

Approved budget and consultation feedback 2012/2013

27 March 2012

Overview

Each year in January and February the Financial Ombudsman Service consults its stakeholders on its plans and budget for the coming financial year.

The consultation paper we published in January 2012 explained our proposed plans for the 2012/2013 financial year - against the background of what had happened in the first nine months of the financial year 2011/2012.

We invited comments from stakeholders on these plans. We have also had discussions with key trade associations, industry practitioners and consumer groups.

Our approved budget for 2012/2013

Taking into account the feedback we have received from those who responded to our consultation paper, we have set - with the approval of the Financial Services Authority (FSA) - an operational budget for 2012/2013 of £191.1 million.

This budget means that for the third year running we will be able to freeze both the case fee and the total levy.

This budget will be funded by a combination of levies and case fees paid by financial businesses. As we originally proposed, the overall levy for the "compulsory jurisdiction" has been set at £17.7 million - with the levies for the "consumer credit jurisdiction" and the "voluntary jurisdictions" at a combined £2 million. The FSA has consulted separately on the allocation of the "compulsory jurisdiction" levy.

The standard case fee for 2012/2013 will remain at £500. Financial businesses will be charged this case fee only for the *fourth* (and any subsequent) case during the year. However, we have also introduced a new supplementary case fee of £350 for PPI mis-selling complaints. This will be payable when we formally take on ("convert") a complaint involving PPI mis-selling - but it will be charged only when businesses have more than 25 of these cases a year.

This is to enable us to gear-up to deal with a substantially increased PPI caseload next year - while ensuring that those not involved in selling PPI do not have to meet the costs that large volumes of PPI disputes will create.

Our approved budget for 2012/2013

Income	£ million
General levy	17.7
Other levy	2.0
Case fees	119.6
Supplementary case fees	52.4
Other income	0.2
Provision for bad/doubtful debts	-0.8
Total	191.1

Expenditure	£ million
Staff and staff-related costs	148.8
Professional fees	6.8
It costs	7.4
Premises and facilities	17.4
Other costs	5.6
Depreciation	5.4
Investment	6.1
Total operating costs	197.5
Financing costs	0
Surplus/deficit	-6.4

Estimated number of resolved cases	260,000
Unit cost (£)	760

Of the 260,000 cases we expect to resolve during the year, we assume that 130,000 will relate to PPI.

The volumes and costs of handling cases connected with PPI is a very significant uncertainty in our budget for 2012/2013. In addition to the *number* of cases being referred to businesses, the *way* in which businesses handle complaints - and the way in which both parties respond to our early involvement in a case - can all have significant impacts on our complaint volumes and costs.

Summary of responses to our consultation paper

We summarise below the feedback we received from stakeholders on each of the themes we set out in our consultation paper. We also explain below how we have decided to proceed in the light of this feedback.

Our plans for developing our service

We asked our stakeholders for their views on our plans for developing our service - and what stakeholders believe our priorities should be over the next year.

There was general support from stakeholders for our plans. They gave the highest priority to our plans for improving the quality and consistency of the decisions we make.

Other priorities included continuing to control the costs of the service, providing effective feedback to businesses on the lessons learned from our work, "e-enabling" the service, and improvements to the timeliness of our decisions.

Volume of new cases

We asked our stakeholders what volumes of new cases they expected to be referred to us - and whether the assumptions we had made for volumes of new cases seemed reasonable. We had assumed that volumes of cases *other than* PPI complaints would increase by around 5%.

Most stakeholders believed that our assumptions on the volume of cases we were likely to receive in 2012/2013 were reasonable. A few businesses, however, thought that we may have underestimated the likely impact of the abolition, in July 2012, of the "two-stage" complaints-handling process (under the FSA's "DISP" rules) - which could lead to a temporary increase in the cases we receive.

All stakeholders, however, agreed that forecasting new case volumes was inherently difficult - and so it would be important to continue to engage with financial businesses throughout the year, in order to identify emerging trends.

We agree with this. On the basis of this feedback, we have continued to use the caseload assumptions we originally made. But we will keep the assumptions under review as the year progresses.

Volume of PPI cases

We asked our stakeholders about the volumes of complaints about PPI sales that they believed we would receive - and whether our plans for dealing with these cases were realistic. We had assumed that we would receive around 15% more PPI cases in 2012/2013 than in the current year.

The majority of respondents thought that our assumptions were reasonable - with many highlighting the role of claims-management companies behind these higher volumes of incoming PPI cases. A few financial businesses, however, thought that at least *some* of this increase might be offset by better PPI complaints-handling by businesses.

On the basis of this feedback, we have continued to use the assumptions we originally made about the volumes of PPI cases we were likely to receive. But there is clearly considerable uncertainty about these forecasts.

Funding proposals

We also asked our stakeholders for views on our proposals to freeze the levy and the standard case fee - and to introduce a supplementary PPI case fee.

These proposals were made while recognising that our ability to settle cases efficiently would be significantly affected by:

- Unprecedented volumes of PPI complaints - with the "industrialisation" of PPI complaints-handling across the financial services sector.
- Fewer cases capable of being resolved quickly by informal settlements (with some businesses now improving their complaints handling - and resolving more straightforward cases satisfactorily themselves).
- A larger proportion of harder-fought disputes, as businesses and consumers increasingly take more entrenched attitudes and appeal to our ombudsmen for a final decision.

Against this background, there was universal support for our proposals to freeze the levy and the standard case fee. So, as proposed, we have set the overall levy for the "compulsory jurisdiction" at £17.7 million - and retained the amount of the standard case fee at £500.

Consumer organisations and representatives of many industry sectors supported our proposals to introduce a supplementary PPI case fee - arguing that this was the fairest way of apportioning the increased costs driven by our PPI caseload.

However, businesses who would *pay* the supplementary PPI case fee were opposed to it - and made a number of arguments. These included the following:

- They did not understand the basis on which a fee of £350 had been calculated - not least as they claimed that PPI cases were potentially less costly to resolve than other ones.
- They were wary of a precedent being set - and wanted any supplementary case fee to be temporary, if there *had* to be one.

- A supplementary fee would increase administrative costs both for businesses and for the ombudsman service - and it did not take into account different "uphold rates" between businesses.
- Charging the supplementary case fee when the case was "converted" ("taken on" as a formal case by the ombudsman service) would not take into account the number of "baseless" complaints submitted by claims-management companies.
- A combined case fee of £850 could encourage inappropriate behaviour by claims-management companies, who should meet some of the costs themselves (although some businesses recognised that the ombudsman service does not have the power to charge claims managers).

We expect the *overall* cost per case in 2012/2013 - including both PPI and *non*-PPI cases - to be around £760. But this masks a significant difference between the expected cost of resolving PPI cases and that of resolving *non*-PPI cases.

This higher cost - which the supplementary case fee of £350 is intended to bridge - reflects a number of factors unique to cases involving mis-sold PPI.

In particular, we are managing our unprecedented PPI caseload as a single unit, which involves significant up-front costs - including the acquisition of new premises, and the development of new operational processes. The recruitment and training of large numbers of new staff will be a particularly significant cost in relation to PPI in 2012/2013.

So as proposed, we have introduced the supplementary case fee in relation to PPI mis-selling complaints referred to the service from 1 April 2012. We accept, however, that the cost of handling PPI cases *after* 2012/2013 - and the cost difference compared to *non*-PPI cases - is difficult to predict and is likely to change.

We will, therefore, consider afresh the need for a PPI supplementary case fee - and its amount - when we consider next year our funding needs for 2013/2014.

Other issues

A number of larger financial businesses stressed the importance of the ombudsman service continuing to deepen its engagement with businesses, in order to ensure the more efficient resolution of cases. We agree with this.

Two trade associations asked whether it remained fair to have a continued flat-rate case fee, irrespective of the outcome of a case - and suggested that greater recognition should be given to cases that clearly had no merit or which were outside our jurisdiction. We are addressing these issues as part of our separate consultation on modernising our case fee arrangements from April 2013.

Organisations who responded to our consultation

The following organisations responded to our consultation paper. A further five organisations, who are not listed, also provided responses but requested that these be kept confidential.

- Association of British Insurers
- AXA UK
- British Bankers Association
- British Retail Consortium
- Building Societies Association
- Capital One (Europe) plc
- Cardif Pinnacle
- Consumer Council of Northern Ireland
- Finance and Leasing Association
- Financial Services Consumer Panel
- GE Money Home Lending
- IFA Centre
- Nationwide Building Society
- NFU Mutual
- Royal & Sun Alliance Insurance plc
- Standard Life plc
- St James's Place
- Trading Standards Institute
- UK Cards Association
- UK European Consumer Centre / European Consumer Centre for Services