Financial Ombudsman Service

Financial Ombudsman Service for small businesses

Claims Management Ombudsman a Financial Ombudsman service

Our 2021/22 plans and budget

Consultation

December 2020

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. Since 1 April 2019, our remit has included more complaints made by small and medium-sized enterprises (SMEs) about financial businesses, and complaints made by customers of claims management companies (CMCs). The highest amount we can tell a business to pay is updated each year. In 2020/21 it's £355,000, although different limits may apply depending on when the problem happened. Our website explains the types of compensation we can award and the limits that apply.

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 forward. 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.

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.

About this consultation

In this chapter, we highlight the challenges and trends we've been managing in 2020/21, including how Covid-19 has impacted our work and our progress against our plans. We explain how the pandemic has heightened the complexity we've been seeing in complaints – including generating greater potential for vulnerability. Against this backdrop, we set out the demand we expect in 2021/22, and the ongoing uncertainty we'll need to continue to manage.

We then outline our plans for resourcing our service flexibly, and developing our ways of working to ensure we continue to meet our commitments to the consumers and businesses that rely on us. We also give an update on the work we're doing to support our new strategic priorities from 1 April 2021.

In this chapter we discuss our consultation budget and proposed funding arrangements for 2021/22 – against the background of the measures we took in April 2020 to mitigate our impact on the firms we cover, and smaller firms in particular.

We explain our current thinking on the funding arrangements that will ensure we can deliver the service people need from us – putting ourselves on a sustainable footing, and promoting certainty and stability for the firms that fund us at a time of ongoing uncertainty about future demand. Recognising the significant pressure that firms that contribute to our funding continue to experience, we detail a range of potential scenarios and invite stakeholders' views on the best way forward.

We then highlight the steps we're taking to ensure we're running our service as efficiently as possible, providing value for money and investing for the future.

Our 2021/22 plans and budget: overview

Our plans

We expect to
receive

160,000
complaints

140,000
in our general casework, including
800 about CMCs and
1,300 from SMEs

20,000 about PPI

We expect to
resolve

210,000
complaints

180,000
in our general casework, including
1,100 about CMCs and
1,300 from SMEs

30,000 about PPI

We'll respond to increasing complexity and vulnerability, including complaints arising from Covid-19

We'll work together with businesses, the regulator and other stakeholders to prevent complaints and unfairness arising

We'll deliver the first year of our new strategic priorities

We'll continue to improve our efficiency

Our budget

We're putting forward a range of potential scenarios for our funding arrangements

Our expected cost base will be
£252.2m

Our compulsory jurisdiction levy will be between
£84m and £106m
subject to feedback

Our voluntary jurisdiction levy will raise
£1.1m

Our individual case fee will be between
£650 and £750
subject to feedback

Businesses outside our group-account fee arrangement will get
25
free cases

Business groups that are members of our group-account fee arrangement will get
50
free cases

What we're asking and how to respond

What we're asking

1. What's your view on our forecasts for future complaint volumes for:
   a) Our general casework?
   b) PPI?

2. What's your perspective on complaint volumes and issues arising from Covid-19, including potential complaints about business lending?

3. Do you have any insight into potential areas of complaint in our SME casework in particular?

4. Do you have any insight into potential areas of complaint in our CMC casework in particular?

5. Are there any other issues or trends you think we should take into account as we plan for 2021/22?

6. What are your views on our plans to resource and develop our service?

7. Do you have any feedback about our emerging plans under our strategy?

8. Are there areas where you'd like to work with us toward our ambition to prevent complaints and unfairness?

9. Do you have any other comments on our draft plans for 2021/22?

10. What are your views on the illustrative funding scenarios we set out? For example, how far do you support our base case, other scenarios or features of them? How far do you agree that price stability is important in future years, and that we should look to reduce the likelihood of in-year requests for funding?

11. For voluntary jurisdiction participants, particularly those that are joining the FCA's Temporary Permissions Regime (TPR): what are your views on our proposal to raise funds through the voluntary jurisdiction levy and to leave the tariff rate for each industry block unchanged?

12. Do you have any suggestions about further improving our efficiency, including suggestions for how you could work with us to do this?

13. Do you have any other views on our proposed 2021/22 budget?

How to respond

This consultation is open until 31 January 2021.

The easiest way to respond is online at https://ombudsman2021-22.questionpro.eu, where you'll be able to answer all the questions we've asked.

Alternatively, you can email your response to consultations@financial-ombudsman.org.uk. Please also use this address to contact us if you have any questions about the consultation or responding to it.

We'll publish a list of respondents and an anonymised summary of responses as part of our consultation process. If you think there's a reason your name shouldn't be published, please let us know – we won't automatically take a standard email disclaimer as an indication that your name shouldn't be included. Our legal responsibilities around freedom of information mean we can't guarantee responses can be kept confidential.

The next steps

Consultation opens	16 December 2020
Deadline for responses	31 January 2021
Final plans and budget published	by 31 March 2021

Chief ombudsman & chief executive's introduction

How long ago it feels since last December, when we consulted on our 2020/21 plans and budget.

Back then, our attention was firmly on bringing payment protection insurance (PPI) complaints to a conclusion – and on reducing waiting times for our answers, as we managed growing complexity across other areas of our casework.

We also shared our early thinking around our strategic priorities for the future – a future that neither we nor our stakeholders anticipated would be so fundamentally shaped by something we'd never experienced before.

Although our service has needed to respond to a number of mass-scale complaint issues in the two decades we've been active, the Covid-19 pandemic impacts everyday life in a way and extent to which no other issue comes close.

Context: a year like no other

It goes without saying that we're setting out our plans for the year ahead against an extremely challenging backdrop.

Inevitably, the effect of Covid-19 on our own operations, and those of the businesses we cover, has been a divergence from the volume and mix of complaints we originally thought we'd receive and resolve in the current year.

At this stage, our latest forecasts suggest we'll see fewer than half as many complaints about PPI as we budgeted for following our consultation with stakeholders last December. At the same time, in the first half of 2020/21, we received nearly 40% more complaints than we'd expected in our general casework – including those linked to the pressures and disruption the pandemic is creating for lives and livelihoods in the UK. As I write, new complaints continue to reach us in far higher volumes than we'd budgeted for.

Since the end of March our service has been an almost completely remote operation. I'm proud of the way our people have pulled out all the stops to continue to deliver for the parties relying on us – all the while juggling new and changing personal circumstances and responsibilities.

In the first half of 2020/21, despite the disruption we've faced, we've resolved around 93% of the number of cases we'd hoped to in our general casework. On the other hand, the need to respond to Covid-19 means we haven't made the headway in reducing waiting times that we'd anticipated before we knew the extent of its impact.

This means we'll begin 2021/22 with more people waiting for our answer, at a time when, exacerbated by the pandemic, a growing proportion of cases involve complexities and parties in potentially vulnerable circumstances – with the potential for an increase in the time and cost of resolving disputes. As this consultation highlights, we're seeing persistently high numbers of complaints about the affordability of borrowing, as well as hearing from people experiencing financial difficulties unhappy with how businesses have treated them. In this context, we think it's right to continue to prioritise cases involving people in the most urgent situations – though we recognise that, unavoidably, others will need to wait longer for a resolution.

The year ahead: a complex picture

In view of the developments we expect in our landscape, including ongoing uncertainty around the impact of Covid-19, we've considered a number of possible scenarios for complaint volumes in 2021/22 – ranging from 150,000 up to 200,000 new cases. For the purposes of this consultation, we're projecting that we could receive 160,000 complaints, of which just 20,000 will be about PPI – and that we'll aim to resolve 210,000 complaints, of which 30,000 will be about PPI. There are no easy answers to the challenge of dealing with a high and an increasingly complex caseload. But it's clear that prioritisation is only part of the picture. A further key part is avoiding the need for complaints to reach us at all.

> "In the first half of 2020/21, we received nearly 40% more complaints than we'd expected in our general casework – including those linked to the pressures and disruption the pandemic is creating for lives and livelihoods in the UK."

It's always been the case that the volume and nature of our casework is heavily influenced by the extent to which the businesses we cover both use our insight and experience to prevent complaints arising, and work efficiently and pragmatically with us to resolve disputes that reach us – something that also goes for the claims management companies who still refer substantial volumes of cases to our service. Regulatory action has also historically been a factor in determining the scale and shape of our work – including decisions around whether a complaints-led approach to redress is the right one in any given situation.

"But we can't on our own ensure that demand for our help won't be higher than our forecasts, or that consumers won't suffer unavoidable detriment. This depends heavily on an effective response from everyone who can influence that outcome."

This year, however, as the effects of the pandemic continue to play out, these factors will be even more vital. We will play our part – and we're committed to continuing to engage and share our insight with stakeholders to help prevent complaints and unfairness arising, in line with our strategic priority.

But we can't on our own ensure that demand for our help won't be higher than our forecasts, or that consumers won't suffer unavoidable detriment. This depends heavily on an effective response from everyone who can influence that outcome – businesses, claims management companies, and regulatory bodies – and on the way we all work together. The volume of complaints we ultimately see will have a bearing on our timeliness: if firms' complaints handling results in more referrals to us than the assumptions underpinning our budget, this will limit the progress we're able to make in bringing down waiting times.

Our funding: generating certainty, providing value

As well as shaping the complaints we've seen, and are likely to see, the pandemic has also had a bearing on how we fund our work.

Over the last few years, we've carried out a significant amount of engagement around our future funding. And in 2019 we consulted on and confirmed changes to our model that would ensure we'd be funded sustainably once our PPI casework had concluded – and with it, the potential for significant economies of scale.

Our proposals involved generating a higher proportion of our income from our levy, rather than our case fees – reflecting the greater certainty this brings to firms who contribute to our funding, as well as the need to fairly fund our complaints prevention work that has a wider benefit to the sectors we cover. We proposed to reduce the number of free cases for which firms don't pay a fee, and to promote stability by aiming for a higher level of reserves than our previous policy. At the same time, we explained we'd be a smaller organisation in the future, and our overall costs to our sector would fall – helping to ease the cost of regulation on the firms that fund us.

As we were finalising our budget for 2020/21, however, it became clear that the emerging Covid-19 pandemic would have a fundamental impact not only on daily life, but on the economic outlook – including the commercial pressures faced by businesses we cover.

In light of this, we made adjustments to the arrangements we'd originally proposed – delaying an increase in our levy, and instead using more of our reserves – and taking a number of other steps to mitigate our costs to the firms that contribute to our funding, and small firms in particular.

This was the right and fair thing to do. And eight months on, the picture remains extremely challenging for firms. Equally, the rationale for changing our funding arrangements still applies. In fact, the uncertainty that Covid-19 will continue to generate makes certainty and stability increasingly important for firms and for our service.

For this reason, this consultation sets out a base case for our 2021/22 funding arrangements that increases our levy and continues the shift toward rebalancing the proportion of income we generate this way. Recognising the ongoing pressures on firms, we also set out some other scenarios – including postponing increases to our levy and case fee.

Whichever arrangements we take forward, we're proposing both to freeze the minimum levy and to maintain the free case allowance. So while the case fee remains an important element of our funding – reflecting the broad principle that firms' contribution to our costs should be linked to the work they generate for our service – nine in ten firms whose customers complain to us won't pay any case fees at all.

We also set out how, at the same time as investing to meet current and future challenges, we're focused on bringing down our wider costs – underlining our commitment to run our service efficiently, resource it in a flexible and strategic way, and provide value for money.

> "…while the case fee remains an important element of our funding – reflecting the broad principle that firms' contribution to our costs should be linked to the work they generate for our service – nine in ten firms whose customers complain to us won't pay any case fees at all."

What's next: your perspective

In these incredibly difficult times, it's essential our plans are as informed as possible – so we're equipped to play our part in helping consumers and businesses navigate the questions of fairness ahead, recognising the uncertainties involved and flexibility this will require of us.

We've already begun conversations with the FCA, businesses and consumer organisations about our plans. These conversations, and the responses to this consultation, will help us further refine our forecasts and approach before we publish our final plans and budget in March 2021.

> "In these incredibly difficult times, it's essential our plans are as informed as possible – so we're equipped to play our part in helping consumers and businesses navigate the questions of fairness ahead."

While Covid-19 has shifted our immediate focus, we'll also be working toward the longer-term strategic ambitions we published in June 2020 – enhancing our service, preventing complaints and detriment arising, and building an organisation with the capabilities it needs for the future. The importance of an ambitious, effective and proactive ombudsman service has been underscored by the unprecedented circumstances we're living through.

I'm looking forward to hearing your views – and to working together to put fairness at the heart of our sector's response to the challenges ahead.

Caroline Wayman
Chief ombudsman & chief executive
16 December 2020

1 Our plans for 2021/22

In this chapter, we highlight the challenges and trends we've been managing in 2020/21, including how Covid-19 has impacted our work and our progress against our plans. We explain how the pandemic has heightened the complexity we've been seeing in complaints – including generating greater potential for vulnerability. Against this backdrop, we set out the demand we expect in 2021/22, and the ongoing uncertainty we'll need to continue to manage.

We then outline our plans for resourcing our service flexibly, and developing our ways of working to ensure we continue to meet our commitments to the consumers and businesses that rely on us. We also give an update on the work we're doing to support our new strategic priorities from 1 April 2021.

New complaints

Financial product or service	2019/20 actual	2020/21 budget	2020/21 latest forecast	2021/22 consultation budget	2020/21 latest forecast comparison with 2020/21 budget	2021/22 consultation budget comparison with 2020/21 latest forecast
PPI	**122,153**	**100,000**	**50,000**	**20,000**	**(50%)**	**(60%)**
General casework *including*	**148,185**	**145,000**	**180,000**	**140,000**	**24%**	**(22%)**
Banking (including packaged bank accounts and short-term lending)	103,070	97,800	123,100	93,300	26%	(24%)
Insurance (excluding PPI)	32,637	33,400	40,800	33,400	22%	(18%)
Investments and pensions	10,920	12,500	15,100	12,500	21%	(17%)
Complaints from SMEs [2 3]	*648*	*1,300*	*1,300*	*1,300*	*0%*	0%
Complaints about CMCs [3]	1,558	1,300	1,000	800	(23%)	(20%)
Other [1]	**2,688**	**-**	**-**	**-**	**-**	**-**
Total	**273,026**	**245,000**	**230,000**	**160,000**	**(6%)**	**(30%)**

1 "Other" includes complaints that hadn't been categorised at 31 March 2020.

2 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.

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

Resolved complaints

Financial product or service	2019/20 actual	2020/21 budget	2020/21 latest forecast	2021/22 consultation budget	2020/21 latest forecast comparison with 2020/21 budget	2021/22 consultation budget comparison with 2020/21 latest forecast
PPI	**123,380**	**140,000**	**90,000**	**30,000**	**(36%)**	**(67%)**
General casework *including*	**172,311**	**165,000**	**155,000**	**180,000**	**(6%)**	**16%**
Banking (including packaged bank accounts and short-term lending)	124,783	112,400	106,800	119,900	(5%)	12%
Insurance (excluding PPI)	35,165	37,250	34,800	41,100	(7%)	18%
Investments and pensions	11,247	13,900	12,700	17,900	(9%)	41%
Complaints from SMEs [2 3]	*444*	*1,300*	*700*	*1,300*	*(46%)*	86%
Complaints about CMCs [3]	1,116	1,450	700	1,100	(52%)	57%
Other [1]	**1,021**	**-**	**-**	**-**	**-**	**-**
Total	**296,712**	**305,000**	**245,000**	**210,000**	**(20%)**	**(14%)**

1 "Other" includes complaints that hadn't been categorised at 31 March 2020.

2 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.

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

Our 2021/22 plans: context and overview

In March 2020 Covid-19 began to have a significant impact on life in the UK, as government measures to limit the spread of the virus restricted people's movement and the ability of some businesses to operate. In our own sector, financial businesses needed to divert significant resource into supporting customers impacted by the pandemic, while also dealing with the impact of Covid-19 on their own operations.

At that time, our planning for the financial year 2020/21 was already highly developed. When we published our plans and budget in early April, we explained that – while we recognised we'd need to take stock and adapt our plans during the year – our aspiration was to deliver on the commitments we'd set out.

These included:

- Bringing down the time people wait for our answer.
- Responding to the consequences of Covid-19 by helping businesses and their customers to resolve and prevent complaints.
- In PPI, as the picture became clearer about the scale of our casework, playing our part in bringing these complaints closer to a conclusion.
- Continuing to shape our future strategy.

To help mitigate the Covid-related financial pressures on the firms we cover, we made a number of adjustments to our budget and funding arrangements (see page 28). We explained at the time that, while this was the right thing to do, we'd need to consider the impact this would have on future years' funding. There's more about this in the next chapter.

Events so far in 2020/21 have highlighted the need for our service to remain able to handle uncertainty in the nature and volume of complaints we receive – and have supported our expectation that we'd need to adapt our initial plans as the impact of the Covid-19 pandemic became clearer.

As the table on page 11 shows, our latest forecasts suggest that we'll see only half as many complaints about payment protection insurance (PPI) as we forecast following last year's consultation process.

However, as the repercussions of Covid-19 have continued to affect people and businesses across the UK we've seen a steep rise in complaints that aren't about PPI; in the first half of 2020/21, we received nearly 40% more of these cases than we'd forecast at the start of the year. We outline below some of the issues we've been seeing in these complaints – including the difficulties faced by consumers who've experienced significant changes to their income, and by businesses that have been unable to operate normally due to pandemic-related restrictions. In light of this trend, we've revised our forecast for non-PPI cases to 180,000 for the whole of 2020/21, against 145,000 in our original plans and budget.

At the same time as having an impact on the complaints we're seeing, Covid-19 has had a bearing on our own service. As we set out in detail in our latest annual report and accounts, following the introduction of national restrictions to slow the spread of the virus we were delivering our service almost completely remotely within just a few days.

As was the case for many other organisations, this rapid transition presented significant logistical and operational challenges. In late 2019, we'd begun the phased rollout of our smarter working strategy – including providing our people with the range of technology needed to work remotely. When Covid-19 escalated, we needed to accelerate this process. Aside from IT considerations, we've also been supporting our people to establish feasible working patterns and environments, as they've navigated new and changing responsibilities including home-schooling and caring.

At the same time, many of the businesses we cover have themselves been stretched operationally, as high volumes of customer contact coincided with their own practical challenges in adapting their operations within the restrictions made necessary by the pandemic. In the first half of 2020/21 we saw a substantial increase in complaints where firms hadn't issued a final response within the official complaints-handling timescales – indicating they'd experienced challenges in responding to customers' concerns in time. Many firms were also slower to engage with us to progress cases that had been referred to us already. The FCA has signalled to firms that they should now be meeting their obligations under the dispute resolution rules.

In the first half of 2020/21, we've resolved around 93% of the complaints we'd expected to in our general casework. Inevitably, the need to respond to the uptick in complaints caused by Covid-19 means that we haven't made the headway we'd anticipated in reducing waiting times. We'll begin 2021/22 with more people waiting for our answer, at a time when we expect to see a growing proportion of complaints involving financial difficulties and other complexities in the circumstances of the parties involved. There are no easy answers to this. We're committed to doing all we can to prioritise cases where our help is needed most urgently, and to realise efficiencies in our case handling – while recognising that people whose situations aren't as urgent may need to wait longer for our answer.

How quickly we're resolving complaints

Time	2020/21 (as at 30/11/20)	2019/20	2018/19	2017/18
Resolved in 3 months (all)	40%	56%	60%	50%
Resolved in 6 months (all)	69%	74%	80%	65%
Resolved in 9 months (all)	82%	84%	87%	70%
Resolved in 12 months (all)	89%	90%	90%	74%

While we're currently seeing higher volumes of complaints, our conversations with larger financial businesses suggest that they've seen a reduction in their own complaint volumes. Some of the initial increases we've seen relate to the effects of the first lockdown period – such as widespread travel disruption and operational issues at firms – which aren't likely to happen again.

However, there are a broad range of forecasts in play, and many headwinds and tailwinds that could influence the volume and mix of complaints we ultimately see. And the likelihood that we'll see case volumes in line with the central forecast we're consulting on – rather than significantly higher – depends more than ever on a concerted effort on the part of everyone with an influence on complaints. The volume of complaints we ultimately see will have a bearing on our timeliness: if firms' complaints handling results in more referrals to us than the assumptions underpinning our budget, this will limit the progress we're able to make in bringing down waiting times.

While we've always shared our insight and experience to help firms anticipate unfairness and prevent complaints, the scale of the Covid-19 challenge makes it vital they effectively apply this insight to prevent consumer detriment, and work efficiently and pragmatically with us to resolve disputes that reach us. Similarly, regulatory action – and how this evolves as the pandemic continues to develop – will be a key factor in determining the scale and shape of our work.

In the following section, we set out some of the primary issues and challenges we think we'll need to respond to in the year ahead. As every year, to help inform our planning, we welcome stakeholders' perspectives on these and our emerging plans for addressing them, as well as any other issues that might have a bearing on our work.

Developments in our casework

On pages 11 and 12 we share the volumes of cases we expect to receive and resolve across the different areas of our work – both for the current financial year, 2020/21, and for 2021/22. In view of ongoing uncertainties in our landscape, we considered a range of scenarios for 2021/22 – ranging from 150,000 to 200,000 new complaints. For the purposes of this consultation, we're assuming that we'll receive 160,000 new complaints.

The following section sets out the key issues and challenges we expect to see in our casework as we look ahead – with a particular focus on the impact of Covid-19, which is unprecedented in its nature and in the way it cuts across all areas of our work. We'd welcome stakeholders' perspectives on the potential themes and trends we highlight, as well as any additional insights into current and emerging causes of complaints.

Our general casework: a complex and uncertain picture

As 2020/21 has progressed, we've continued to publish updates about the number and nature of the complaints being referred to us. A key trend of the year has been the continued decline of PPI complaints. This mass claim, which has been a major influence on our service for well over a decade, no longer dominates our work – while at the same time, we're seeing a growing proportion of complaints in our wider casework involving complex circumstances.

What's driving complexity in our casework?

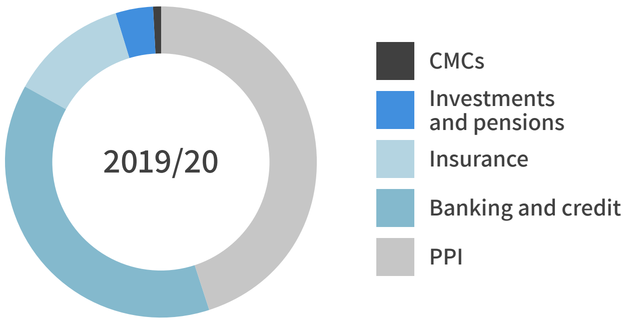
The factors that contribute to complexity in our casework include:

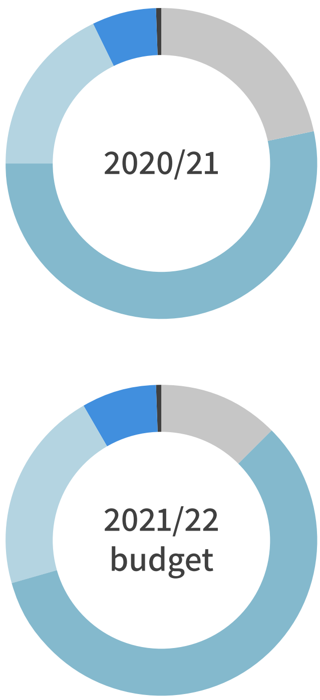
- The potential vulnerability and complex additional needs of consumers who bring complaints to us.
- Financial pressures on both consumers and firms responding to complaints, meaning disputes are increasingly hard-fought, with little room for compromise.
- Complaints involving hard-fought issues such as fraud and scams. The reported increase in scams during, and related to, the pandemic underlines the importance of banks' engagement with their commitments under the "contingent reimbursement model" code. We've highlighted that we're seeing too many complaints where consumers have been wrongly refused refunds.
- Complaints about SIPPs (self-invested personal pensions) and the suitability of pension transfer advice – including relating to the British Steel pension scheme – which can involve significant sums of money that people's retirement plans depend on, and as such tend to be entrenched.
- An increase in the proportion of complaints against smaller financial businesses, which tend to be harder-fought than complaints against larger businesses.
- The impact of the activity of CMCs and legal representatives on the volume of complaints referred to us.
- Increasing numbers of cases focusing on consumer credit and consumer rights law and regulation; and developments in relevant areas of the law that have a bearing on our approach to resolving complaints.

5 business groups accounted for:

- **72%** of complaints in 2013/14
- **42%** of complaints in 2019/20
- **32%** of complaints in Q1 and Q2 2020/21

Changes in our case mix

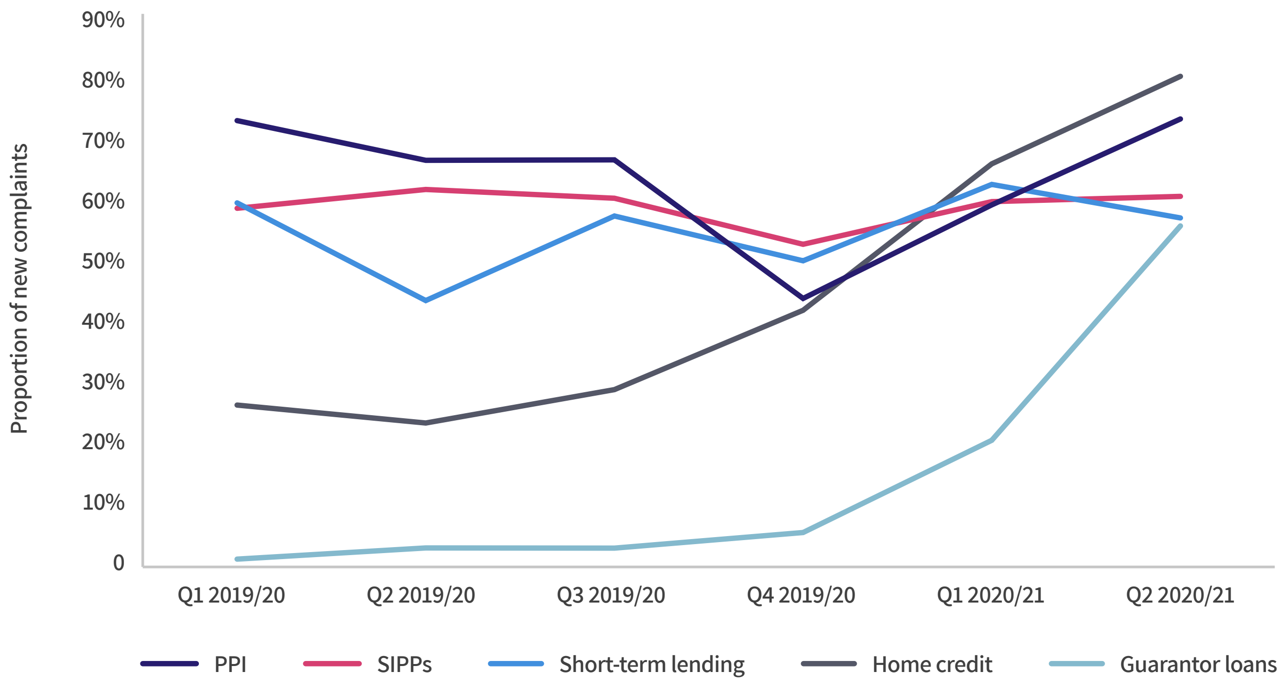




Complaints from SMEs (additional to our micro-enterprise casework) are included within the general casework figures for banking and credit, insurance, and investments and pensions.

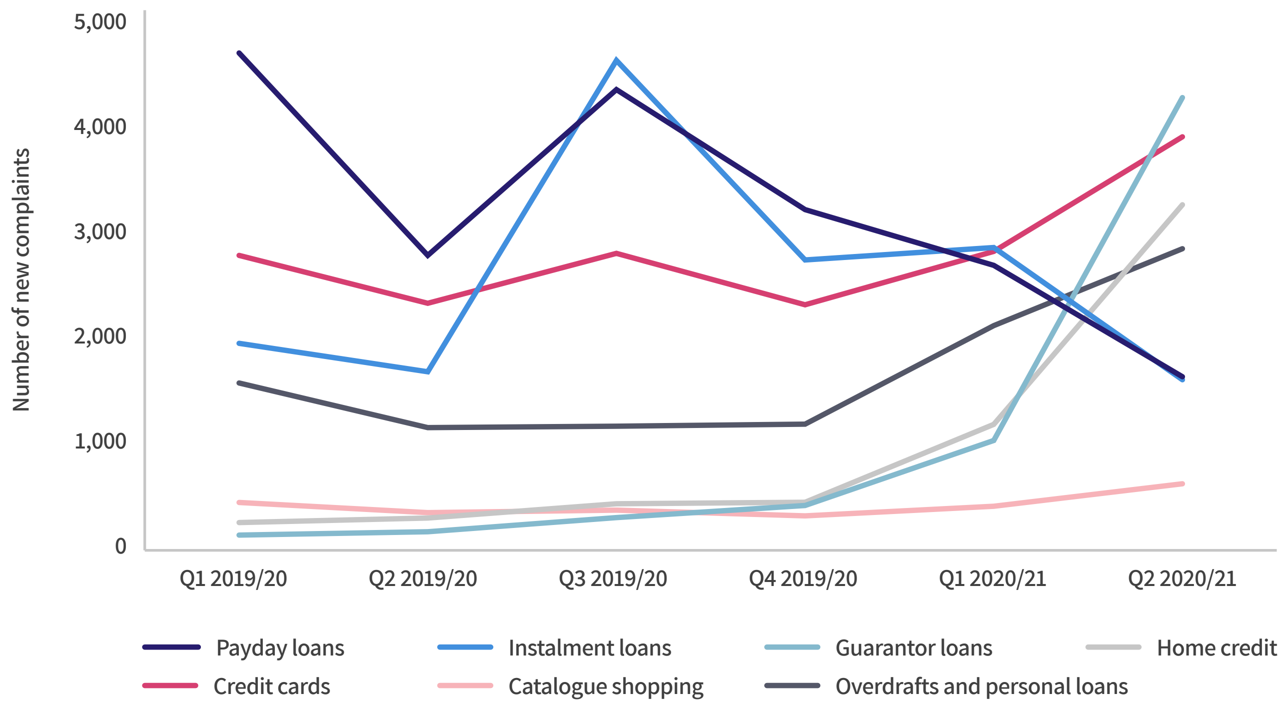
The growth we're seeing in complaints from people who've borrowed money continues a trend of recent years – which has also seen a number of lenders fall into financial difficulties themselves. As we explained when we published our complaints data for Q2 2020/21, increases have been particularly pronounced in some individual products, including high-cost credit, but are apparent across the range of credit products we cover.

Complaints brought to us via CMCs

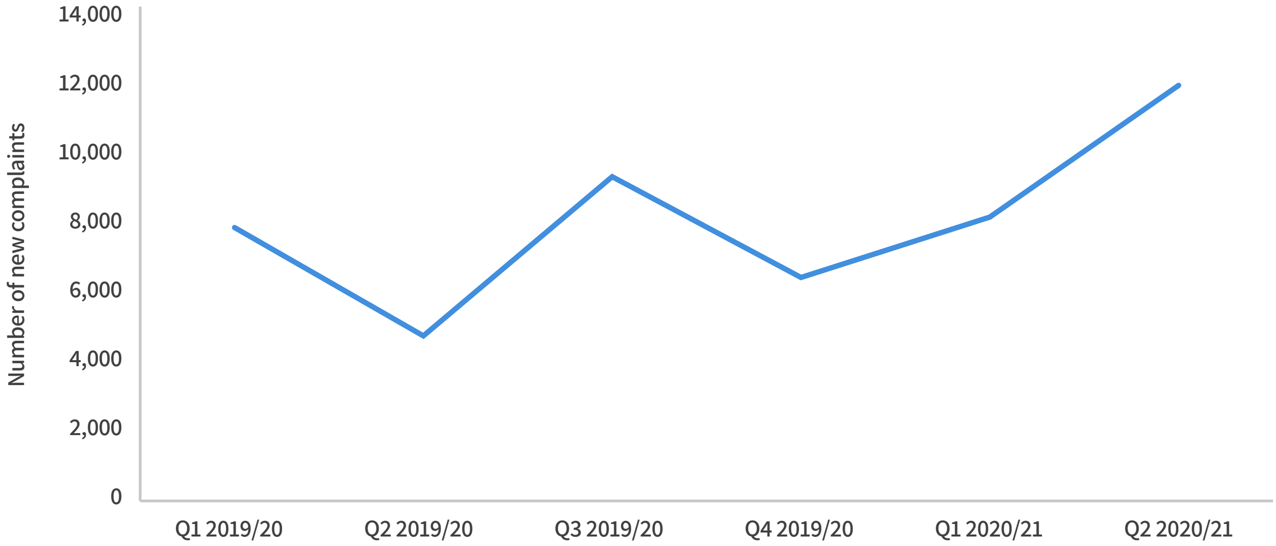


While customer concerns about the affordability of borrowing may relate to lending decisions that happened before Covid-19, the pandemic appears to have driven new complaints involving the treatment of customers in financial hardship. With government support extended into the new year, it's clear that millions of individuals, families and businesses will need to continue to navigate very different financial realities to those they've experienced before: FCA research suggests 31% of UK adults have seen their household income fall. Lockdown restrictions have highlighted the variation and potential inequalities that exist in people's access to financial services, including the dependence of some consumers on cash.

Complaints about credit since 2019/20



Complaints categorised as involving financial difficulties or unaffordable lending



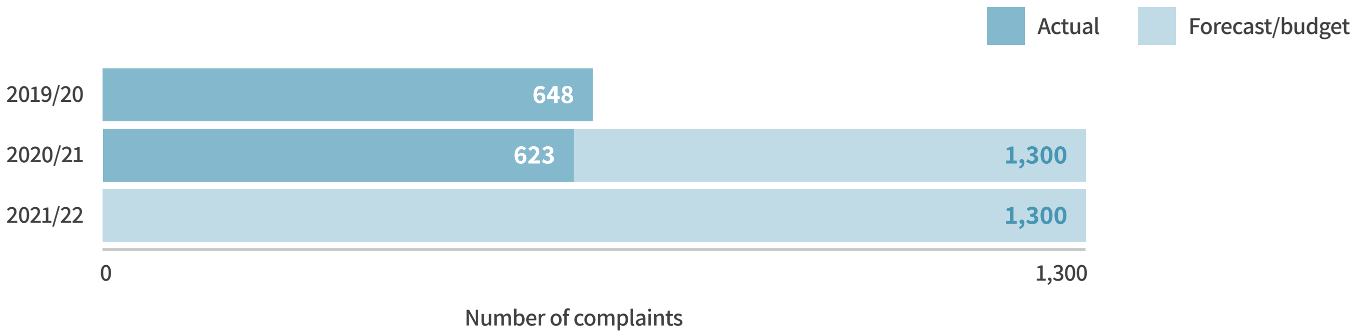
As we've highlighted on our website, Covid-19 has also generated an increase in complaints in a number of other areas – including travel insurance and event insurance, and claims under Section 75 of the *Consumer Credit Act* relating to refunds for cancelled trips and activities. Many of these complaints relate directly to the first lockdown period, which might indicate we'll see these complaints return to more normal levels – although the trajectory of the pandemic, and the extent of future restrictions, creates considerable uncertainty.

The FCA has continued to update its guidance for financial businesses as to how they should be supporting their customers, as well as updating consumers on the help available and what they can expect from financial businesses. During the 2008/09 financial crisis, we saw an increase in complaints about financial difficulty. Given the unprecedented nature of the Covid-19 crisis, it's extremely challenging to predict the impact on complaint volumes, as stakeholders have highlighted in early conversations around our plans and budget – so we'd welcome stakeholders' insights into this as part of their response to our consultation.

Complaints from SMEs

Before 1 April 2019, we were able to look at complaints brought by micro-enterprises – businesses with a turnover or annual balance sheet of less than €2 million and fewer than 10 employees. From 1 April 2019, we've been able to help businesses with an annual turnover of less than £6.5 million, and either a balance sheet total of less than £5 million, or fewer than 50 employees. We're also now able to look into complaints by charities with an annual income of less than £6.5m, and trusts with a net asset value of less than £5m; and individuals who act as personal guarantors for loans to businesses they're involved in. For this new jurisdiction, we're able to look into complaints about events occurring on or after 1 April 2019, but not before this date.

New complaints from SMEs



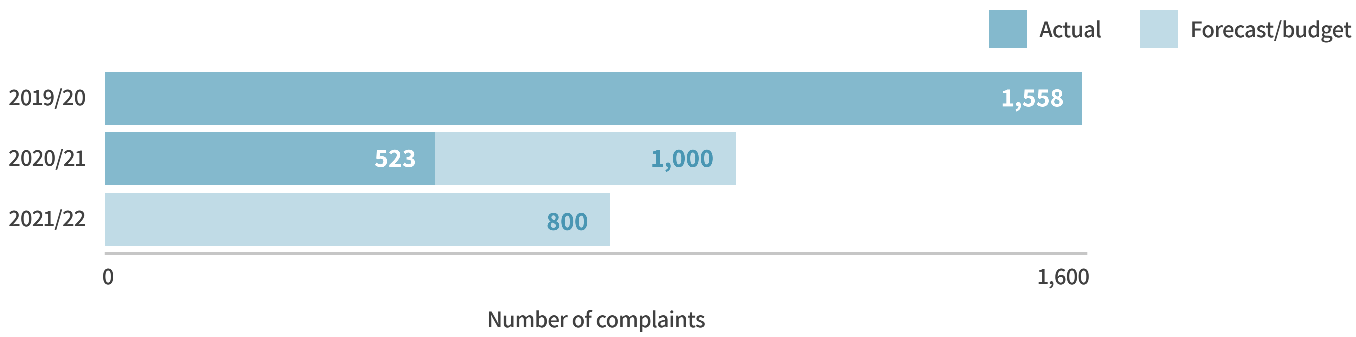
In the first half of 2020/21 we took on more than 600 complaints from SMEs, additional to our casework involving complaints made by very small businesses, micro-enterprises. Including both complaints from SMEs and those from micro-enterprises, we received more than 1,000 complaints involving claims made under business interruption insurance policies – which insurers in question had rejected on the basis that their policies didn't provide cover in the circumstances their policyholders were facing. To help get clarity around these issues, the FCA brought a legal test case in July 2020 – and has since published guidance setting out its expectations. We continue to keep in close touch with the FCA about what the legal action means for the impacted cases that have been referred to us.

More than £60bn has now been lent to around two million businesses under the Government's Bounce Back Loan and Coronavirus Business Interruption Loan Schemes. As these schemes were launched, we wrote to the FCA to confirm we'd take account of the different legal and regulatory requirements that applied to these schemes in the event we received complaints in the future. As the FCA has said, the current climate could expose more SMEs to unfair treatment – and it's in the interest of small businesses, lenders, government and regulators alike to have the clearest possible approach to collections of these loans. This will reduce the likelihood that complaints will be referred to us. We're maintaining capacity in our SME teams to ensure we're ready to resolve any questions of fairness that arise.

Visit our website for SMEs for more data and insight about this area of our work.

Complaints about CMCs

New complaints about CMCs



During 2020/21 we received around 400 complaints about CMCs in the first half of the year. A significant majority of these came from people unhappy with how a CMC had handled a claim for mis-sold PPI – for example, because of unexpected fees, delays or poor communication.

In October 2020 the FCA, CMCs' regulator, wrote to CEOs of CMCs setting out its expectations of firms, including how they mitigate the risk of harm to consumers and markets. As the PPI mis-selling episode approaches its conclusion, it isn't immediately apparent that there will be other issues on the same scale that would result in an increase in complaints about CMCs – but we'd welcome stakeholders' views.

Visit our CMC website for more data and insight about this area of our work.

Bringing PPI to a conclusion

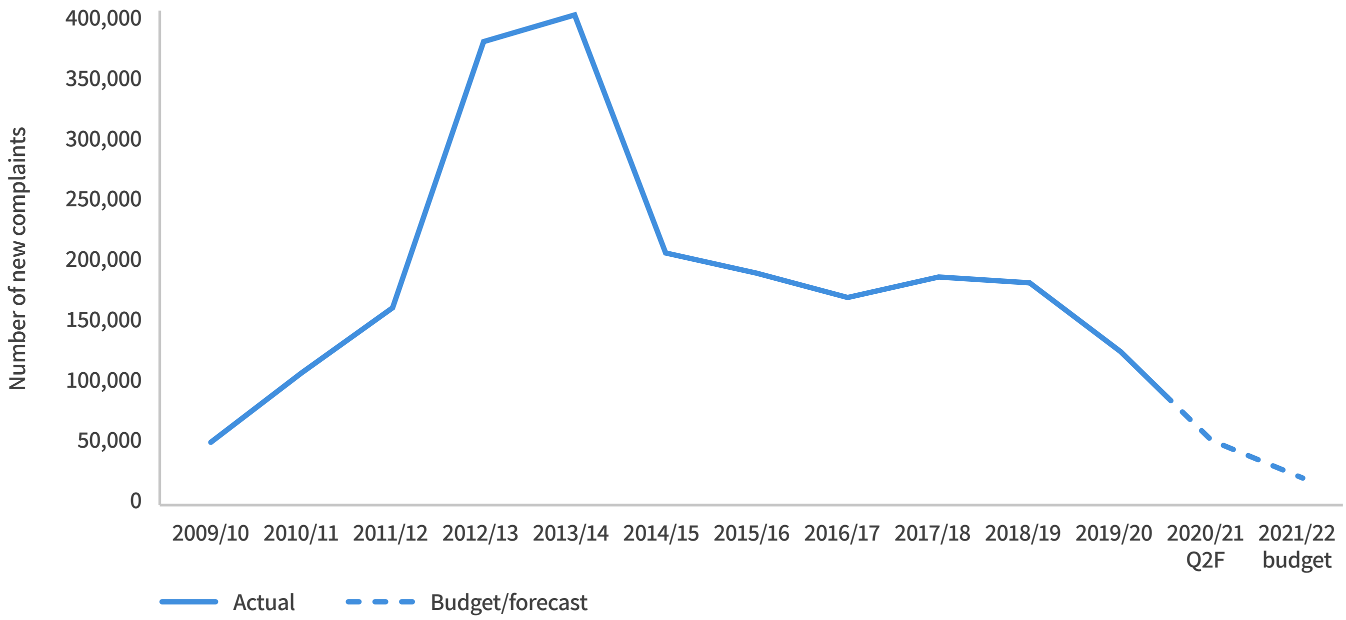
It's now a decade since the unsuccessful judicial review over PPI complaints handling marked the beginning of mass-scale referrals to our service. These cases reached their peak in 2013/14, when just short of 400,000 cases, or eight in every ten referred to us that year, were about PPI. Overall, we've received and resolved over 2.1 million individual PPI complaints.

To help finally draw a line under this episode of mass mis-selling, the FCA set a deadline of 29 August 2019 to complain about PPI. The run-up to the deadline saw over 10 million potential complaints made to the industry. This led the FCA to signal that, given the time it would take for businesses to work through these volumes, it could be summer 2020 before many people got an answer about their PPI.

As businesses have worked through those backlogs – with some further delay to their plans driven by the disruptive effects of Covid-19 and a national lockdown – volumes subsequently referred to us have proved to be much lower than our forecasts, and our conversations with stakeholders, initially suggested. We currently think we'll have substantially concluded our remaining PPI case volumes by the first half of 2021/22 – with any further new PPI cases from that point on representing a remaining 'tail' of post-deadline complaints, including disputes about whether the deadline applies.

As we've highlighted above, the increasing demand we're seeing in other areas of our casework compared to our pre-Covid plans creates a very different scenario to the one we'd anticipated in which our PPI wind-down would take place. We explain in the section below the steps we've taken to manage uncertainty around future volumes of complaints in PPI and the rest of our casework, and the options we're considering for the future.

Complaints about PPI over time



Questions

1. What's your view on our forecasts for future complaint volumes for:
   a) Our general casework?
   b) PPI?
2. What's your perspective on complaint volumes and issues arising from Covid-19, including potential complaints about business lending?
3. Do you have any insight into potential areas of complaint in our SME casework in particular?
4. Do you have any insight into potential areas of complaint in our CMC casework in particular?
5. Are there any other issues or trends you think we should take into account as we plan for 2021/22?

Resourcing and delivering our service

As our stakeholders have acknowledged in the engagement we've already carried out around our plans and budget, the significant uncertainty we're experiencing creates challenges in resourcing our service to the right level. If we assume that complaints will be higher than they ultimately turn out, we'll be over-resourced in our case-handling capacity but also underfunded, needing to draw further on our reserves. On the other hand, if we underestimate demand, we'll be under-resourced and won't be able to provide the standard of service people need and expect from us.

2021/22 is likely to see the conclusion of the issue that's had the most significant bearing on our service: PPI. Several years ago, when complaints were at their peak, we developed a strategy for winding down our operations that ensured we'd have flexibility to respond to how the final stages of PPI played out. This included rebalancing our PPI casework to a contractor-led model, giving us greater scope and flexibility to respond to any peaks and troughs in complaint volumes. Following the FCA complaints deadline in August 2019, we've been focused on understanding what the likely final shape and size of our PPI casework challenge will be, and what this means for the timing of bringing this chapter of our work to a conclusion.

As we set out in the previous chapter, following an unprecedented initial response to the FCA's PPI complaint deadline, the volume of cases that has ultimately reached us is far lower than we'd anticipated – and we expect to have resolved the majority of our remaining PPI cases by halfway through 2021/22. In line with our plans, we've already substantially reduced our contractor PPI workforce, resulting in a decrease in costs relating to this capacity – and have continued to update our permanent PPI teams about our forecasts, recognising the significant ongoing uncertainty they've been experiencing, while maintaining their commitment to helping people who've asked us to resolve their complaints. In late November we communicated to our teams that we're likely to make redundancies in the 2021/22 financial year.

With PPI's conclusion on the horizon, however, our non-PPI casework has seen a significant spike during the year. And as we've highlighted, there's a high degree of uncertainty around how many of the issues we're seeing in our casework will develop – particularly those relating to the impact of the Covid-19 pandemic and ongoing restrictions on everyday lives and livelihoods. In 2021/22, our primary challenge will remain the reduction of waiting times for our help – at a time when a growing proportion of our casework involves complex circumstances, and the financial pressures facing many consumers and businesses mean disputes are increasingly hard-fought. As we've mentioned above, this will require us to continue to effectively prioritise complaints, identifying and resolving cases where our help is needed most urgently – but is likely to mean that other consumers and businesses will need to wait longer for our answer. In the context of a general increase in complaints elsewhere as PPI subsides, we also think it's sensible for the time being to retain some of our capacity for resolving cohorts of complaints driven by a single underlying issue.

Our ability to bring down waiting times isn't only a factor of our own resourcing and efficiency. It depends heavily on the quality of financial businesses' own customer service, complaints-handling and engagement with us; the activity of CMCs and the way they engage with us; regulatory action; and wider developments in our landscape. At the same time, we're committed to doing all we can to run our service well: using our resources effectively, finding efficiencies, and making targeted investments that will have a positive impact – improving the experience of those using our service, and supporting our key strategic priority of preventing complaints arising.

Our plans for resourcing and delivering our service in 2021/22 include a range of activities that will help us manage and mitigate the challenges we'll face in our casework. There's more detailed information about our wider work to achieve efficiencies in the next chapter of this consultation.

- **Building capacity and productivity in our casework teams.** Over recent years, in response to increasing demand, we've carried out a significant amount of recruitment – and 2020/21 will have seen 400 new investigators joining our service and going through our academy training programme. But simply continuing to recruit on an ever-greater scale isn't the answer to the challenge of meeting demand for our service. In fact it creates additional resourcing pressures in the short-term, as the time of our existing experienced employees necessarily needs to be invested in mentoring and growing the knowledge and skills of new colleagues. Our 2021/22 plans anticipate growing productivity, reflecting newer colleagues becoming fully productive in their roles, as well as a series of specific improvements relating to the management of our casework.
- **Maintaining capacity to resolve complaints at scale.** As we set out above, as our PPI casework nears its end, we're in the position of needing to make decisions about our future casework capacity. In considering how best to resource our service to handle the recent increase we've seen in complaints in our general casework, we think there will be areas where there's potential to resolve cohorts of disputes at scale, helping us to realise efficiencies. For this reason, we think it's sensible for the time being to retain some of our capability to resolve complaints in high volumes, making best use of the experience we've gained from resolving millions of complaints about PPI.
- **Investing in our support for customers in vulnerable and challenging circumstances.** A growing number of people who contact us are in financial hardship, or are experiencing other challenges such as mental ill health that have a bearing on their finances and their complaint with us. Following a pilot in 2019, we've made permanent and expanded our teams providing additional support to people affected by these issues.
- **Continuing to make use of our flexible contingent workforce.** Our people represent a significant proportion of our costs. We have a well-established strategy of using flexible contractor case handlers to help us respond to fluctuations in our PPI operations, as well as cases about short-term lending. Although we expect some reduction in our overall employee numbers in 2021/22, we've already scaled back our PPI contractor resource in line with our shifting expectations about future PPI complaint volumes. We'll look to continue to maintain our contingent investigator capacity for our general casework around its current level (24%), as we face ongoing uncertainty about the shape of our year.

- **Engaging with stakeholders to prevent complaints reaching us.** We already carry out a significant amount of engagement with stakeholders – including the FCA, the businesses we cover and their trade bodies, consumer-facing organisations, CMCs, policymakers, the media, and other organisations active in the sectors we cover. By sharing insight and experience in this way, we can help manage and resolve existing issues in our casework, anticipate potential new themes and trends, and help influence fairness – ultimately preventing complaints arising. In 2021/22 we plan to build on this engagement, recognising stakeholders' key role in heightening or minimising demand for our service, in line with our new strategic priority.
- **Developing our technology.** Over recent years we've explored and trialled online channels through which consumers and businesses can share information with us, helping us to free up capacity that would otherwise be spent handling this contact. In 2021/22 we expect to make progress toward our plan to offer digital channels for consumers and businesses. We'll also continue to provide the technology our people need to be productive and collaborative while working remotely, as we continue to develop our plans for smarter workspaces in our offices. There's more information about our technology plans later in this chapter, as well as our wider plans for smarter and more flexible working.

We'd welcome stakeholders' feedback on these plans, as well as any other suggestions about how we can use our resources most effectively.

Developing our service: our future strategy

In December 2019, alongside our 2020/21 plans and budget consultation, we shared our thinking about our future strategic priorities – together with the evidence, including customer research, that had informed it. In light of stakeholders' broad support for our proposals, in June 2020 we published more details about our strategy to 2025.

Our strategic priorities

- **Enhancing our service**
  We'll set the standard for modern, efficient and accessible alternative dispute resolution. We'll recognise and respond to the needs and expectations of the people and organisations that rely on us.
- **Preventing complaints and unfairness arising**
  Working collaboratively with others, we'll find new and better ways of harnessing and using our insight to achieve fairer outcomes. Sharing our insight from the work we do, we'll help underpin trust and confidence.
- **Building an organisation with the capabilities it needs for the future**
  Using our strength as a diverse, values-based organisation – a place where people want to work – we'll develop the capabilities we'll need in the future.

As we refine our plans and budget for 2021/22, we're also continuing to work on delivering our longer-term strategy. As part of this, we outline below some of our key cross-cutting areas where we'll be looking to grow our capabilities and improve outcomes for the parties who rely on our service.

Improving people's experience of using our service

As an organisation that by definition deals with disputes – where one side is likely to be disappointed by our answer – there's an inherent challenge for us in creating a positive experience for people who use our service. We need to ensure that our people, processes, technology and communications align to deliver a service we're always proud of – so that even where someone doesn't get the outcome they wanted, they feel they've been listened to and treated fairly.

Our recent progress includes launching a new, more accessible website in 2019; developing tools to help with the progression of cases; establishing dedicated additional support teams to support our most vulnerable customers; and improving our internal reporting systems so we're better able to understand trends in service complaints and referrals to our independent assessor.

Looking ahead, our emerging plans in this area include developing the way we get feedback from parties using our service – including doing so at more stages throughout their experience with us – and reviewing and simplifying that journey. Building on the research we carried out under our previous Horizon 3 programme, and having appointed our head of customer experience in September 2020, we'll continue to ensure we understand the needs, expectations and behaviour of consumers and businesses, helping us to shape the service we provide.

Building on the work of our additional support teams, we'll also identify further support we can provide to vulnerable and under-represented customer groups who may struggle to access and use our service. As well as helping us meet our commitment to be accessible to everyone who needs us, this will support our ambitions under our strategic priority of preventing complaints and detriment arising.

Our people and ways of working

Our success in delivering fairness – both in individual complaints and more widely in the sectors we cover – depends on the quality and commitment of our people. As we look to better understand the needs of the parties who rely on our service, we also need to understand the shifting expectations of our current workforce and others we want to attract.

Looking ahead, one of our key areas of focus will be the flexibility of our ways of working. Against a backdrop of uncertainty and complexity in our work, we need to ensure that we're able to respond quickly to developments – gearing up and down in response to changes in demand, whether in the volume or nature of complaints. This has a bearing on what we offer as an employer, including options for the working hours and patterns and types of contracts we use: for example, our use of a contractor workforce has helped us manage the conclusion of our PPI casework.

As we've mentioned earlier in this consultation, the Covid-19 pandemic means we're currently working almost exclusively remotely – and this has accelerated our existing plans to work in a smarter way, aligning with our flexible property strategy. As we look ahead, we're continuing to review our requirements in terms of the workspaces, technologies and ways of working we'll need.

We're doing so with a view to ensuring we're cost-effective, as we outline below. But it's also about ensuring our people are able to continue to benefit from greater flexibility, and the positive impact this can have on both wellbeing and productivity. Looking further ahead, we think remote working may also present opportunities to access talent pools away from our existing office locations – as well as to grow our presence in 'hubs' of employees across the UK, bringing us closer to more of the communities our service exists to help.

The flexibility we offer, and our wider aspirations around being a great employer, will support our ongoing ability to attract and retain people with the right capabilities and experience – balanced against our commitment to deliver the service our customers need and our strategic priorities more widely. We're committed to ensuring that our people feel engaged with our work and our values, included in our future, and have the learning and development opportunities and support they need to perform at their best. We'll continue to provide updates on our work around diversity, inclusion and wellbeing, which will be guided by our updated action plan.

Developing our use of technology

Our use of technology supports all three of our strategic priorities. It helps us to enhance our service, underpinning the quality of what we do and people's experience of using us. It helps us better understand trends in complaints, and to turn this into insights that are effective in helping to prevent detriment. And it enables us to be an efficient, agile organisation – from the systems that our support teams rely on, to the infrastructure we need to work smarter and more flexibly.

We've already made good headway: building on the rollout of our new Microsoft-based case handling system, we've consolidated our IT function to ensure it has the capabilities we need; further invested in our data insight tools and capability; and continued to develop our website based on user feedback and analytics.

Looking ahead, our emerging plans include:

- Developing better digital platforms and journeys for both consumers and businesses – learning from our previous experience of the challenges around this.
- Exploring ways we can make standard processes even more efficient, so we can direct more resources toward improving our customer service, including our waiting times.
- Working to further improve the quality of the data we hold and the technology we use to analyse it, so that we can generate better insights about the service we're providing and the complaints we're seeing.
- Helping to improve the efficiency of our support services by implementing a new shared HR and finance programme.
- Continuing to adopt cloud services where possible, so that we can be more agile in the way we procure and deploy new capabilities.

Being efficient and sustainable

Our commitment to being efficient and cost-effective cuts across our plans for the future – whether about our systems, processes, people, or property. Against a backdrop of change and uncertainty in our environment, creating pressures and challenges for us and firms that fund us, it's more important than ever that we provide good value.

The introduction of our new HR and finance programme will result in the consolidation of multiple systems, a reduction in manual processing, and increased transparency in reporting and planning, facilitating our budgeting and forecasting processes. This follows the transition of our core financial processes online, including the introduction of automated and consolidated billing – significantly reducing month-end administration and saving paper.

While our progress toward more remote working has been accelerated by the Covid-19 pandemic, as a demand-led organisation we've always needed a flexible property solution. This is achieved through multiple leases, differing lease terms, multiple lease breaks and commercially-attractive rent deals. In 2017, in recognition of our national reach, we expanded our presence out of London to Coventry. In our London South Quay offices, we will exit our Walbrook building by April 2021, and release two further floors from Exchange Tower in the first quarter of 2021/22. This flexible property strategy is supported by our ongoing work to review and develop our ways of working, as we've outlined above.

We'll also further develop the tools and infrastructure for smarter working across the different areas of our service – wherever our people are based. All these developments will help us meet our commitments around our sustainability, which are reflected in our aim to reduce our carbon footprint by 45% by 2022, in line with the plan we developed with the Carbon Trust.

Our investment in a new HR and finance programme, delivered by Workday, which will be put in place over the course of 2021/22, will have a significant impact across our service.

The programme will consolidate legacy systems, helping to automate and streamline some of our internal HR and finance processes, and using a single source of real-time information. It will also help resolve support and compliance issues relating to our IT systems.

Our people and our customers will benefit from increased efficiency, better data quality, immediate access to information, improved compliance and more transparent reporting, and improved management of processes and data.

Our HR team will be able to manage recruitment and selection, and our managers will be better adapted and supported to manage a more remote workforce, manage people-related issues, and simplify workforce planning and management.

For our finance function, budgeting and forecasting will be made easier, and month-end administration will be significantly reduced. With reduced budget and planning cycle processing time, and a more flexible and timely payroll process, time will be freed up for more strategic analysis.

More broadly, the programme will align with our future strategic priorities (see page 22), and help track success against our strategy.

Effectively preventing complaints and unfairness

Each year we share a significant amount of insight with a diversity of stakeholders – including consumers and their representatives, businesses and their trade bodies, the FCA and other regulatory organisations, HM Treasury and other government departments and policymakers, charities and consumer-facing organisations. We have statutory responsibilities around sharing information with the FCA to help inform and support its own work.

Over the years, we've consistently heard from stakeholders that they value this work – and our ambition to do more in this space has been reflected in its central role in our five-year strategy. The Covid-19 pandemic has underlined the potential for wide-scale detriment – and the imperative of a proactive approach that prevents this from becoming a reality.

Achieving our ambition will mean challenging ourselves to do more in this space – building on what we've learned over two decades of using our complaints insight to promote fairness in the sectors we cover. This will mean continuing to ask:

- Do we have tools and capabilities – both in terms of technology and people – to harness insight about complaints themes and trends?
- Are we able to understand the information we have, and to effectively translate it into useable insights?
- Is there more we can do to work with stakeholders on exploring alternatives to securing redress that might not involve a complaints-led approach? How can we effectively influence the behaviour of consumers, businesses and others to get better outcomes?
- Do our ways of working support our ambitions in this area?
- How will we know we've had an impact – and how do we measure the difference we've made?

As we look to put greater emphasis on prevention, we'd welcome stakeholders' perspectives – including the approaches we could take, areas where they'd like to work with us to prevent complaints and unfairness, and how we can better understand our impact.

Measuring our progress against our strategy

As we continue to refine our plans to support the delivery of our strategic priorities, we're also considering how we can effectively measure progress against our objectives. While some of these measures will mirror existing aims and commitments, there will be areas where a new approach will be required to reflect a new strategic focus – in particular, how we know we've made a difference in preventing complaints and unfairness. As we work to develop a set of appropriate metrics, we'd welcome stakeholders' feedback – including about how we could effectively measure the impact and wider value of our complaints prevention work.

Questions

6. What are your views on our plans to resource and develop our service?
7. Do you have any feedback about our emerging plans under our strategy?
8. Are there areas where you'd like to work with us toward our ambition to prevent complaints and unfairness?
9. Do you have any other comments on our draft plans for 2021/22?

2 Our budget for 2021/22

In this chapter we discuss our consultation budget and proposed funding arrangements for 2021/22 – against the background of the measures we took in April 2020 to mitigate our impact on the firms we cover, and smaller firms in particular.

We explain our current thinking on the funding arrangements that will ensure we can deliver the service people need from us – putting ourselves on a sustainable footing, and promoting certainty and stability for the firms that fund us at a time of ongoing uncertainty about future demand. Recognising the significant pressure that firms that contribute to our funding continue to experience, we also detail a range of potential scenarios and invite stakeholders' views on the best way forward.

We then highlight the steps we're taking to ensure we're running our service as efficiently as possible, providing value for money and investing for the future.

2022/23 figures in this chapter are provided to indicate a direction of travel in each of the scenarios we set out for 2021/22. They do not form part of this consultation: our 2022/23 budget will be subject to consultation in late 2021.

Context: 2020/21 outlook and recap of funding changes

In July 2019, following a significant amount of engagement with our stakeholders in previous years, we consulted formally on proposals to put our funding on a stable footing for the future. We explained that, as our PPI casework has approached its conclusion, we've experienced upward pressure on our cost base relating to our having fewer opportunities for economies of scale in resolving complaints. At the same time, we've seen a growing trend toward complexity in other types of disputes we see. Having collected the revenue we needed for PPI upfront, and then run at a planned deficit, drawing on our reserves to fund it, we've reached the stage where we now need to deal effectively with our new casework mix.

Having considered the feedback we received to this earlier consultation, in December 2019 we proposed a series of changes we planned to put in place from 1 April 2020.

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, and an aspiration to eventually reach a 50:50 split.
- The individual case fee should rise to £650 – its first increase since 2013.
- The number of free cases firms get each year should be 10 for firms outside our group-account fee arrangement and 50 for each of the eight groups that are part of it.
- We should maintain a minimum of six months' operating expenditure as reserves.

In summary, as we explained in our 2020/21 plans and budget, taking a greater proportion of our income from our levy promotes greater certainty over our funding for the firms we cover – 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.

In March 2020, as our budget was due for approval by the FCA, it became clear Covid-19 would significantly affect the economic landscape. In discussion with the FCA, we decided to freeze the minimum levy payment and reduce our overall levy from £106m to £84m – and instead to use our reserves to absorb some of our costs, with a smaller portion of our funding (32%) coming from the levy than planned. To alleviate the pressure on smaller firms in particular, we maintained the number of free cases at 25.

Taken together, these changes meant we had budgeted to end 2020/21 with a budget deficit of £53.2m: significantly more than the £17.8m we'd have had in reserves if we hadn't taken action in response to the emerging Covid-19 situation. Our latest forecasts show a deficit of £43.1m, which is an improvement of £10.1m against budget. The reduction in income relating to PPI complaints is more than offset by a reduction in our cost base, primarily through the release of around 200 contractor PPI case handlers. The table below sets out the position in which we expect to end the year, compared with our budget expectations.

Financial summary	2019/20 actual £m	2020/21 budget £m	2020/21 latest forecast £m	2020/21 forecast against 2019/20 actual £m
Operating income	**244.1**	**261.3**	**243.3**	**0.3%**
Operating expenditure	**277.6**	**294.5**	**269.2**	**3.0%**
Financial deficit excluding restructuring	**(33.5)**	**(33.2)**	**(25.9)**	**22.5%**
Restructuring	**0**	**(20.0)**	**(17.0)**	
Financial deficit	**(33.5)**	**(53.2)**	**(42.9)**	**(28.2%)**

Our 2021/22 funding arrangements

We've maintained our focus on running our service as efficiently as possible – but at the same time, it's important that we're funded sustainably, and in a way that allows us to deliver the essential service people expect from us. As we've explained above, as we looked to the future of our service beyond PPI, we'd planned to make the necessary adjustments to our funding arrangements from 1 April 2020 – but delayed taking this action in view of the emerging Covid-19 pandemic. Adjusting our 2020/21 budget in this way was the right and fair thing to do in an environment that was, and remains, extremely challenging for the firms that contribute to our funding. We recognise that this makes it even more important we do all we can to reduce our costs and minimise the contribution that firms – and in particular smaller firms – need to make.

Equally, the rationale for changing our funding arrangements still applies. And as many of our stakeholders have noted in the early conversations we've been having around our budget, the repercussions of Covid-19, and the uncertainty and complexities it will continue to generate as we look ahead, make certainty and stability increasingly important: both for the firms that fund us and for our service.

In addition, in line with our multi-year strategy for managing the challenge of PPI, we've been drawing heavily on the reserves we built up at the peak of mis-selling complaints to help us manage the wind-down of our PPI casework. In response to our funding consultation in July 2019, many respondents recognised the important role our reserves continue to play in bringing stability in the face of volatility in our workload – including reducing the likelihood that we'll need to ask for additional funds partway through the financial year. Maintaining our current funding arrangements would deplete our reserves by a further £53m in 2021/22 – leaving us with just three months' operating expenditure, rather than the six that we previously agreed with stakeholders as a sensible future level.

This tension presents a very difficult backdrop for our decisions about our proposed funding for 2021/22. For this reason, this consultation sets out a base case under which we increase both our levy and case fee in 2021/22: an arrangement that would provide for a more prudent, sustainable level of funding. But we also detail other illustrative scenarios, including different approaches to postponing increases in our levy and case fee for a further year. We'd welcome stakeholders' feedback about which scenario – or features of different scenarios – they believe, on balance, would be fair and sustainable.

> "Adjusting our 2020/21 budget in this way was the right and fair thing to do in an environment that was, and remains, extremely challenging for the firms that contribute to our funding."

To help inform stakeholders' views about the implications of this year's choice on next year's picture, we've also set out below our current thinking on how the funding decisions taken for 2021/22 may impact those that need to be taken for 2022/23. It's important to note, however, that this doesn't represent a consultation on our 2022/23 budget – which we'll consult on this time next year in light of our assumptions and projections at that time. The possible impact on the funding picture for 2022/23 is set out only for the purposes of illustration, to help stakeholders understand the possible future impacts of decisions taken this year.

As we've explained in the previous chapter, the risk of potential spikes in complaints reinforces the need for the industry, the regulator and the ombudsman service to work together to avoid a complaint-led solution being the only course of action available. It puts an increased emphasis too on one of the key pillars of our future strategy: our ambition to do more to prevent complaints and unfairness arising. The volume of complaints we ultimately see will have a bearing on our timeliness: if firms' complaints handling results in more referrals to us than the assumptions underpinning our budget, this will limit the progress we're able to make in bringing down waiting times. This applies regardless of the funding arrangements we ultimately put in place, as all rely on the same central assumption for future complaints volumes and resolutions.

Funding scenarios for 2021/22

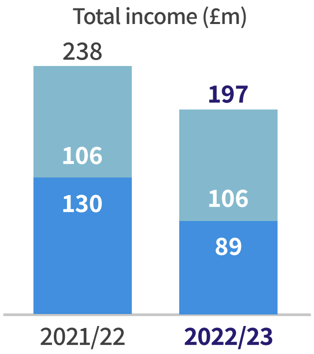
2022/23 figures in this chapter are provided to indicate a direction of travel in each of the scenarios we set out for 2021/22. They do not form part of this consultation: our 2022/23 budget will be subject to consultation in late 2021. Total income figures include other income additional to our levy and case fees.

Scenario one – our base case

Increase both the case fee and levy in 2021/22.

Return levy to 2019/20 consultation level of £106m, plus a £100 increase in case fee in 2021/22.

Possible 2022/23 scenario:
no change in levy or case fee.



Case fee Levy

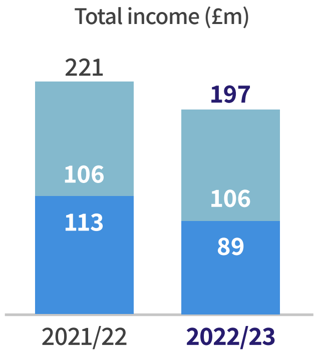
	2021/22	2022/23
Individual case fee	£750	£750
Levy:case fee ratio	45:55	54:46
Deficit	(£14m)	-
Reserves	£104m	£104m
Reserves as months of operating expenditure	4.9 months	6.4 months

Scenario two

Increase only the levy in 2021/22.

Retain case fee of £650 and increase the levy to £106m in 2021/22.

Possible 2022/23 scenario:
a £100 increase in case fee and no change in levy.



Case fee Levy

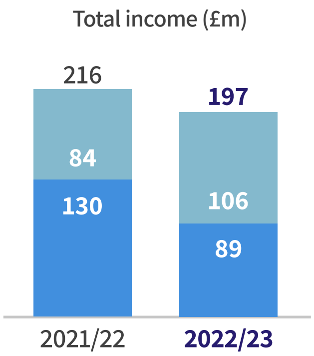
	2021/22	2022/23
Individual case fee	£650	£750
Levy:case fee ratio	48:52	54:46
Deficit	(£33m)	-
Reserves	£85m	£85m
Reserves as months of operating expenditure	4.0 months	5.2 months

Scenario three

Increase only the case fee in 2021/22.

Retain levy of £84m and increase case fee to £750 in 2021/22.

Possible 2022/23 scenario:
an increase in levy to £106m and no change in case fee.



Case fee Levy

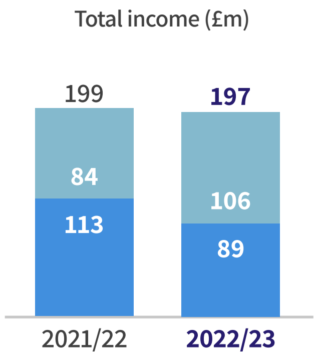
	2021/22	2022/23
Individual case fee	£750	£750
Levy:case fee ratio	39:61	54:46
Deficit	(£36m)	-
Reserves	£81m	£82m
Reserves as months of operating expenditure	3.9 months	5.0 months

Scenario four

Increase neither the levy nor case fee in 2021/22.

Retain 2020/21 pricing for 2021/22.

Possible 2022/23 scenario:
an increase in levy to £106m and a £100 increase in case fee. Increased risk of in-year funding requests.



Case fee Levy

	2021/22	2022/23
Individual case fee	£650	£750
Levy:case fee ratio	43:57	54:46
Deficit	(£53m)	-
Reserves	£64m	£64m
Reserves as months of operating expenditure	3.1 months	3.9 months

Our budget for 2021/22

	2019/20 actual £m	2020/21 latest forecast £m	2021/22 draft budget (base case) £m	2021/22 draft budget vs 2020/21 latest forecast £m
Income				
Case fees	67.0	67.4	69.1	1.7
Group fees	126.2	89.4	60.8	(28.6)
Levies and other income	50.9	86.4	108.4	22.0
Total income	**244.1**	**243.3**	**238.4**	**(4.9)**
Expenditure				
Staff and staff-related costs	152.4	178.0	155.2	22.8
Contractor staff	69.4	49.7	40.0	9.7
IT costs	10.9	11.1	14.3	(3.2)
Premises and facilities	14.5	15.5	12.8	2.7
Depreciation	15.1	11.0	10.7	0.3
Other costs	11.7	10.6	9.2	1.4
Bad-debt write-off	3.5	5.9	5.0	0.9
Contingencies	0.0	4.3	5.0	(0.7)
Total expenditure	**277.6**	**286.2**	**252.2**	**34.0**
Financial surplus/(deficit)	**(33.5)**	**(42.9)**	**(13.8)**	**29.1**
Reserves and deferred income	**159.4**	**116.5**	**102.7**	**(13.8)**
Closing FTE	**3,397**	**3,381**	**2,904**	**478**
Total new cases	**273,026**	**230,000**	**160,000**	**(70,000)**
Total case resolutions	**296,712**	**245,000**	**210,000**	**(35,000)**
Cost per case resolution*	£924	£1,074	£1,172	(£98)

* Cost per case excludes bad debt, financing costs and one-time restructuring costs.

The rest of this section gives more details about the individual elements of our funding arrangements, and the potential advantages and disadvantages of adjusting these. The draft FEES instrument for 2021/22 is attached to this consultation as appendix A, and reflects our base case for the purposes of this consultation, scenario one.

Compulsory jurisdiction levy

The FCA consults separately on the levies it collects from all the businesses it regulates – including levies for our service, the Financial Services Compensation Scheme, the Money and Pensions Service and the FCA itself. Broadly, allocating the levy relating to our service involves dividing the total levy among industry blocks, and then dividing the levy for each industry block among businesses in that block according to a tariff rate. We maintain our view that a split of approximately 50:50 between our levy and case fee income represents a good balance between the need to ensure our service is resilient and sustainable, and the need to link businesses' contributions to our funding to the casework they generate for us.

The budget scenarios on page 29 show the impact of choosing to increase our levy income in 2021/22 to the level we'd originally consulted on for 2020/21 before we changed our budget in response to Covid-19 (scenarios one and two) – versus the impact of postponing that increase to 2022/23. Scenario three relies instead on an increase in the case fee in 2021/22.

We understand that holding our levy income at its current level may be instinctively appealing to firms that fund us. And we recognise the importance many stakeholders place on the idea that firms' contribution to our funding should reflect the amount of casework they generate, something that's also achieved in part by the way our levy is allocated. However, as we explained when we consulted in 2019 on our future funding arrangements, scenarios involving a lower levy carry significant risks and drawbacks. They mean that:

- A large proportion of our cost isn't fixed and known in advance – creating more uncertainty for firms that fund us at a time when the economic outlook is extremely challenging.
- Because we only collect case fees at the point cases are closed, we wouldn't be able to quickly gear up in response to higher demand – and might have to seek more funding during the year.
- We'd run down our reserves to a level far lower than many of our stakeholders have agreed is a sensible level – making it more difficult to deal with in-year complaint level volatility and fluctuations in demand.

Of the scenarios above, we think scenario one, our base case, would afford firms the most stability and certainty across the coming two years – and mean that we could retain reserves at a more prudent level. We're also recommending that the minimum levy, paid by the smallest firms we cover, be frozen at its current levels. However, we recognise the significant commercial pressures that all firms continue to experience, and welcome stakeholders' feedback to help inform the choices we make.

Case fees

The budget scenarios we set out above show the level of the case fee we'd expect to set in 2021/22, and the proportion of our income that we expect to come from case fees. For illustration purposes only, the scenarios also indicate the possible impact that a decision on the level of the case fee for 2021/22 may have on the level of the case fee for 2022/23.

From previous conversations with stakeholders, we know many feel strongly that our funding arrangements should support the idea of 'polluter pays' – of which the existence and level of our case fee plays an important part. At the same time, we know some firms have expressed concerns about such an arrangement being exploited or 'weaponised' by consumers, or CMCs representing them, looking to influence a firm's decisions around whether to uphold a complaint.

We agree that our case fee provides an important incentive for firms to prevent complaints – but recognise that the higher fees are, the more disproportionate they are to the value of some complaints. For seven years to April 2020, despite inflationary pressures, we froze the individual case fee at £550 – only rising to £650 for the 2020/21 financial year.

Increasing our case fee is part of the step-change required in our funding to put us on a stable footing post-PPI, recognising the growing complexity we're seeing in complaints: a trend that's likely only to accelerate as the repercussions of Covid-19 continue to be apparent in the complaints being referred to us. This would point to a scenario that includes a case fee increase from 2021/22 – rather than one that potentially delays that increase. But we'd welcome stakeholders' views on this.

Importantly, a scenario under which the case fee increased would still see the majority of firms protected from paying any fees at all. This is because businesses outside the group-account fee arrangement aren't charged a fee for the first 25 cases we receive about them each year. In 2020/21, we'd initially proposed to reduce this threshold to ten cases – but decided, in light of the unique pressures facing smaller firms in particular, to keep the number of free cases at 25.

In view of the ongoing challenges presented by Covid-19, we propose to maintain this arrangement once again in 2021/22, whichever funding arrangements we take forward. Based on our current assumptions, we estimate that this will mean nine in ten firms whose customers use our service won't pay any case fees – which, in combination with our recommendation that the minimum levy is frozen, would help minimise our costs to smaller firms in particular.

If we increase our case fee, the new level will apply to all cases closed after 1 April 2021, regardless of when they were referred to us. As we've explained in feedback to our 2020/21 plans and budget, 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. And consistent with other funding principles, this approach minimises complexity, avoiding the administrative burden that might otherwise arise in transitioning from one case fee level to another.

Group-account fee arrangement

Since April 2013, we've run a group-account fee arrangement for the largest business groups – under which they pay quarterly in advance based on expected volumes of complaints. If the numbers turn out to be significantly different, there may be some adjustment at the end of the year. Because large volumes of complaints are involved, this arrangement results in lower administrative costs, increased efficiency and a steadier cash flow.

Whatever funding arrangements we take forward, we don't propose to extend the group-account fee arrangement to more business groups in 2021/22 – and to maintain the number of free cases for each group at 50. Each business group is made up of several firms, and the higher allowance of free cases compared with non-group account fee firms is designed to reflect this. The allowance is lower than the total of all the free cases that the firms making up the groups would otherwise get individually.

Voluntary jurisdiction levy and case fees

Our voluntary jurisdiction (VJ) covers businesses that volunteer to join it for activities specified in rules made by our service with the FCA's approval, including for services directed at the UK from the European Economic Area (EEA). The levy is set by us and approved by the FCA.

In each of the scenarios above, based on our current budget assumptions, we propose that in the financial year 2021/22 our VJ levy will be £1.1 million. We will set the case fee for our voluntary jurisdiction in line with the compulsory jurisdiction, and the number of free cases at 25. As with the case fee for the compulsory jurisdiction, the revised case fee level will apply to all cases closed on or after 1 April 2021, regardless of when the case was referred to us.

Voluntary jurisdiction participants should be aware that the draft tariff rates in appendix A are calculated using anticipated participant numbers for each industry block and estimated tariff data. This means that the final tariff rates for 2021/22 – which will be made by our board in March 2021 – could vary from those in this consultation.

31 December 2020 marks the end of the UK's transition period after leaving the European Union (EU). We recognise that some VJ participants that currently provide services into the UK through an establishment in the EEA will also wish to join the FCA's Temporary Permission Regime (TPR) in order to be able to continue with these activities after the transition period ends. Participants who join the TPR will also become subject to our compulsory jurisdiction going forward, and so will become liable to pay the relevant compulsory jurisdiction levy set by the FCA. The FCA has previously consulted on the basis on which the compulsory jurisdiction levy will be calculated for TPR participants.

Reminder: joining the TPR

Even if voluntary jurisdiction participants join the TPR and become subject to the compulsory jurisdiction for future acts or omissions, they will continue to be subject to the VJ unless they follow the process for leaving set out in DISP 4. They will remain subject to our jurisdiction for complaints about acts or omissions that are otherwise covered by the voluntary jurisdiction, and will continue to be liable to pay the annual voluntary jurisdiction levy.

Our reserves

Having used our reserves to fund our transition through the conclusion of PPI, in line with our long-term strategy, we needed to establish an appropriate policy going forward. Following consultation on our future funding arrangements, in which stakeholders noted the important stabilising role of our reserves, we stated our intention to hold six months' operating expenditure in reserves.

As part of the adjustments we made to our 2020/21 budget, we used more of our reserves than we'd initially anticipated. Absorbing costs in this way meant we reduced our cost to the sectors we cover. However, it means we'll begin the 2021/22 financial year with £118m in reserves, against the £143m we'd originally budgeted.

The funding arrangements we choose will have a bearing on our future levels of reserves – as set out in the graphic on page 29. Holding lower levels of reserves increases the likelihood that we'll need to ask for additional funds during the year if we experience unexpected increases in volumes of complaints. The current level of uncertainty and potential for volatility in our casework informed the recommendation in our 2019 funding consultation that we look to increase the level of reserves we routinely hold: something that stakeholders largely agreed was a sensible approach. This rationale would support a funding scenario such as our base case, scenario one, which wouldn't see our reserves reduced to significantly lower levels in the short term.

As part of this consultation, we'd welcome stakeholders' perspectives on how far we should continue to use our reserves in this way. Informed by the feedback we receive, we'll review our reserves policy in the year ahead to ensure it remains fair and sustainable going forward.

Our unit cost

We calculate the unit cost of resolving a complaint by dividing our total running costs (less financing costs, bad debts and significant one-off costs, such as those relating to restructuring) by the total number of complaints we resolve in the year. As we've explained previously, although we've historically used our unit cost as a proxy for efficiency, it isn't in itself a sufficient measure. Primarily, this is because it can be significantly impacted by factors outside our control, such as the complexity of our casework, and it also disguises differences in the cost of handling different types of complaints. As part of our work around our future strategy, we're exploring different indicators that would better capture our performance and value.

Despite our ongoing focus on efficiency and cost-saving, and the increase we anticipate in productivity, we expect that our unit cost will rise in 2021/22 – as we see a rebalancing of resolutions away from mass complaints such as PPI, which we expect to account for just 14% of resolutions compared with 37% in 2020/21 and 42% in 2019/20. Fixed costs such as property, depreciation and some IT services will also increase as a proportion of the overall cost of our service as our casework volumes fall, increasing the overall unit cost from £1,074 in 2020/21 to £1,172 in 2021/22. If the unit cost was recalculated to exclude PPI, the underlying cost per case is expected to fall by 10% from £1,441 to £1,297.

Our focus on efficiency and value

Putting in place the right mechanisms to generate our funding is one element of getting our finances on a stable footing for the future. The other key part of our financial strategy is the action we can take to provide value for money and achieve efficiencies. In 2021/22 we plan to do this in a number of ways:

- **Efficiency and productivity in our casework.** In the previous chapter, we explained that many external factors can influence our ability to progress and resolve complaints – as well as the mix and complexity of the disputes themselves. We've also highlighted the trade-off between the gains we get from recruiting to increase capacity, and the time investment this requires on the part of our existing experienced employees who would otherwise be resolving complaints. Our budget for the coming year assumes a 10% increase in productivity within our investigation teams, as we focus on a number of improvements relating to how we manage and progress our casework. We expect this to generate savings of approximately £5m compared to 2020/21.

- **Benefiting from smarter and more flexible ways of working.** In 2019/20, before the Covid-19 pandemic, we'd already begun the rollout of smarter working across our service – involving new technologies and workspaces that extended options for working differently and collaborating both face-to-face and remotely. The pandemic, and the necessity of gearing up our service to be a remote operation, have accelerated our shift in this direction – and in the year ahead we'll continue to provide and improve tools and technologies that support efficiency and productivity. More remote and flexible working also presents opportunities in terms of resourcing and delivering our service, which we outline on page 23.

- **Using our flexible contractor workforce.** A significant proportion of our costs necessarily relate to our people. While our average FTE will decrease only slightly in 2021/22, we've already reduced our PPI contractor capacity in view of our current forecasts for future volumes of PPI complaints, and anticipate that we will substantially conclude our PPI case volumes in 2021/22. We've also reviewed and adjusted the payment rate of our contractors across our casework, balancing reductions in some areas with increases to ensure we retain our most experienced contractor investigators. Taken as a whole, our contractor budget is £40m for 2021/22: a 20% reduction on 2020/21, with an expectation that we'll have an average of approximately 200 fewer contractors.

- **Our flexible property strategy.** Our property strategy is based on the need for flexibility, providing lease break opportunities on a regular basis and using different-length lease commitments. The rollout of our smarter working approach, together with the conclusion of PPI, means we will be able to take advantage of lease breaks in Exchange Tower, including two during 2021/22, reducing our carbon footprint and saving money. Our property budget in 2021/22 will be £12.8m (a 17% reduction on 2020/21), and we'll continue to review our ongoing property requirements in light of demands on our service.

- **Reducing our support costs and rationalising our systems.** We aim to achieve annualised savings within our support teams of more than £5m by the end of 2022/23 – which will equate to a more than 20% reduction in annual costs against our 2019/20 baseline. Our new finance and HR system will generate efficiencies across the service once fully implemented in the latter part of 2021/22.

Other features of our budget

Other notable features of our 2021/22 budget include:

- **Further investment in our IT capability.** The increase of £3m in 2021/22 primarily relates to increases in licence and support costs as a result of investment in technology-enabled projects including our finance and HR system, our smarter working programme and other foundation programmes. The total spend in non-people-related IT costs is £18.1m, with staff and staff-related costs held broadly in line with 2020/21.

- **Provision for "bad debt".** At £5m, this is a reduction from 2020/21 (£6m) as we anticipate reduced exposure to firms in the short-term lending sector. As a comparator, in September 2018 approximately 75% of outstanding debt related to firms in the short-term lending sector which have subsequently entered administration and are no longer trading.

- **Maintaining a central contingency.** As a demand-led organisation, we maintain a central contingency to enable in-year investment in additional IT and non-IT areas of our service. For 2021/22 our proposed contingency is £5 million, a 50% reduction on the central contingency we've historically allowed for.

Questions

10. What are your views on the illustrative funding scenarios we set out? For example, how far do you support our base case, other scenarios or features of them? How far do you agree that price stability is important in future years, and that we should look to reduce the likelihood of in-year requests for funding?
11. For voluntary jurisdiction participants, particularly those that are joining the FCA's Temporary Permissions Regime (TPR): what are your views on our proposal to raise funds through the voluntary jurisdiction levy and to leave the tariff rate for each industry block unchanged?
12. Do you have any suggestions about further improving our efficiency, including suggestions for how you could work with us to do this?
13. Do you have any other views on our proposed 2021/22 budget?

Appendix A – draft FEES instrument

FOS 2021/X

FEES MANUAL (FINANCIAL OMBUDSMAN SERVICE CASE FEES 2021/2022) INSTRUMENT 2021

Powers exercised by the Financial Ombudsman Service

A. The Financial Ombudsman Service Limited:

(1) makes and amends the scheme rules relating to the payment of fees under the Compulsory Jurisdiction,
(2) fixes and varies the standard terms for Voluntary Jurisdiction participants relating to the payment of fees under the Voluntary Jurisdiction, and
(3) fixes and varies the standard terms for the Voluntary Jurisdiction,

as set out in the Annex to this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000:

(a) section 225 (the scheme and the scheme operator);
(b) section 227 (Voluntary jurisdiction);
(c) paragraph 14 (The scheme operator's rules) of Schedule 17;
(d) paragraph 15 (Fees) of Schedule 17; and
(e) paragraph 18 (Terms of reference to the scheme) of Schedule 17.

B. The making and amendment of these scheme rules and fixing and variation of these standard terms by the Financial Ombudsman Service Limited is subject to the consent and approval of the Financial Conduct Authority.

Approval by the Financial Conduct Authority

C. The Financial Conduct Authority consents to the making and amendment of the scheme rules and approves the fixing and variation of the standard terms by the Financial Ombudsman Service Limited as set out in the Annex to this instrument.

Commencement

D. This instrument comes into force on 1 April 2021.

Amendments to the Handbook

E. The Fees manual (FEES) is amended by the Board of the Financial Ombudsman Service in accordance with the Annex to this instrument.

Citation

F. This instrument may be cited as the Fees Manual (Financial Ombudsman Service Case Fees 2021/2022) Instrument 2021.

By order of the Board of the Financial Ombudsman Service Limited
[date]
By order of the Board of the Financial Conduct Authority
[date]

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text.

5 Annex 2R **Annual Levy Payable in Relation to the Voluntary Jurisdiction ~~2020/21~~ 2021/22**

…

5 Annex 3R **Case Fees Payable for ~~2020/21~~ 2021/22**

Part 1 – Standard case fees			
		Standard case fee	
In the: Compulsory jurisdiction and Voluntary jurisdiction		~~£650~~ £750 unless it is a *not-for-profit debt advice body* with *limited permission* in which case the amount payable is £0	
Notes			
1	The definition of standard case fee is in *FEES* 5.5B (Case fees). The definition of *chargeable case* is in the Glossary to the *Handbook*.		
2	The standard case fee will be invoiced by the *FOS Ltd* on or after the date the case is closed.		
3	A *respondent* will only be invoiced a case fee for the 26th and subsequent *chargeable case* in each *financial year.*		
4	The definition of *not-for-profit debt advice body* is in the Glossary to the *Handbook*.		
5	The definition of *limited permission* is in the Glossary to the *Handbook*.		

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Part 3 – Charging groups
The *charging groups*, and their constituent *group respondents*, are listed below. They are based on the position at 31 December immediately preceding the *financial year*. For the purposes of calculating, charging, paying and collecting the special case fee, they are not affected by any subsequent change of ownership.

1	Barclays Group, comprising the following *firms*: Barclays Asset Management Limited Barclays Bank Plc Barclays Bank UK Plc Barclays Capital Securities Limited Barclays Insurance Services Company Limited Barclays Investment Solutions Limited Barclays Mercantile Business Finance Limited Barclays Private Clients International Limited Barclays Sharedealing Barclays Stockbrokers Limited Clydesdale Financial Services Limited Firstplus Financial Group Plc Gerrard Financial Planning Ltd Monument Insurance DAC Solution Personal Finance Limited Standard Life Bank Plc Woolwich Plan Managers Limited Zedra Trust Company (UK) Limited

2	HSBC Group, comprising the following *firms*: B & Q Financial Services Limited HFC Bank Limited HSBC Alternative Investments Limited HSBC Bank Malta plc HSBC Bank plc HSBC Bank USA NA, London Branch HSBC Equipment Finance (UK) Limited HSBC Finance Limited HSBC France HSBC Global Asset Management (France) HSBC Global Asset Management (UK) Limited HSBC International Financial Advisers (UK) Limited HSBC Investment Funds HSBC Life (UK) Limited HSBC Private Bank (Luxembourg) S.A. HSBC Private Bank (UK) Limited HSBC Securities (USA) Inc HSBC Trinkaus & Burkhardt AG HSBC Trust Company (UK) Ltd HSBC UK Bank plc John Lewis Financial Services Limited Marks & Spencer Financial Services plc Marks & Spencer Savings and Investments Ltd Marks & Spencer Unit Trust Management Limited The Hongkong and Shanghai Banking Corporation Limited

3	Lloyds Banking Group, comprising the following *firms*: AMC Bank Ltd Bank of Scotland (Ireland) Limited Bank of Scotland Plc Black Horse Limited BOS Personal Lending Limited Cheltenham & Gloucester plc Clerical Medical Financial Services Limited Clerical Medical Investment Fund Managers Ltd Clerical Medical Investment Group Limited Clerical Medical Managed Funds Limited Halifax Financial Brokers Limited Halifax General Insurance Services Limited Halifax Insurance Ireland Ltd Halifax Investment Services Ltd Halifax Life Limited Halifax Share Dealing Limited HBOS Investment Fund Managers Limited Housing Growth Partnership Manager Limited HVF Limited Hyundai Car Finance Limited International Motors Finance Limited IWeb (UK) Limited LDC (Managers) Limited Legacy Renewal Company Limited Lex Autolease Ltd Lex Autolease Carselect Limited Lex Vehicle Leasing Ltd Lloyds Bank Corporate Markets Plc Lloyds Development Capital (Holdings) Limited Lloyds Bank Plc Lloyds TSB Financial Advisers Limited Lloyds Bank General Insurance Limited Lloyds Bank Insurance Services Limited Lloyds Bank Private Banking Limited

	Loans.co.uk Limited NFU Mutual Finance Limited Pensions Management (SWF) Limited Scottish Widows Administration Services Limited Scottish Widows Annuities Limited Scottish Widows Bank Plc Scottish Widows Fund Management Limited Scottish Widows Limited Scottish Widows plc Scottish Widows Unit Funds Limited Scottish Widows Unit Trust Managers Limited Shogun Finance Limited St Andrew’s Insurance plc St Andrew’s Life Assurance Plc Suzuki Financial Services Limited SW Funding plc The Mortgage Business Plc MBNA Limited United Dominions Trust Limited

4	RBS/NatWest Group, comprising the following *firms*: Adam & Company Investment Management Ltd Adam & Company Plc Coutts & Company Coutts Finance Company Lombard Finance Ltd Lombard North Central Plc National Westminster Bank Plc National Westminster Home Loans Limited NatWest Markets N.V. NatWest Markets Plc RBOS (UK) Limited RBS Asset Management (ACD) Ltd RBS Asset Management Ltd RBS Collective Investment Funds Limited RBS Equities (UK) Limited RBS Investment Executive Limited The Royal Bank of Scotland Group Independent Financial Services Limited The Royal Bank of Scotland N.V. The Royal Bank of Scotland Plc Ulster Bank Ireland Limited Ulster Bank Ltd

5	Aviva Group, comprising the following *firms*: Aviva Administration Limited Aviva Annuity UK Limited Aviva Equity Release UK Limited Aviva Health UK Limited Aviva Insurance Limited Aviva Insurance Services UK Limited Aviva Insurance UK Limited Aviva International Insurance Limited Aviva Investment Solutions UK Limited Aviva Investors Global Services Limited Aviva Investors Pensions Limited Aviva Investors UK Fund Services Limited Aviva Investors UK Funds Limited Aviva Life & Pensions UK Limited Aviva Life Services UK Limited Aviva Pension Trustees UK Limited Aviva Wrap UK Limited CGU Bonus Limited CGU Underwriting Limited Commercial Union Life Assurance Company Limited Gresham Insurance Company Limited Hamilton Life Assurance Company Limited Hamilton Insurance Company Limited Norwich Union Life (RBS) Limited Scottish Boiler and General Insurance Company Ltd The Ocean Marine Insurance Company Limited Friends Annuities Limited Friends Life and Pensions Limited Friends Life FPLMA Limited Friends Life Investment Solutions Limited Friends Life Limited Friends Life Marketing Limited Friends Life Services Limited Friends Provident International Limited Sesame Limited

6	Direct Line Group, comprising the following *firms*: Churchill Insurance Company Limited UK Insurance Limited UK Insurance Business Solutions Limited
7	Nationwide Building Society Group comprising the following *firms*: Cheshire Building Society Derbyshire Building Society Derbyshire Home Loans Ltd E-Mex Home Funding Limited Nationwide Building Society Nationwide Independent Financial Services Limited Portman Building Society The Mortgage Works (UK) Plc UCB Home Loans Corporation Ltd
8	Santander Group, comprising the following *firms*: Abbey Stockbrokers Limited Cater Allen Limited Santander Cards UK Limited Santander Consumer (UK) Plc Santander UK Plc Santander ISA Managers Limited Hyundai Capital UK Limited Santander Financial Services Plc

Part 4 – Special case fees

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3	The special case fee for each *charging group* is a total amount calculated as follows:
	(1) in respect of new *chargeable cases (PPI)* – {£0 x [~~100,000~~ <u>20,000</u>] x the 'proportion X'} – {£0 x 50}
	(2) in respect of closed *chargeable cases (PPI)* – £~~650~~ <u>750</u> x [~~140,000~~ <u>30,000</u>] x the 'proportion Y'
	(3) in respect of closed *chargeable cases (general)* – £~~650~~ <u>750</u> x [~~165,000~~ <u>180,000</u>] x the 'proportion Z'} – {£~~650~~ <u>750</u> x 50}

4	The *FOS Ltd* will invoice each *charging group* for the special case fee (calculated as above) in four equal instalments, payable in advance on the following dates during the *financial year*: (1) 1 April (or, if later, when *FOS Ltd* has sent the invoice); (2) 1 July; (3) 1 October; and (4) 1 January.
5	Year-end adjustment:
	(1) If the actual number of new *chargeable cases (PPI)* referred to the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is more than 10,000 and is more than [115%] of {[~~100,000~~ 20,000] x the 'proportion X'}: (a) the *FOS Ltd* will invoice the *relevant charging group*; and (b) the relevant *charging group* will pay to *FOS Ltd*; an additional £35,000 for each block of 100 (or part thereof) new *chargeable cases (PPI)* in excess of the [115%].
	(2) If the actual number of *chargeable cases (general)* closed by the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is more than [115%] of {[~~165,000~~ 180,000] x the 'proportion Z'}: (a) the *FOS Ltd* will invoice the *relevant charging group*; and (b) the relevant *charging group* will pay to *FOS Ltd*; an additional £~~65,000~~ 75,000 for each block of 100 (or part thereof) closed *chargeable cases (general)* over the [115%].
	(3) If the actual number of *chargeable cases (general)* closed by the *Financial Ombudsman Service* in respect of *group respondents* during the *financial year* is less than [85%] of {[~~165,000~~ 180,000] x the 'proportion Z'}, the *FOS Ltd* will promptly repay to the relevant *charging group* £~~65,000~~ 75,000 for each block of 100 (or part thereof) closed *chargeable cases (general)* under the [85%].

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