroness Zahida Manzoor CBE
Chairman
April 2020

Chief ombudsman & chief executive's introduction

As a demand-led service, a key part of our planning is anticipating events that might have an impact on our work, and ensuring we have the right resources to handle them effectively.

When we published our proposed 2020/21 plans and budget in December 2019, Covid-19 (coronavirus) hadn't reached the UK.

Few then could have anticipated just how fundamentally everyday life here, and indeed around the world, would change. In those few short months, Covid-19's impact has been felt by every one of us.

What's clear is that the businesses we cover, having supported lives and livelihoods in more normal and optimistic times, now have a key part to play in mitigating Covid-19's worst effects.

The Financial Conduct Authority has said it welcomes firms taking initiatives that go beyond usual business practices. This extraordinary situation requires an extraordinary effort to support the tens of millions of customers who've been affected – in some cases very seriously – by the crisis.

From an ombudsman's perspective, this goes to the heart of what it means to act fairly and reasonably, taking individual circumstances into account.

Twenty years after we were established, the significance of these principles has never been more apparent.

The feedback we received to our consultation – before the scale of the crisis became so stark and so profound – broadly supported our forecasts for the volumes of complaints we expected to receive in 2020/21.

Many respondents also agreed we'll need to continue to manage uncertainty around future volumes of complaints. And they shared our view that we'll see an ongoing trend toward greater complexity – whether rooted in individual customers' circumstances, the entrenchment of the parties involved, or the landscape we're operating in.

As our chairman has explained, our aspiration remains that we should, as far as possible, deliver our commitments to the businesses and consumers who are relying on our answers and insight.

It goes without saying that Covid-19 will further amplify both the uncertainty and potential complexity of our casework.

It will also require a shift in our focus – as it has too for the regulator and the businesses we cover. We'll need to be ready to handle any complaints that arise from the situations that individual and small businesses customers now find themselves in – a number of which have already reached us.

And we'll need to proactively share what we're seeing, to make it less likely that disputes arise in the first place.

As we do so, we'll be dealing with our own operational challenges – ensuring we're doing the right thing not only as a service, but also as an employer. Our people's wellbeing has been foremost in my mind. It's vital that those who are personally more vulnerable, or who are caring for others, have the flexibility to do what they need to.

In the current circumstances – and given the imperative that firms' focus remains firmly on supporting customers – we're postponing publishing more details about our future strategy.

Instead, we've put our energy into ensuring we're playing our part in insulating businesses against the shock of Covid-19. This has meant adjusting our proposals for funding our service this year – while still ensuring our finances allow us to provide the effective service people need and expect from us, especially given the increased potential for financial hardship and vulnerability among UK consumers and business alike.

> "...we'll see an ongoing trend toward greater complexity – whether rooted in individual customers' circumstances, the entrenchment of the parties involved, or the landscape we're operating in."

The steps we've taken are a combination of targeted interventions to protect smaller firms, and broader steps which will benefit other firms that contribute to our funding. We'll absorb the cost of these changes by using more of our reserves than originally planned.

In 2020/21, to help ensure we can deliver the level of service people expect, we're increasing our case fee for the first time since 2013. However, we're keeping the "free" case allowance at its current level of 25 for firms outside our group account fee arrangement. This will mean that nine in ten businesses whose customers complain to us won't pay any case fees in 2020/21.

And having discussed options with the FCA, we've asked it to freeze the minimum levy paid by businesses we cover. 70% of our income will now come from case fees, against the 60% we proposed in our consultation.

For all of us, the outlook for the year ahead is now substantially different. But I'm in no doubt about our people's determination to deliver for those relying on our answers. I'm incredibly grateful for their hard work and commitment at such a difficult and uncertain time.

With very best wishes to all our people, our customers and our stakeholders.

Caroline Wayman
Chief ombudsman & chief executive
April 2020

Our 2020/21 plans and budget at a glance

We expect to...

Receive 245,000 complaints

100,000
complaints about PPI

145,000
complaints about other products and services

1,300
complaints from small and medium-sized enterprises

1,300
complaints about claims management companies

Resolve 305,000 complaints

140,000
complaints about PPI

165,000
complaints about other products and services

1,300
complaints from small and medium-sized enterprises

1,450
complaints about claims management companies

To fund our service, we expect to...

70% 30%
Collect around 70% of our income through case fees and 30% through our levy

£314.5m
Operate on a cost base of £314.5m

£83.9m
Raise £83.9m through our compulsory jurisdiction levy

Use our reserves to absorb the impact of the measures we've taken to minimise our costs to firms

25
Set the "free" case threshold at 25 for firms outside the group account fee arrangement

50
Set the "free" case threshold at 50 for the 8 members of our group account fee arrangement

9 in 10
Set our individual case fee at £650. We expect that around nine in ten businesses whose customers complain to us won't pay any case fees

1
Our plans for 2020/21

In this chapter we set out our plans for 2020/21. In light of our updated forecasts and feedback we received to our consultation, we share the volumes of complaints we expect to receive and resolve, highlighting some of the key trends and challenges we anticipate. We then outline our commitments and priorities for the year ahead, including reducing the time people need to wait for our answer.

Read a summary of the feedback we received on our 2020/21 plans, together with our response, on **page 29**.

Complaints volumes and trends

Covid-19

The plans and budget presented in this document were consulted on and highly developed before the widescale outbreak of Covid-19 (coronavirus) in the UK.

Although there's ongoing uncertainty about the impact of Covid-19 on our operations, our aspiration remains that – while our plans will need to adapt – we will deliver on the commitments set out in this document, and provide the effective service people need and expect from us. This includes being ready to resolve disputes between businesses and their customers that arise from Covid-19, and proactively sharing what we're seeing to prevent further complaints.

Having discussed the position with the FCA, we have made adjustments to our budget and funding arrangements to help mitigate the financial pressures on firms.

We'll reassess the situation throughout the financial year, and keep in touch with our stakeholders about how we can best work together to meet the challenges ahead.

New complaints

Financial product or service	2019/20 latest forecast	2020/21 consultation budget	2020/21 final budget	2020/21 final comparison with 2019/20 latest forecast
PPI	150,000	100,000	100,000	(33%)
General casework*	151,000	145,000	145,000	(4%)
including				
Banking and credit (including packaged bank accounts and short-term lending – payday and instalment loans)	105,600	97,800	97,800	(7%)
Insurance (except PPI)	33,000	33,400	33,400	1%
Investments and pensions	11,200	12,500	12,500	12%
Complaints about CMCs**	1,200	1,300	1,300	8%
Total	**301,000**	**245,000**	**245,000**	**(19%)**

* Complaints from SMEs (additional to our micro-enterprise casework) are included within the general casework figures for banking and credit, insurance, and investments and pensions. Consistent with our capacity in 2019/20, we'll be resourcing our service to receive up to 1,300 complaints from SMEs in 2020/21.

** Our SME and CMC jurisdictions began on 1 April 2019.

The feedback we received to our 2020/21 plans and budget consultation broadly confirmed our thinking about the shape of the year ahead. However, the Covid-19 crisis, which escalated after our consultation process, has generated additional uncertainty and potential complexity around the volume and nature of complaints we'll see. Although it's currently too early to assess the scale of the impact, we've seen an increase in contact relating to the repercussions of the pandemic.

Resolved complaints

Financial product or service	2019/20 latest forecast	2020/21 consultation budget	2020/21 final budget	2020/21 final comparison with 2019/20 latest forecast
PPI	120,000	125,000	140,000	17%
General casework*	170,000	165,000	165,000	(3%)
including				
Banking and credit (including packaged bank accounts and short-term lending – payday and instalment loans)	122,600	112,400	112,400	(8%)
Insurance (except PPI)	34,300	37,250	37,250	9%
Investments and pensions	11,800	13,900	13,900	18%
Complaints about CMCs**	1,300	1,450	1,450	12%
Total	**290,000**	**290,000**	**305,000**	**5%**

* Complaints from SMEs (additional to our micro-enterprise casework) are included within the general casework figures for banking and credit, insurance, and investments and pensions. Consistent with our capacity in 2019/20, we'll be resourcing our service to resolve up to 1,300 complaints from SMEs in 2020/21.

** Our SME and CMC jurisdictions began on 1 April 2019.

When we consulted, we anticipated that PPI would account for more than 40% of the complaints we'd receive and resolve in 2020/21. However, as we highlighted in our consultation, there's still considerable uncertainty around the volumes that will reach us and when. We'd begun to see the increase in contact we expected following the FCA's August 2019 PPI deadline – receiving significantly more PPI enquiries in the third quarter of 2019/20 compared with the first and second quarter, although current volumes are still lower than our Q3 forecast.

During 2019, the FCA signalled that it would likely be summer 2020 before businesses were able to respond to some customers who'd been in touch about PPI. In view of our own insight and conversations with businesses and CMCs, the forecasts on which we based our 2020/21 plans assumed a steady volume of incoming complaints in the first half of the year, followed by a decline in Q3 and a significant decline in Q4. These plans involve resolving 140,000 PPI complaints in 2020/21 – an increase of 15,000 from our consultation budget – to reduce the number of people waiting for our answer at the end of the year.

In light of developments relating to Covid-19, we'll be keeping in touch with stakeholders about how the priority of supporting customers through the crisis impacts our respective PPI operations. In the event these aren't significantly affected over the whole year, our progress in PPI will be supported by our established ways of working, economies of scale and experience we've gained from handling more than two million of these cases so far. Our ability to move complaints forward will also depend on how well businesses and CMCs consider the merits of complaints themselves, so we're only asked to step in where it's genuinely necessary. As well as applying our well-established approach to known issues, this will also be about quickly learning from and applying our approach to any complexity that arises as our PPI casework moves towards its conclusion. As usual, we'll share information with the FCA about financial businesses and CMCs that don't appear to be doing this.

In short-term lending, our projected complaints volumes haven't changed since our consultation – but we'll keep the position under review in light of any further financial difficulties firms in this sector might experience. We'll need to be prepared for volatility in other areas – including, but not limited to, where this is related to the consequences of Covid-19.

In response to our consultation, stakeholders suggested a number of areas that we should prepare to receive complaints about in 2020/21. We know we'll always need to respond to emerging issues – both new and existing areas of detriment that develop in unanticipated ways, or happen an unexpected scale. Our previous experience suggests these can have a range of causes: from political and economic events through to extreme weather.

The Covid-19 crisis is unprecedented in the scale of its repercussions across the world. As we publish this document, we've already received a number of enquiries and complaints relating to the changing circumstances of UK customers and their engagement with financial services.

Although the situation continues to evolve, these cases have so far ranged from disputes over insurance claims made as a result of the pandemic, including travel and business protection insurance, to concerns around lenders' treatment of customers unable to pay mortgages and other debts. We'll keep in touch with our stakeholders about what we're seeing, as well as staying in close contact with firms to understand the potential impact of Covid-19 on our respective operations.

Based on our analysis and stakeholders' feedback, some of the significant cross-cutting trends and issues we expect to see in our casework are:

- **Vulnerability** in its broadest sense, as cross-sector conversations continue about how it arises and how to identify and address it.
- Relatedly, and in light of the FCA's programme of work in this area, the challenges of **persistent debt** and wider indebtedness, including in the context of the use of high-cost credit.
- **Fraud and scams** – including both the continuing evolution and sophistication of fraudsters' methods, and ongoing developments in mechanisms to tackle fraud.
- The potential for **technology** to accelerate the speed with which problems can arise, and the scale of the impact they can have – for example, banking IT outages.
- An ongoing trend toward **complexity** – whether this relates to the circumstances of the parties involved, a changing regulatory landscape, or other developments that raise challenging and wide-reaching questions of fairness.

We expect that these issues will also be reflected in complaints arising from Covid-19, which will further amplify the complexities and uncertainties in our work.

There's more detail about this feedback on **page 30**. And there's more information in the next section about how we'll handle our 2020/21 casework effectively and efficiently. This includes our plans to bring down the time people need to wait for an answer from us (see **page 34**).

Our commitments and plans for 2020/21

Our strategic commitments determine our service's objectives for each financial year. They're reviewed annually and updated to reflect the internal and external environment we're working in. We use them as an internal measure of how we're performing throughout the year, and report publicly on our progress against them in our annual report and accounts.

For 2020/21, our commitments focus on four areas:

- Our customers
- Our resilience (renamed from "our service" to better reflect its focus on our financial stability and cost efficiency)
- Our people
- Our reach and our impact

Our key priorities are:

- Bringing down the time people are having to wait for our answer across the different areas of our work – by continuing to invest in our casework capacity, and working with businesses and CMCs to address the issues that are at the root of challenges in moving things forward.
- Responding to the consequences of Covid-19 by helping businesses and their customers to resolve complaints fairly, and engaging with stakeholders to help prevent disputes arising.
- In PPI, as the picture becomes clearer about the scale of our casework, playing our part in bringing this mass mis-selling closer to its conclusion – recognising the impact of Covid-19 on firms' immediate priorities and operational resilience.
- Continuing to shape our future strategy, which will ensure we continue to be an effective and essential service in the years ahead.

Alongside our 2020/21 plans, we consulted on our future strategic priorities – our ambitions to enhance our service, to prevent complaints, and to develop the capabilities we need for the future. In light of these areas of focus, we'll be considering how far our current objectives remain relevant, what any new indicators of success should be and how we'll measure them.

The FCA has made clear that firms' immediate focus should be on supporting customers impacted by Covid-19, and has postponed a number of its planned programmes of work. For the same reason, we've decided not to publish further details about our future strategy at this time. We'll keep in touch with our stakeholders about our proposed next steps as the year develops.

There's more information about the next steps on **page 39**.

Our customers

These objectives relate to our being a service that's trusted and respected – both by the businesses we cover and their customers. The nature of our work resolving disputes means that we may hear two very different and strongly-held views about a situation. It's essential we get right to the heart of the problem that's arisen, and give a fair, high-quality answer as soon as we can. We need to ensure both sides feel we've listened – and that their experience with us was worthwhile, even if they didn't get the outcome they'd hoped for.

Our plans for the year ahead

- Many factors affect our progress in resolving complaints – including our own efficiency, the overall volume of cases being referred to us, ongoing regulatory and legal developments and other complexities, and changes in our landscape. But we know that, while a complaint is unresolved, the parties involved can't move on from the issue in hand. For this reason, our planning for next year centres on a commitment to bringing down waiting times significantly.
- In 2020/21, we aim to have no one waiting longer than four weeks for one of our case handlers to start investigating their complaint. We'll also continue to focus on the time it takes to resolve complaints once a case handler has started their investigation. This can be influenced by how promptly the business and any CMC involved respond to us, and how well they cooperate with our investigation.
- We'll aim to resolve 95% of all complaints where people have been waiting more than 12 months for our answer, with no complaint older than 18 months at the end of March 2021. The exception will be those complaints affected by legal action – where, as a result of this action, the timetable isn't within our control.
- As we work to reduce waiting times, we'll prioritise cases where the people involved urgently need our help – and ensure our people's ability to identify and address vulnerability is a key part of their case handling expertise.
- We'll maintain our aim that at least 65% of consumers who use our service will rate it positively – including both those whose complaints are upheld and those whose aren't – with an aspiration to reach 75% in line with our commitment to reduce waiting times.
- The businesses we cover need to have confidence in the fairness and consistency of our answers – and we have a shared objective of fair outcomes for their customers. In 2020/21, we'll maintain our aim that 80% of business complaints handlers rate us positively.
- Through our dedicated practice group for supporting our customers, together with our engagement with relevant expert partners, we'll continue to shape and strengthen our approach to issues arising from customers' physical and mental health, financial difficulties, relationships and other challenging circumstances. Given the potential impact of Covid-19 on people's wellbeing, our understanding of and sensitivity to these factors are as important as ever.

- We'll continue to invest in quality assurance, including comparing our evaluation of the service we've provided with consumers' and businesses' feedback. This helps us to identify what's going well, as well as where we may be falling short of expectations, so we can improve what we do. We'll also continue to apply learnings from the investigations of our independent assessor.
- We want people to be able to engage with us at a time that suits them, and without necessarily needing to contact us – to improve both the accessibility and convenience of our service, as well as our efficiency. In 2019/20, we carried out user testing of the consumer portal we've been developing. In 2020/21, we'll carry out further development in response to user feedback – while continuing to embed and improve our core case handling system.
- Last year, to support the extension of our remit to more SME customers of financial providers, we established an SME advisory group, helping us to understand and share experiences of the particular issues faced by smaller businesses. Following positive feedback from existing members, we'll look to develop and expand the breadth of insight the group brings to our service. In resolving individual complaints, our dedicated SME casework teams will continue to be supported by a specialist internal practice group and external expert panel.
- We'll continue to build on our strong working relationships with a diverse range of stakeholders – from businesses and trade associations, through to consumer organisations, regulators and policymakers. This will help us ensure that our service is meeting expectations – and also that our insight and experience is used effectively to identify and address poor practice and ensure customers are treated fairly.

Our resilience

These objectives relate to our being adaptable, financially sustainable, well-run and accountable. As a demand-led service, it's essential we're able to respond flexibly and quickly to demand for our help – working openly and constructively with stakeholders to tackle the challenges we're facing. We need to use our resources as effectively as possible, and to make the investments we need to deliver a first-rate service.

Our plans for the year ahead

- Our current outlook is that the uncertainty and volatility we've seen in referrals to our service will continue in 2020/21 – and will be amplified by Covid-19, which we expect to see reflected across many areas of our casework. Our forecasts from early 2020 suggested we should resource our service to handle approximately 145,000 new complaints in our general casework and to resolve 165,000. The impact of Covid-19 isn't yet clear – and in the next financial year, we'll continue to talk to stakeholders about the likely shape of our workload, sharing our analysis of trends and listening to feedback.
- We're committed to playing our part in helping bring the fall-out of PPI mis-selling further towards its conclusion. Our existing 2020/21 plan involves resolving 140,000 PPI complaints – 15,000 higher than our consultation budget, reflecting our aspiration to reduce the number of people who are still waiting for our answer at the end of the year. We've told our people that we expect to retain our PPI teams throughout the whole of 2020/21. In light of the Covid-19 pandemic, and the likely impact on firms' operations, there's considerable uncertainty around the volume of PPI complaints we'll see – and we're also planning for alternative scenarios.
- Given the volume and nature of the casework we expect, we'll maintain capacity in both our London and Coventry-based case handling teams, keeping one of the London (South Quay) properties we'd initially planned to release until its lease ends in March 2021. We'll also continue to review and adjust our use of a contractor workforce – helping us ensure we've got the right people at the right time and can scale up and down flexibly in response to demand. This includes growing our pool of flexible associate (fee-paid) ombudsmen, adding further capacity at this final stage of our process and helping to reduce the time people need to wait for a final decision.

- We'll continue to invest in the knowledge and skills of our complaints handlers, including evaluating and improving our training academy for new investigators and ombudsmen. This includes supporting our people to help consumers in vulnerable circumstances. Working closely with our charity partner, Papyrus – who work to prevent young people's suicide – we've developed a dedicated training package for all existing and new case handling staff.
- In our SME teams, we'll build our knowledge and expertise through continuing to engage with representatives from across the financial services sector, professional bodies and other stakeholders. In 2019/20 our SME case handlers attended talks and training by a range of external experts, including the Federation of Small Businesses, UK Finance and Business Debt Line.
- Working smarter and more flexibly can have benefits for our service, our people and the businesses that fund us. By better facilitating and supporting ways of working that promote a good work-life balance, we can ensure we continue to attract and retain people from a diverse range of backgrounds – and see the benefits in productivity and wellbeing. In March 2020, as the Government introduced measures to restrict the spread of Covid-19, we significantly scaled up our remote working capacity – meaning nearly all our people, from our case handlers to our support teams, have been able to continue their work from home. In 2020/21 we'll continue to make the necessary investments so that remote and smarter working become business as usual. As we look to reduce our physical office space we'll also invest in tools to promote effective collaboration and knowledge-sharing.
- To resolve complaints, we're trusted with significant amounts of sensitive information about people's financial and wider circumstances. And we also generate data and insights about complaints trends and issues that can be used to help to prevent unfairness arising. In 2020/21 we'll invest further in the security, governance and quality of the data we hold.
- We'll run our service on an anticipated operating income of £261.3m, with approximately 70% of our income coming from case fees and 30% from our levy – while continuing conversations with stakeholders about our funding in future years. Our budget includes adjustments we agreed with the FCA to help reduce pressures on firms dealing with the financial impact of Covid-19. There's more about our 2020/21 budget from **page 22** onwards.
- We'll continue to monitor our cost per case as one indicator of efficiency, while continuing to develop more meaningful measures as part of shaping our future strategy.
- We'll continue our work to ensure our support teams are as streamlined and cost-effective as possible, as we look ahead to our service's future shape, size and needs.
- We'll continue to manage our property portfolio in a cost-effective way, including making efficiencies from smarter working. And we'll continue to apply government guidelines and best practice to ensure we deliver efficient procurement processes and cost-effective contracts.
- Building on our successes in previous years, we'll continue to reduce our impact on the environment – maintaining our commitment to reduce our carbon footprint by 45% per person from its current levels by 2022, under a plan agreed with the Carbon Trust. This forms part of our broader commitment to be a sustainable and socially responsible organisation – underpinned by new service-wide policies and plans that we developed in 2019/20 and will embed in 2020/21.

Our people

These objectives reflect our commitment to be a leading employer, as well as a leading ombudsman service. We need to attract, retain and develop talented people with the skills and diverse range of experience we need to do our job effectively. By continuing to build a values-led culture, we'll show how inclusivity and wellbeing translate into great performance.

Our plans for the year ahead

- Matching our case handling resource to demand for our service is fundamental to our central objective for 2020/21 – reducing the time people have to wait for an answer. Our recruitment plans for the year will likely be affected by the impact of Covid-19, but we'll keep them under review throughout the year and adjust them where necessary – while further developing our strategies for recruitment, selection and retention.
- Great case handlers combine problem-solving expertise, common sense and empathy, giving answers that get to the heart of people's concerns. In the next year we'll continue to ensure that our case handling teams have the knowledge, skills and support they need – by investing further in product and issue-based training, customer service skills, and input from external experts representing both consumers and businesses.
- Smarter, more flexible ways of working have the potential to improve our people's wellbeing and work-life balance – as well as attracting new people from a diverse range of backgrounds and circumstances. In 2020/21 we'll continue to invest in the technology, spaces and skills we need to embrace and embed new and better ways of doing our job.
- In February 2020 we celebrated the graduation of apprentices across our service, including both existing employees and people who've chosen to start their careers with us. In 2020/21 we'll keep offering a range of high-quality early career and management and leadership apprenticeships.

"I chose an apprenticeship with the Financial Ombudsman Service because I could see that it would offer me the training and experience I needed to build a good foundation for my career, while getting the opportunity to help people.

Online is increasingly the first place people look for information, so our digital work is really important in helping customers to find out who we are and how we can help.

At the end of my apprenticeship I'll have a Level 3 Digital Marketer qualification, as well as experience of working on real projects to build up my portfolio with and showcase my skills." Daniel

- Building on significant engagement last year, we'll continue conversations with people across our service as we continue to shape our future strategy – including giving as much certainty as we can to people in our mass claims areas as PPI moves towards its conclusion.
- We'll challenge ourselves to stay at the forefront of policies and practices that support our people's lives. We'll report on our progress against our diversity, inclusion and wellbeing action plan – and build on our successes in 2019/20, when our employee-led networks and chief ombudsman were recognised externally for their contribution to diversity and inclusion. There's more information about our work in this area in our **latest report**. To measure our success, we'll monitor a range of indicators including those relating to employee engagement, sickness absence and retention.
- As part of our commitment to be a socially responsible employer, we'll continue to look for ways to support the wellbeing of our own people and those who provide contracted services. This includes maintaining our status as a London Living Wage-accredited employer, and procuring services from suppliers who share our values.

Our reach and our impact

These commitments and plans reflect two related areas of focus. We're a service for everyone in the UK – and we need to ensure not only that people know about us, but also that there are no barriers to using us. And we need to ensure that our insight and experience – gained from resolving hundreds of thousands of problems each year – are put to use in preventing the same issues arising again, and in promoting confidence in the sectors we cover.

Our plans for the year ahead

- When something goes wrong with money, the consequences can be immediate and significant – both for individual people and small businesses. So it's essential that people know how to go about resolving a complaint, including the role of our service. In 2020/21 we'll continue to measure people's awareness of us – working with the media and other partners to maintain and improve it, so it remains at 80% or above.
- We'll maintain our strong working relationship with the FCA as the regulator of financial businesses and CMCs and as our 'competent authority' under the Alternative Dispute Resolution regulations – sharing regular insight about what we're seeing to inform its programme of work.
- In resolving hundreds of thousands of complaints each year, we have a unique and independent perspective on both the causes of complaints and how to put things right. To ensure our insight helps promote fairer outcomes in the sectors we cover, we need strong relationships with other organisations that can apply it to inform their own work. In 2020/21 we'll build on our existing engagement with parties including the Government, regulatory bodies and other ombudsmen, and organisations representing consumers, businesses and their trade bodies – proactively sharing what we're seeing to help anticipate and prevent complaints and unfairness. In turn, we'll use insight stakeholders share with us to inform our own thinking about the issues we're seeing, or might see, in our casework.

- Having launched a new website in summer 2019, we'll continue to enhance and build on its content. We'll use analytics and feedback to ensure it's accessible and meeting users' needs, including equipping them with the information they need to resolve problems themselves without needing to contact us.
- We know that stakeholders rely on our data and insight to inform their own work – and for businesses, to understand their own performance. Following the appointment of our chief information officer in 2019, in 2020/21 we'll further strengthen our data governance and quality, and use our new business information tool to support our analysis of complaints trends.
- We'll share more of our insight into complaints trends and other issues, to generate discussion around fairness and help prevent complaints. In addition to our regular operational engagement, this will include hosting our own discussions, participating in forums and networks within the sectors we cover, and trying new formats and channels to extend the reach of this insight. We'll share regular insight on our website, highlighting this in our relaunched newsletter, Ombusman News, for people working in or with an interest in complaints.
- We'll add to the approximately 215,000 ombudsmen's final decisions available on our database, helping other people learn from the problems of the past to prevent the same things happening in the future.

Our future strategic priorities

Since we were established 20 years ago, we've needed to respond and adapt to changes not just in financial services, but in society, technology, and the wider economy – which have shaped the mix, nature and volume of complaints we see. These changes have also continued to shape the needs and expectations of people who use, fund and take an interest in our work, as well as our current and prospective workforce.

It's in this context that we've been shaping our service's future strategy. This work complements our ongoing focus on ensuring we're meeting people's current expectations of our service. However, it takes a longer view – asking what emerging trends mean for the service we provide, how we deliver it, and how we build on its wider value to the sectors we cover. It builds on previous reviews commissioned by our board to ensure we remain effective in light of the evolving landscape we're working in.

Over the course of 2019/20, we took forward plans to engage with our people and our stakeholders about the future of our service.

We also built an evidence base, reviewing published research and commissioning our own – so we can be confident we're focusing on the right areas and outcomes as we look ahead.

> "Over the course of 2019/20, we took forward plans to engage with our people and our stakeholders about the future of our service."

As part of our plans and budget consultation in December 2019, we asked for feedback about our direction of travel. A summary of the feedback we received, together with our response to it, is on **page 39**. In general, we received widespread support from our stakeholders – representing both businesses and their customers – for our three strategic priorities:

- Enhancing our service
- Preventing complaints and unfairness arising
- Building an organisation with the capabilities it needs for the future

As we've explained on **page 15**, consumers, businesses and organisations – including our stakeholders and our own service – are currently dealing with the significant impact of the Covid-19 crisis. Given the level of focus and resource this requires, we've decided not to publish further details about our future strategy at this time. We'll keep in touch with our stakeholders during the year about our next steps.

2
Our budget for 2020/21

In this chapter, we set out our plans for funding our service in 2020/21. These include rebalancing the income we receive from our levy and case fees, to help promote stability and sustainability in our funding. We highlight changes to our case fees and provide more detail about how we'll spend the money we receive. We also outline adjustments we've made in view of the uncertainties presented by Covid-19 – following discussions with the FCA about the challenges currently facing the firms we cover.

Read a summary of the feedback we received on our 2020/21 budget, together with our response, on **page 35**.

Overview: our funding approach

Our funding arrangements need to ensure we can properly fund our core case handling service – including our ability to respond flexibly to changing demand, by having the right resources in the right place at the right time. They also need to allow us to make strategic investments to enhance our service, ensure it's ready for the future, and to support our work to share our insight and experience to prevent complaints and unfairness arising.

About our levy

The FCA consults separately on how to allocate the levies it collects among the businesses it regulates – which include levies for our service, the Financial Services Compensation Scheme, the Money and Pensions Service, and the FCA itself.

The amount of money businesses pay for our service has a risk based element – as the levy is linked to the volume of complaints we expect they will generate. Additionally, those that generate more complaints pay more in case fees.

Broadly, allocating the levy relating to our service involves:

- Dividing the total levy among industry blocks (based on activities) according to the budgeted costs and numbers of complaints handling staff we anticipate we'll need for complaints arising from that industry block.
- Dividing the levy for each industry block among businesses in that block according to a tariff rate (relevant to that industry block), which is either a flat fee or intended to reflect the scale of each business's activities.

Before the start of each financial year, we consult publicly on the amount of money we think we'll need to collect through our levy, as well as on our case fee arrangements.

For the 2019/20 financial year, our levy involved an annual cost for firms ranging from about £35 for the smallest financial businesses, to £2.6 million for the largest financial providers.

As we've explained elsewhere in these plans, our service brings benefits to the sectors it covers – in terms of the greater customer confidence we help to promote, and the insight and experience we can share to help prevent complaints. But we recognise that our service also represents a cost to these sectors as a whole, and that for individual businesses, contributions to us are just one part of the wider financial impact of regulation. We know this is of particular concern to smaller businesses – who may feel more keenly the cost of our service, the FCA, the Financial Services Compensation Scheme and other bodies, together with professional costs associated with their activities.

In setting our budget each year, and considering the funding arrangements that will support it, we're very mindful of these concerns. We've always sought to mitigate the impact on the smallest firms whose customers rarely complain to us – for example, by maintaining an allowance of "free" cases, and flexing this upwards to account for the impact of mass PPI mis-selling claims.

Our awareness of the cost burden on firms, and the knowledge that these costs are ultimately passed on to customers, drives our commitment to continue to realise efficiencies and savings, as we've highlighted in these plans. This will have a benefit to all firms, including the very smallest.

In addition, our long-standing engagement with small firms and trade bodies helps promote their confidence in our service – by developing their understanding of how we approach complaints, and signposting to the support and resources we offer to help them prevent problems arising. For example, our free technical desk can give an early steer on our approach to resolving complaints, so firms can resolve things fairly without our formal involvement.

For 2020/21, our funding proposals included moving toward a more even split between our case fee and levy income. In response to the Covid-19 crisis, we've made adjustments to our proposals, with the specific aim of reducing our costs to firms at this unprecedented time.

Our 2020/21 funding plans

Over recent years, we've engaged extensively with stakeholders about our future funding – as we look to ensure our service is ready for a time when our caseload is no longer dominated by PPI. Most recently, in our consultation on our 2020/21 plans and budget, we explained that we planned to go ahead with a version of the arrangements we consulted on in July 2019.

Specifically, we proposed that 60% of our income would come from case fees and 40% from our levy – compared with a previous split of approximately 85:15. We planned to increase the individual case fee to £650 – its first increase since 2013 – and to change the number of "free" cases firms get each year to 10 for firms outside our group account fee arrangement and 50 for each of the eight groups that are part of it. We also proposed to maintain a minimum of six months' operating expenditure as reserves.

We set out the reasoning behind these changes in both our 2020/21 plans and budget consultation and our July 2019 consultation on our funding. In summary, taking a greater proportion of our income from our levy promotes greater certainty over our income for both us and for firms – reducing the risk we'll need to ask for more funding to manage in-year spikes in complaints. It will also help us build on our work to prevent complaints – for which we don't receive individual case fees, but which is in the interests of all firms in the way it helps to reduce the cost burden of complaints and promote consumer confidence.

Among the funding principles we need to balance is sensitivity to the political and economic environment. Although the full impact of Covid-19 isn't yet clear, the consequences for businesses and consumers look unprecedented in scale.

Our funding principles

Our funding should:

- Be fair.
- Be broadly proportionate (costs relate to the workload users generate for the service).
- Not create perverse behavioural incentives.
- Create no incentive for our service to reach a particular outcome.
- Be transparent.
- Be easy to understand.
- Be simple to administer (for us and firms).
- Be free to consumers.
- Be sustainable over time.
- Provide (within reason) predictable/stable revenue flow.
- Promote price predictability (as far as possible).
- Be sensitive to our operating/political environment.
- Not subsidise between (compulsory and voluntary) jurisdictions.
- Have no/minimal transitional difficulties if the system is changed.

Having discussed the position with the FCA, we've made adjustments to our final budget compared with the one we consulted on in December 2019.

Our revised proposals maintain the proposed increase in our case fee – the first since 2013 – together with an increase in the proportion of our funding we get from our case fee compared with current levels, though less than we proposed in our consultation. These changes are essential in helping us provide the effective service people need and expect from us – given especially the increased potential for financial hardship and vulnerability at this time.

We recognise that firms will also be facing these pressures and challenges. For this reason, our revised plans include a combination of targeted interventions to benefit smaller firms in particular, and broader steps which will benefit other firms that contribute to our funding.

In 2020/21:

Around **70%** of our income will come from case fees, with **30%** coming from our levy – compared with a proposed split of 60:40 in our consultation, and a longer-term aim of reaching a broadly **50:50** balance.

We've asked the FCA to **freeze** the minimum levies at their 2019/20 levels.

Our compulsory jurisdiction levy will be **£83.9m**, and our voluntary jurisdiction levy **£0.95m**.

To absorb the cost of these changes, we'll use more of our reserves than originally proposed – a total of around **£25.4m**.

Businesses outside the group account fee won't be charged for the first **25** complaints we receive from their customers – maintaining "free" cases at their current level, rather than reducing this to 10 as proposed in our consultation.

This means **9 in 10** of the businesses whose customers complain to us won't pay any case fees at all.

Groups in the group account fee arrangement won't be charged for the first **50** complaints we receive from their customers – as set out in our consultation.

The individual case fee will be **£650** for all cases closed after 1 April 2020, regardless of when the case was referred to us – in line with our consultation.

To reflect the caseload we anticipate under our compulsory and voluntary jurisdictions, we expect that 99.6% of our total budget expenditure will relate to our compulsory jurisdiction (which includes businesses regulated by the FCA), and 0.4% will relate to our voluntary jurisdiction (which includes a small number of businesses that have chosen to be covered by our service, but wouldn't otherwise come under our compulsory jurisdiction).

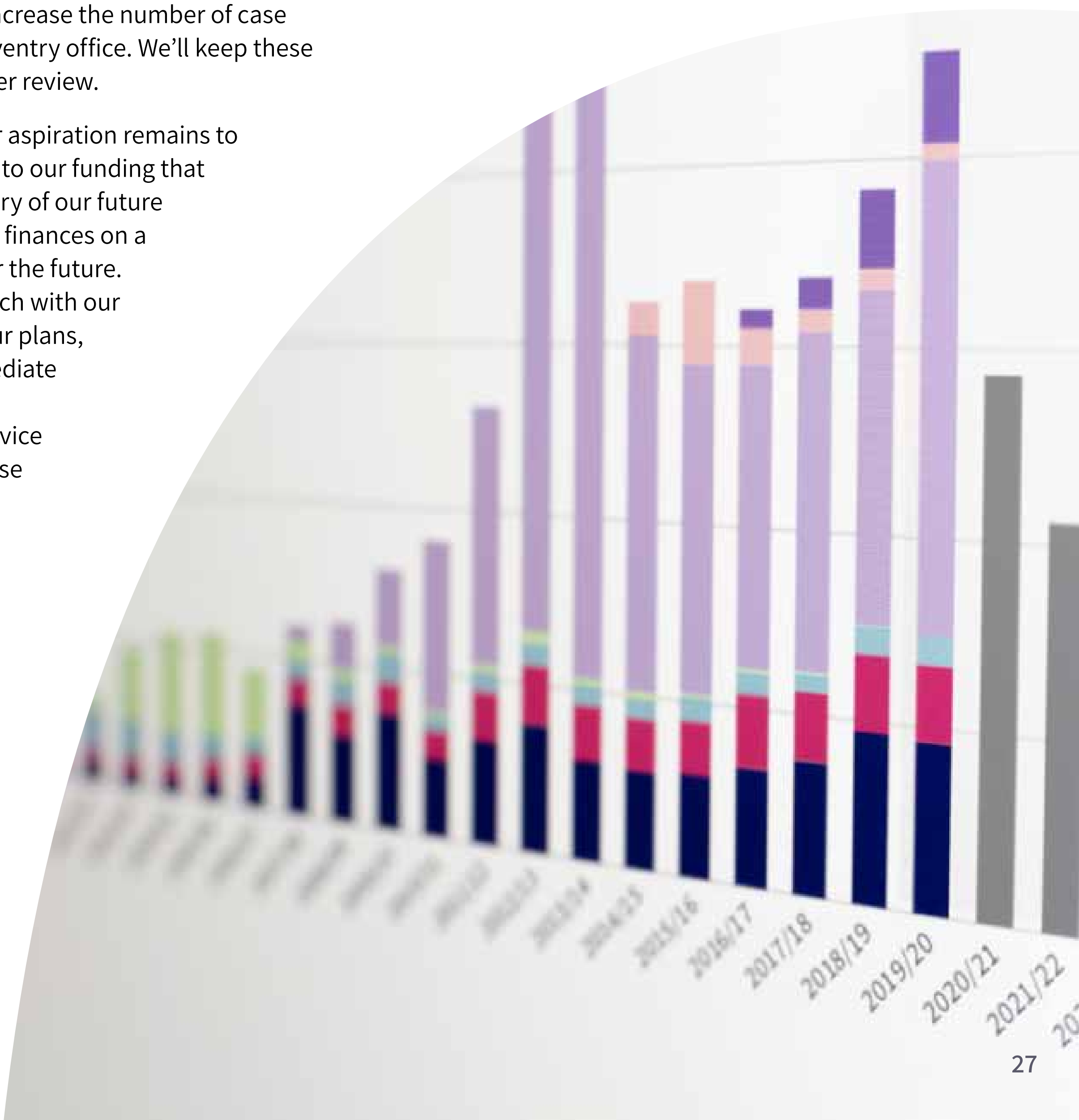
Other key features of our 2020/21 budget include:

- An overall increase in people-related costs – both employees and contractors – reflecting a further investment in case handlers, both in-house and contractors, to focus on reducing waiting times and to help move PPI towards a conclusion. We also expect to incur one-off costs associated with bringing PPI to a conclusion.
- Bad debt provision of £12.0m, reflecting the ongoing potential financial vulnerability of a range of firms in our jurisdiction – rising from £2.0m in our consultation budget.
- A decrease in property costs on 2019/20 figures – though slightly higher than our 2020/21 consultation budget in view of our decision to increase our budget for PPI resolutions, resulting in a 12-month extension of a lease that we'd previously expected to terminate. We recognise stakeholder feedback about locating more of our operations outside London, and our budget includes plans to increase the number of case handlers in our Coventry office. We'll keep these arrangements under review.

In the longer term, our aspiration remains to make further changes to our funding that will support the delivery of our future strategy – and put our finances on a sustainable footing for the future. We'll keep in close touch with our stakeholders about our plans, recognising that immediate priorities for firms, regulators and our service have shifted in response to the Covid-19 crisis.

As we look ahead, we'll need to consider the impact that the adjustments we've made this year – including the reduction in our reserves – will have on future years' funding, especially in light of the growing trend toward complexity we're seeing in our work.

There's more detail about the feedback we received to our consultation, together with our response, from **pages 29 to 40**.



	2018/19 previous year (£m)	2019/20 budget (£m)	2019/20 latest forecast (£m)	2020/21 consultation budget (£m)	2020/21 draft budget (£m)	2020/21 revised final budget (£m)
Income						
Case fees	77.9	119.3	63.1	74.3	84.4	81.1
Group fees	123.5	131.4	126.4	87.3	93.9	93.9
Levies and other income	26.1	46.4	48.2	108.0	108.4	86.3
Total operating income	**227.5**	**297.0**	**237.6**	**269.6**	**286.7**	**261.3**
Net movement in deferred income	2.0	0.0	0.2	0.0	0.0	0.0
Total income	**229.5**	**297.0**	**237.8**	**269.6**	**286.7**	**261.3**
Expenditure						
Staff and staff-related costs	163.3	171.6	157.5	172.9	183.1	183.1
Contractor staff	62.2	101.3	68.5	70.9	68.1	68.1
Consultancy support	7.5	6.9	7.9	5.6	4.3	4.3
Professional fees	1.5	1.6	1.9	2.1	2.4	2.4
IT costs	9.4	8.8	9.8	9.7	9.2	9.2
Premises and facilities	20.0	23.8	21.0	19.7	20.3	20.3
Other costs	1.5	1.4	1.5	1.3	1.2	1.2
Depreciation	3.4	5.9	4.3	4.0	3.8	3.8
Bad-debt write-off	1.6	0.4	3.5	0.4	2.0	12.0
Contingencies	0.0	10.0	1.0	10.0	10.0	10.0
Total expenditure	**270.5**	**331.8**	**277.0**	**296.7**	**304.5**	**314.5**
Operating surplus/(deficit)	**(43.0)**	**(34.7)**	**(39.3)**	**(27.0)**	**(17.8)**	**(53.2)**
Financial surplus/(deficit)	**(41.0)**	**(34.7)**	**(39.2)**	**(27.0)**	**(17.8)**	**(53.2)**
Reserves and deferred income	**188.9**	**154.1**	**149.6**	**122.5**	**131.8**	**97.0**
Closing FTE (full time equivalent)	**3,750**	**4,104**	**3,506**	**3,459**	**3,598**	**3,598**
Total new cases	**388,378**	**460,000**	**301,000**	**245,000**	**245,000**	**245,000**
Total case resolutions	**376,352**	**510,000**	**290,000**	**290,000**	**305,000**	**305,000**
Underlying cost per case resolution	£714	£650	£943	£947	£926*	£926*

* Cost per case figure excludes bad debt provision and the one-off costs associated with bringing PPI to a conclusion. Including the one-off costs for PPI, our 2020/21 unit cost would be approximately £992.

3

Consultation feedback and our response

This chapter summarises responses we received to our public consultation, as well as views shared with us during our ongoing engagement with stakeholders. For clarity and coherence, our summaries don't include all the individual points people made, but focus on common or contrasting themes and issues. We then respond to the feedback and explain our next steps.

We consulted on our 2020/21 plan and budget and future strategy for six weeks from 16 December 2019 to 31 January 2020. We received 30 responses our consultation. A list of respondents is on **page 41**. Some respondents asked to remain confidential.

Covid-19

Our consultation feedback represents a snapshot of stakeholders' perspectives on our landscape in December 2019 and January 2020 – before Covid-19 began to spread rapidly in the UK. This means the responses we received, which we've summarised below, didn't touch on the impact of the pandemic or the challenges we and stakeholders might face as a result.

We've reviewed our response in light of these developments, but there's significant uncertainty about how our operations will be affected in the months ahead. We'll reassess our position throughout the year and keep in touch with our stakeholders.

Current outlook for 2019/20: feedback

In the first chapter of our consultation, we explained how the financial year 2019/20 had developed since we set out our plans in March 2019. We explained that we continued to manage uncertainty about our future PPI caseload, and volatility in complaints about short-term lending. We also gave an update on our new jurisdictions – for complaints from more small business customers of financial services and about claims management companies (CMCs) – as well as our wider performance.

What people told us

1. What do you think about our projections for the volumes of complaints we'll receive and resolve in 2019/20?
2. What's your perspective on the trends we've identified in 2019/20?
3. Are there other trends you're seeing, or any insights you have, that you think we should take into account for the rest of 2019/20?

At the time of our consultation, most respondents told us our forecasts seemed sensible – both in PPI and general casework. Some group-account fee firms told us they felt we'd overestimated PPI case volumes for the 2019/20 financial year, though they agreed with our future forecasts.

Some stakeholders, including a bank and two trade bodies noted the difference between our budgeted and actual complaints figures. Some felt that greater transparency around our forecasting process, or more up-to-date complaints data (reflecting the delay in publishing our Q2 2019/20 data due to the pre-election period), would help them better evaluate our forecasts.

Many respondents agreed with our assessment of trends for the rest of 2019/20. There was broad consensus among representatives of both businesses and consumers about the trend toward increasing complexity in complaints.

This echoes wider conversations we've had with consumer organisations, who've told us they're seeing greater complexity in the problems people are bringing to them – and what we've heard in our regular engagement. Larger firms pointed to fraud and scams as an area of complexity, though some told us they'd have welcomed more engagement with us as thinking developed in this area.

Other stakeholders, including those representing insurers, noted insurance pricing as an ongoing area of focus, with some suggesting we'll see more insurance complaints than projected. A range of stakeholders indicated we might see more investment complaints, given CMCs' growing activity in this area.

Respondents flagged several other areas of interest, with many citing the role of CMCs in driving complaints trends and volumes, especially as they look to replace PPI-related business. The areas highlighted included: Brexit uncertainty, including business behaviour such as stockpiling goods to protect against supply problems, and consumer issues such as motor accidents abroad; current account pricing and alerts; confirmation of payee; credit issues including persistent debt, affordability and overdrafts; and interest rates.

Some respondents expressed concerns about CMCs making speculative subject access requests, and the potential for them to use open banking data to identify potential areas of new work.

4. Do you have any views about how our new CMC and SME jurisdictions have been operating?

Many stakeholders said they'd had limited exposure to these two jurisdictions, or felt it was too early to comment – while looking forward to further insight from and engagement with us.

Of those that commented, a trade body said it supported our decision to base our CMC operations in Coventry to avoid any perceived conflict of interest, though queried whether the low complaints volumes for CMCs and SMEs justified our 2019/20 levy costs. Another trade body flagged its concerns about the evolution of CMCs' operating models to avoid FCA regulation. Other respondents told us our CMC casework will increase as awareness grows. A consumer organisation noted the importance of monitoring SMEs' awareness of our service, and a trade body welcomed our SME advisory panel and ongoing insight sharing.

5. Do you have any other feedback about our year so far?

A number of respondents, representing both firms and consumers, said they appreciate our engagement and insight-sharing, a trade body citing motor finance and affordability in particular, and giving positive feedback about our operational engagement.

Some respondents referenced areas where they felt they would have benefited from more engagement with us, or where they believed our answers to complaints had been inconsistent. Others mentioned delays in our considering the issues involved in complaints in order to progress them, including in fraud and scams, and a couple suggested we'd overstated the part played by complexity and volatility in impacting our ability to resolve complaints quickly.

Our response

We're grateful to respondents for engaging with our forecasts and sharing their perspectives on areas we should monitor. We factored these insights into our revised forecasts. Because of the high degree of uncertainty around the casework we'll see as a result of Covid-19, for the time being we've carried our consultation forecasts forward into our final year-end forecasts.

We'll review the position during the year and keep in touch with stakeholders about our expectations.

We welcome the positive feedback about our engagement, as well as some businesses' views about areas where this could have been better.

Our plans for the year ahead include building on our existing working relationships, and we'll continue to act on feedback to inform and improve our engagement with stakeholders. We will continue to keep our group funding arrangement under review as we transition to being a smaller organisation.

Our plans for 2020/21: feedback

In the second chapter we set out our plans for 2020/21, including the volumes of complaints we expect to receive and resolve. We highlighted the uncertainty and potential for volatility that we're continuing to respond to at the same as helping bring PPI to its conclusion. We also outlined our wider plans for our service, including developing our technology and continuing to strengthen our quality and customer service.

What people told us

6. What do you think about our projections for the volumes of complaints we'll receive and resolve in 2020/21?

7. What are your views on the challenges we're facing in PPI – including your expectations around the timing and volumes of referrals to us?

Most respondents, including group account firms, broadly agreed with our 2020/21 forecasts for both PPI and other areas. Some said we might see more CMC complaints than projected – something picked up by other stakeholders in response to questions two and seven – including those arising from poor customer service as a result of CMCs leaving the market.

On PPI specifically, many larger firms supported our analysis of the timings of a likely spike in complaints to us, while acknowledging the uncertainty we still face. There were some queries around our PPI operations – for example, a request for more detail about how we plan to wind them down. Some stakeholders thought our PPI forecasts were low, and asked about our plans if we ended up receiving higher volumes than expected. While some respondents reported reducing complexity in PPI complaints, another felt remaining PPI complaints may well be complex, requiring ombudsmen's decisions, and so were likely to carry over into the next financial year.

A consumer group told us many consumers hadn't yet had their enquiries acknowledged by businesses, and another emphasised the importance of getting regular updates from businesses.

Some respondents said we should be prepared for large numbers of referrals from CMCs, as they look to maximise their PPI income and extend into new areas. A business told us CMCs may trigger post-deadline complaints about 'exceptional circumstances' that we'll need to resolve.

A trade body said that change to our funding arrangements shouldn't happen until we'd resolved the majority of our PPI casework, as otherwise firms handling these complaints would be disproportionately affected. For this reason, it said PPI should be excluded from the case fee increase. Another trade body felt that, given the high volumes of PPI complaints we were expecting, firms that weren't responsible for these cases would be subsidising those that were. We didn't receive suggestions about how to address the funding gap for our 2020/21 budget that would arise from delaying the changes or excluding PPI.

8. What are your views on the potential for complaints volatility in short-term lending?

There was general agreement with our assessment of the potential for volatility. A building society, bank and trade body commented that volumes will be led by CMCs. A trade body predicted that a smaller market and firm failure will mean we see complaints reducing. A lender told us it had seen a dramatic rise in its own complaint workload, but that despite an emphasis on repeat lending, most of these cases had involved just one or sometimes no loan. A lending trade body underlined that complaints should be dealt with based on the rules at the time.

Some respondents flagged drivers of short-term lending complaints other than CMCs. A consumer body said that short-term credit use might be linked to changes in benefit payments. A trade body suggested insurance premium finance as another area of short-term lending that might result in complaints.

9. Are there other trends, themes or complexities you're aware of, or any insights you have, that you think we should take into account as we plan for 2020/21?

Respondents highlighted a number of areas they thought we should take into account. Some, including a trade body and building society, said we should consider upcoming regulatory developments and do more to explain how they've been factored into our forecasts, while lending trade bodies highlighted that CMCs would be looking for new areas. One suggested debt advice bodies, commercial or free, might be targeted. A trade body and a consumer group highlighted the potential for open banking to raise new types of complaint, especially around vulnerability and 'open data' respectively.

We were asked for more detail about the volume and nature of complex casework we expect, with a trade body telling us we'd see greater complexity as our SME casework increases, and suggesting the FCA's work around vulnerability as an area of focus. It was also suggested there would be tension between faster services and technology and regulatory requirements on firms. Mortgage prisoners and possible CMC interest in mortgage interest complaints were also cited as potential issues.

Some respondents shared further views on fraud and scams. A trade body said that, while the contingent reimbursement model (CRM) may reduce complaints, it's unclear how both the CRM code and confirmation of payee will be applied to firms that aren't currently part of these frameworks. A consumer group expressed concerns that the CRM code wasn't being applied correctly by firms, and that firms' fraud warnings haven't been effective.

10. What are your views on our plans to resource and develop our service in 2020/21?

There was broad support for our plans to develop our service, with larger firms in particular welcoming our investment in digital capabilities and smarter working and making suggestions about tools we might use, such as chat bots. Some businesses asked for more engagement with us and more detail about our progress against our plans.

A number of respondents commented on our resourcing. A trade body noted that our staff costs are rising; some respondents representing businesses said they'd expect to see a shift toward a greater use of contractors, while others said they'd like more detail about our use of contractors as PPI winds down. There was support for reducing our London office space, and three trade bodies encouraged us to look to extend this.

A number of respondents encouraged us to focus on our people's knowledge and skills. Some respondents asked us to share insight more frequently, and to try different formats such as webinars. We were invited by a consumer group to partner with them to generate region-specific insights.

Our response

We welcome stakeholders' views on our 2020/21 forecasts and potential emerging issues. We've factored these into the plans and budget we're publishing in this document, although we're mindful of the potentially significant impact of Covid-19 on the nature and volume of complaints we see during the year. However, we'll use stakeholders' feedback to help inform our stakeholder engagement – and plan to share more of our insight, trying new channels and formats, over the coming year.

Though it's reassuring that respondents largely agree with our assessment of the volatility and uncertainty we're facing, we recognise their interest in seeing more information about our plans. Chapter two of this document gives more detail about how we'll focus our resources in the coming year although we'll need to stay flexible as the Covid-19 picture develops. We'll continue to use our regular engagement with stakeholders to discuss our respective operations.

In recognition of anticipated levels of demand for our help – and the fact some people are currently waiting too long for an answer from us – our plans include further recruitment and retention of case handlers in 2020/21, which has resulted in an increase in staff costs. This investment is aimed at significantly reducing waiting times by the end of the year, and as few PPI complaints as possible being carried over into 2021/22. As we said in our consultation, given the uncertainties we're facing, we're keeping an open mind about our future mix of employees to contractor staff – recognising the important role a flexible workforce can play in helping us scale quickly up and down in response to fluctuations in demand.

We'll talk to stakeholders individually about comments relating to their engagement with us and improving our ways of working.

Our budget for 2020/21: feedback

In the chapter of our consultation we set out our proposed budget and funding arrangements for 2020/21. We explained how we're moving forward with the proposals we set out in our consultation on our future funding in July 2019 – including our plan to transition toward a broadly 50:50 split between case fee and levy income, with a split of around 60:40 in 2020/21. We proposed changes to our case fee arrangements – including increasing our case fee to £650 and reducing firms' "free" case allowance – to help improve the sustainability of our funding, while still recognising the impact on businesses which generate very few cases for us. We also outlined the ways we'll continue to make effective use of our funding.

What people told us

11. What are your views on our proposed budget and funding arrangements for 2020/21?

Many stakeholders who responded to this plans and budget consultation also responded to the consultation on our funding we ran in July 2019. In general, responses echoed the views we heard then – though some stakeholders recognised that we'd listened to feedback and amended our position for 2020/21. On the proposal to rebalance our levy and case fee income, some respondents acknowledged the need for change but wanted more detail – for example about how we plan to transition to a 50:50 split, and about the likely impact on different types of firm. One large business advocated a 100% levy, to remove what it saw as firms' incentive to restrict access to our service. Consumer groups' responses reflected views they'd shared during wider engagement: that our proposals were the fairest way to deliver sustainability and support our insight sharing work.

Among respondents opposed to our proposals, a common concern was that they represented a move away from a 'polluter pays' approach. Typically, large firms felt they would be subsidising less diligent smaller firms (that is, those generating more complaints) and smaller firms felt they would be subsidising larger and less diligent firms. Trade bodies shared their own analyses of the impact on their members, and referred to the rising costs of regulation in general. One suggested we retain our current funding model, using special levies where necessary. Another told us that, prompted by our proposals, it was calling for reform of the FCA's fee blocks. Other respondents asked why the cost of our service was rising when we expected to become a smaller service.

Several respondents representing businesses expressed concerns about our proposal to charge £650 for cases referred before 1 April 2020 – generally because they felt it meant firms would bear the cost for delays at our service. Some trade bodies told us the current free case allowance should be maintained to protect firms against frivolous and vexatious complaints from CMCs. Other respondents suggested scenarios in which case fees shouldn't be charged, or that we charge more for complex complaints.

A trade body told us the changes were happening too early, and that PPI cases should be excluded even if they went ahead. Two group firms expressed concerns over previous PPI projections against actual volumes, and what this meant for their group account fee contributions in 2020/21.

Our response

Our future funding proposals

We're grateful for stakeholders' feedback on our proposals.

Over recent years, we've engaged extensively with our stakeholders about our future funding. This has included discussions in our public plans and budget consultations, as well as during our meetings with businesses, trade bodies and consumer organisations.

- Following funding-focused roundtables in summer 2018, and conversations at our industry steering group meetings, our 2019/20 consultation, published in December 2018, set out a range of potential features for future funding models.
- In July 2019, having carefully considered this feedback and the available options, we formally set out our proposals for our future funding model. This included rebalancing the proportion of income we get from our levy as opposed to case fees.
- In November 2019, we published a detailed feedback statement, signalling that we intended to take our proposals forward in our 2020/21 budget.
- In December 2019, we formally set out our proposals for our 2020/21 funding – including confirmation of our reasoning – as part of our wider plans and budget consultation.

Throughout these discussions, we've received broad support for the set of funding principles we've established. And at each stage, we've set out our thinking about the options we were considering, and how our thinking was evolving based on what stakeholders were telling us.

For example, in our feedback statement in March 2019, we reflected that many stakeholders had shown interest in a model that combined our existing levy and a new type of 'risk-based' levy – though had also noted the inherent difficulty in defining 'risk' in a way that wasn't already captured in our existing model. Having considered this feedback and the possible funding options, in our July 2019 consultation we explained that we didn't believe this levy could be implemented in a way that aligned with our funding principles.

In several respects, our position on our future funding plans remains the same as the one we set out in our **funding feedback statement** in November 2019. In summary:

- The diversity of firms we cover is reflected in the variety of positions they've taken toward our proposals. We need to take account of these often conflicting views. There's no one solution that's going to be perfect for everyone, but we can achieve a 'best fit' that allows us to do our job effectively.
- Stakeholders share our view that there's potential for significant volatility in demand for our service – including the impact of unpredictable mass-scale issues, firms' financial vulnerability, and uncertainty about how many complaints we'll ultimately receive in the months ahead. Taking a higher proportion of income from our levy will meet the objective of generating more certainty over our income, so we can manage and resource our service effectively, including covering those costs that aren't variable. We know certainty about our funding is also important to firms, and this was reflected in the responses we received. We'll still derive a significant proportion of our income from case fees, ensuring the cost of our service to firms responsible for high numbers of referrals will reflect this reality.

> "The diversity of firms we cover is reflected in the variety of positions they've taken toward our proposals. We need to take account of these often conflicting views."

- Our funding principles include the aim – often referred to by respondents as "polluter pays" – that our arrangement should be broadly proportionate (that is, costs for users should relate to the workload they generate for our service). However, this principle is just one among many we need to consider in the round when making decisions about our funding. We agree that case fees provide an important incentive to reduce complaints. However, we're still of the view that our proposals for the future strike an appropriate balance. They will mean that case fees still represent a significant proportion of our funding, while also ensuring our service is resilient to volatility and sustainable into the future. In addition, case fees aren't the only feature of our service that provides an incentive to reduce complaints. A number of other activities – including our publication of complaints data about named firms, our regular insight-sharing with the FCA and any regulatory action arising from this – also provide important incentives in their own right.

"Taking more income from our levy will help us continue to fund and invest in this proactive work, which stakeholders have told us they value."

- The wider work we do, including regular strategic and operational engagement and insight sharing, doesn't relate to 'chargeable' cases. These types of activities have value for all firms in helping to prevent complaints and all the associated costs, as well as helping to bring about fairer outcomes and contributing to wider confidence in the sectors we cover. Taking more income from our levy will help us continue to fund and invest in this proactive work, which stakeholders have told us they value.
- Given the economies of scale we've been able to realise, as well as the fact our approach in this area is now well-established, PPI complaints are typically less time and cost-intensive that many other areas of our work. Even at higher projections for future PPI complaints volumes, it will be necessary to make changes to our funding model in future to ensure we're able to manage potential volatility and complexity in our casework in a way that's financially sustainable.
- There's often no 'typical' firm within each sector. So our view has been that offering our own impact analysis alongside our proposals could actually be unhelpful, and possibly misleading. Each year, our plans and budget consultation will give more detailed projections for complaints volumes in the year ahead, which will help firms to better assess the financial impact on their own individual businesses. The FCA also continues to provide information about the distribution of costs across the different fee blocks, including a **fees calculator** that firms can use to estimate their regulatory costs.
- As our service becomes smaller, the additional funds we'll receive from changing the number of free cases will become increasingly more significant as a proportion of our income. There will still be a significant level of protection for firms that generate only a very small part of our workload. Even at ten per firm, in line with our original 2020/21 funding proposals, the free case threshold would be far higher than the three free cases that firms had before the level was increased at the height of PPI complaints.

In the past few years' plans and budget consultations, we've set out our intention to hold our case fee steady – but explained that this wouldn't be sustainable indefinitely. This is the first increase since the 2013/14 financial year, when it rose from £500 to £550. And our proposal to charge the higher fee for complaints resolved in the new year – rather than just those received in the new year – is consistent with our previous approach.

While we acknowledge some firms' view on this, having considered whether this approach remains the right one in today's context, we think it's still appropriate. Although we recognise there will be exceptions, it's generally the case that most of our work on any given complaint will be carried out during the financial year in which it's resolved. Throughout 2019/20, we've worked hard to progress and resolve complaints as quickly as we can, helping to minimise the number of cases outstanding at the end of the financial year. And consistent with other funding principles, the approach we've proposed minimises complexity, avoiding the administrative burden that might otherwise arise in transitioning from one case fee level to another.

As we've set out in chapter two of this document, we've taken significant steps to adjust elements of our funding arrangements in light of the Covid-19 crisis – helping to mitigate the cost pressures on all firms we cover, but on smaller firms in particular. These targeted adjustments include keeping the "free" case allowance for non-group account businesses, – which we had proposed to reduce to 10 – at 25 for a further year. We made this decision in recognition of the impact of Covid-19 on firms' circumstances – but, in line with the reasons we set out in our funding feedback statement and 2020/21 plans, we expect to reduce the threshold in future.

Our costs and complaint volumes

As a demand-led service, we need to deliver our plans for any given year while not knowing exactly what we'll see. So in setting our plans and budgets, we very carefully consider the extent to which we should invest in capacity. On the one hand, if we invest to reflect the upper limit of our case volume expectations, we risk wasting resources if fewer people need to use our service. On the other, if we resource our service to meet our lower case volume expectations but more people come to us for help, they will have to wait longer for our answers, creating a poorer experience. And adding or reducing capacity can't be done instantly: it takes time to have an effect.

Our higher anticipated costs for 2020/21 reflect the way incoming case volumes don't show the full picture of the work we plan to do during the year. Although we expect to receive fewer complaints than we did in 2019/20 – with the impact of Covid-19 as yet unclear – we've budgeted to resolve 15,000 more. We'd planned for the coming year to be one of transition: when we'd be simultaneously maintaining our PPI operation to manage a late spike in PPI complaints, while also making the necessary preparations to implement our plans for getting our service to the right shape and size for a post-PPI landscape. Although Covid-19 presents significant uncertainties and challenges, we remain committed to making this transition as soon as possible.

In addition, as we've explained – and stakeholders have echoed – we're seeing a broad trend toward complexity in cases that reach us, and consequently a greater concentration of complaints that are more resource-intensive to resolve. This complexity can be a factor of the particular products or issues involved in complaints, or of customers' individual circumstances, such as vulnerability. Complaints in our general casework are also more diverse than those in our areas of mass claims such as PPI, meaning that the scope for the economies of scale we've benefited from will be significantly lower in future. Both these things mean that the reduction we expect in our cost base won't be exactly proportional with the reduction we expect in overall case volumes once PPI is over.

However, the strategic decisions we've made over recent years will ensure we're able to realise significant savings. For example, we'll be able to make use of the flexibility we've secured in our leases to release office space, supported by our focus on smarter working. Our use of a contractor workforce will allow us to achieve reductions in headcount, and so people costs, more quickly. And having already taken steps to streamline our support functions over recent years, we're committed to ensuring these are the right shape and size to meet future challenges.

At the moment, and as stakeholders have also recognised in their feedback, there's still significant uncertainty around the scale and timings of our future PPI caseload. And in turn, the timings of the transition we need to make will depend on the scale of our wider caseload over the next year – including the volume and nature of complaints arising from Covid-19. Importantly, we're dependent on the actions of the businesses we cover; if widescale, systemic issues result in consumer detriment at scale, then we'll need to resource our service to deal with them. Our ability to reduce in size may also be affected by regulatory interventions and wider developments in the landscape we operate in, including the current pandemic.

These factors make planning particularly difficult – and we don't yet know when we'll be able to take all the steps we've planned, and which will result in lower costs to the businesses we cover. However, as we've set out in the first chapter of these plans, our 2020/21 priorities include maintaining our focus on efficiency, to ensure we're providing the best possible value for money in the meantime. We'll keep in touch with our stakeholders as our plans develop.

Our future strategy: feedback

In this chapter we explained the progress we've made in understanding the key challenges and opportunities we expect to face as we look ahead to 2025 and beyond – spanning the types of complaints we might see, the services we offer, our wider role in the sectors we cover, and trends in our workforce. We set out the proposed key pillars of our future strategy and asked for feedback about our direction of travel.

What people told us

12. Is there anything else you think we need to take into account as we develop our future strategy?

13. Do you agree with our proposed strategic priorities?

Responses reflected strong and widespread support for our strategic priorities, as well as agreement with the challenges we've identified.

Some respondents, representing both businesses and consumers, drew parallels with their own research and analyses.

A trade body and an insurer felt that complaints prevention fell primarily within firms' remit, and a bank said our focus should be on enhancing our core service. Some respondents representing businesses encouraged us to ensure we'd considered the needs and priorities of firms as well as consumers, and asked for more detail about how we'd engaged with firms as part of building our evidence base.

> "Responses reflected strong and widespread support for our strategic priorities, as well as agreement with the challenges we've identified."

Many stakeholders welcomed our complaints prevention focus, with some suggesting formats for delivering this. Consumer organisations were particularly supportive of this element of our strategy. One of these suggested enhancing our service can include promoting consumer awareness, while another emphasised the importance of working with consumer groups, as well as the importance of maintaining the case fee.

Many business respondents were also keen to engage with us in taking a proactive approach to preventing complaints.

A building society said we should consider how unexpected spikes in complaints could affect our ability to deliver our strategy, as well as pointing to the importance of reviewing past and future strategies to gauge our progress. A consumer group said we should set ambitious targets to reduce waiting times, prioritising where necessary and keeping consumers better informed. Building on the future complaints themes we shared in our consultation, a trade body also cited wider volatility in the economy, and another pointed to vulnerability and open banking. A consumer body underlined the importance of our relationship with the Information Commissioner's Office, in anticipation of complaints stemming from data concerns.

"Many business respondents were also keen to engage with us in taking a proactive approach to preventing complaints."

As explained on **page 15**, both our service and our stakeholders are necessarily focused on managing the impact of Covid-19, including doing all we can to support customers who've been affected. So for the time being, we're postponing publishing more details about our future strategy. We'll keep in touch with stakeholders about likely timings as these become clear.

Our response

We'll use the perspectives and feedback stakeholders have shared to inform our future strategy and underlying plans. We're encouraged by the strong support we've received for our three strategic priorities, and look forward to further engagement with stakeholders as our strategy takes shape over the course of the year.

Respondents to our consultation

Association of British Insurers
Association of Financial Mutuals
Association of Mortgage Intermediaries
Barclays
British Insurance Brokers' Association
Building Societies Association
Capital One
Consumer Council of Northern Ireland
Consumer Finance Association
Co-operative Bank
Credit Services Association
Direct Line Group
Finance and Leasing Association
Financial Services Consumer Panel
HSBC
Kensington Mortgage Company
Lloyds Banking Group
Lloyds Market Association
LV=
Nationwide
Personal Investment Management and Financial Advice Association (PIMFA)
Premium Credit
QuidMarket
Santander
Tynebank Claims
UK Finance
Which?

Financial Ombudsman Service

Financial Ombudsman Service
Exchange Tower
E14 9SR
stakeholder.enquiries@financial-ombudsman.org.uk

Financial Ombudsman Service for small businesses

Claims Management Ombudsman
a Financial Ombudsman service