



Financial Ombudsman Service

Plan & Budget 2002/03

For the year ending 31 March 2003



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Please send your comments by 21 February 2002 to

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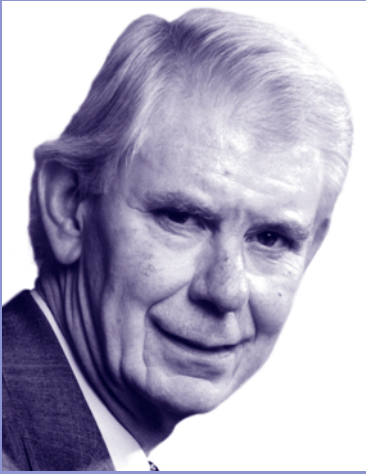
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chapter one

foreword by the chairman



Andreas Whittam Smith
Chairman



This is the second year in which we have consulted on our plan and budget. As before, we are keen to hear from all those with an interest in the cost and efficiency of our service.

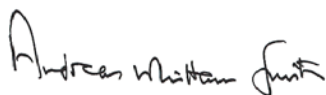
In the current year we have had to absorb the full impact of the endowment mortgage complaints generated by the flood of re-projection letters that investment firms have sent to their customers.

The coming year looks to be an uncertain one. HM Treasury's announcement – in December 2001 – that the Financial Services Authority (FSA) will regulate mortgage and insurance intermediaries, means that this area of complaint work will eventually come into our Compulsory Jurisdiction. It is still unclear whether, until then, it can be brought into the Voluntary Jurisdiction in the coming year. But whenever it comes, we can expect substantial increases in the volume of work.

In the short-term, next year's mortgage endowment re-projection letters could increase our workload. On the other hand, there are hopeful signs of a decrease in underlying complaint numbers. We aim to respond flexibly to any major alteration in the volumes of complaints we receive, but it is also important that we maintain a stable organisation.

When, in April 2000, we took over the administration of the schemes we inherited, the average unit cost per case had been £730 in the previous year – 1999/2000. We had immediately to invest substantial sums in the new organisation and the unit cost in 2000/01 rose to £753. Our aim was to bring down the unit cost to the level we had inherited – or below if possible. In the current year, we expect the unit cost to have reduced to £688. Of course, some of that reduction is attributable to the increased volume of complaints. But even if there is a flattening of complaint numbers, we hope to reduce the unit cost in real terms – by absorbing staffing cost increases and inflation – and by keeping the unit cost at the same level as in the current year – £688.

Our budget will require approval from the FSA, and we will report to the FSA on the response to this consultation when we seek final approval.



Andreas Whittam Smith

January 2002

chapter two
executive
summary

‘we have introduced our
new business process
and supporting
case-handling system’

introduction

- 2.1** The purpose of this document is to report on the performance of the Financial Ombudsman Service during 2001/02 and to consult on costs and funding for the year to March 2003. The Financial Services and Markets Act came into force in December 2001 and this will be the first year that we will recover our costs directly from firms by way of a general levy and case fees. The arrangements for the funding of the Financial Ombudsman Service were consulted on in consultation papers CP33 and 74 and finalised in the Policy Document, *Dispute Resolution: the Complaints Sourcebook*.
- 2.2** This document also consults on the rule to apply the relevant funding rules in the FSA Handbook, Module DISP Chapter 5, to the funding of the Voluntary Jurisdiction, from April 2002. This will be included in the Standard Terms (FSA Handbook, Module DISP, Chapter 4).
- 2.3** The focus of this year has been preparation for 'N2', the date when we assumed our full responsibilities under the Financial Services and Markets Act. This has included the introduction of a new business process and case-handling system, finalising new eligibility, process and funding rules, and harmonising ombudsman policy. We have also had to react to the high level of mortgage endowment complaints and to maintain quality targets in call handling and processing.

key points of the current year 2001/02

- 2.4** A summary of the key points of the current year – 2001/02 – is as follows:
- a) new complaints** There are indications that the level of new complaints is finally slowing. Overall, we are still forecasting an increase of 21% in new complaints in 2001/02 compared with the previous year, largely due to mortgage endowment complaints. The number of new complaints overall is still increasing, but the last few months have seen a perceptible slow down in the rate of increase, which is welcome news.
- b) case closures** During the year, we have introduced our new business process and supporting case-handling system. Developing a new system poses a significant risk for any organisation but despite the inevitable disruption, we still expect to achieve our 2001/02 case closure forecast of 38,500.
- c) unit cost** In our plan and budget for 2001/02, we forecast a fall in the unit cost from £764 to £688. In cash terms, this was a decrease of £76 (allowing for inflation, it was a decrease of around £100). At present, we expect to meet the target of £688.

- 2.5** As we look towards 2002/03, our main area of uncertainty is the level of new complaints. At present, we have differing indicators as to the future trend. As mentioned above, there are indications of a slowdown in the level of new complaints reaching us, but several other factors – discussed in Chapter 5 – suggest that this might not be a long-term trend.

**key points
for the
budget year
2002/03**

- 2.6** Key points for the budget year 2002/03 are as follows:

- a) **new complaints** Given the uncertainty over the level of new complaints, we have assumed that there will be no significant change in the number of new complaints – so the number of new cases is expected to be 37,500. But we have also tested two alternative scenarios: a 10% increase and a 10% fall in new cases.
- b) **productivity** Our assumption for the base case of ‘no growth’ is that we will continue to improve productivity. Overall, we aim to increase productivity by 25% in the three years from 2000/01 to 2002/03. This will result in case closures for 2002/03 rising to 40,000.
- c) **service quality** Following the introduction of our new business process and introduction of the new case-handling system – and the changes associated with N2 – it is important that we introduce formal internal quality control benchmarks from the beginning of the next financial year. These will include quality measurements for both decisions and process and will enable us to monitor the expected improvements in the timeliness and quality of our casework.
- d) **budget and unit cost** The result of these assumptions is a total budget for 2002/03 of £28.2m, an increase of 2.2% over the current year. The forecast unit cost remains in line with this year – in absolute terms – at £688 (*ie* £27.5m costs before interest, divided by the forecast 40,000 case closures). This represents a fall, allowing for inflation, of £20 after absorbing the improved timeliness and service efficiency standards noted above, staff salary increases, and a higher depreciation charge.

conclusion

- 2.7** We welcome any comments on the different aspects of the plan, its assumptions, the level of the case fee and the tariff for the Voluntary Jurisdiction. We also welcome any comments on the proposed additional rule in the Standard Terms for funding the Voluntary Jurisdiction. Any comments on the general levy tariff rates and establishment levy should be made to the FSA, as these matters form part of the FSA’s consultation document, CP119.

chapter three
performance
during the
current year

‘our activities have
concentrated on
preparing for N2’

introduction

- 3.1** Our activities during the year have concentrated on preparing for N2. Although the Financial Ombudsman Service has been operating to all intents and purposes as one entity, in reality it has operated under service level agreements on behalf of the existing schemes. At N2, these arrangements fell away and the Financial Ombudsman Service now operates under its own statutory powers.
- 3.2** The key activities of the year so far have been as follows:
- 3.3 achievement of targets** During a year that has seen considerable challenges with the introduction of our new casework system and business process, and the change associated with N2, we are on target to meet our anticipated number of case closures and our budget for the unit cost.
- 3.4 preparations for N2, including the harmonisation of ombudsman policy** Previously the ombudsmen within the Financial Ombudsman Service operated using different sets of rules, depending on the scheme to which an individual complaint related. Our panel of ombudsmen have met regularly to discuss issues that will arise after N2 and ensure that decisions will be consistent, fair and reasonable across the Financial Ombudsman Service.
- 3.5 finalisation of new eligibility, process and funding rules** In conjunction with the FSA, we have already consulted on draft funding rules and these rules have been published in 'virtual final' form. Rules covering internal complaints-handling procedures, jurisdiction, and investigation procedures have also been made, after consultation with the industry. HM Treasury has made rules relating to transitional arrangements, which extend the scope of our powers to include complaints about pre-N2 business. This will enable us to have a 'seamless' transfer between the old schemes and the new service. Without this, the situation would have been complex, and confusing for consumers.
- 3.6 close co-operation with the FSA on mortgage endowment redress policy** Following the FSA's publication of its regulatory guidance on mortgage endowment complaints, we published an assessment guide detailing the new procedures and the tools we use when considering mortgage endowment complaints. This guide not only helps speed up the process for the cases we deal with, it also enables firms to understand our approach and the amount of compensation we may award, making it easier for them to settle cases satisfactorily themselves, without the need for our involvement.
- 3.7 a pre-N2 focus on communication with the industry, including the publication of *ombudsman news*** Our aim as far as the industry is concerned has been to ensure N2 brought no surprises. To help firms and consumer bodies fully understand the changes coming at N2, we organised training events, workshops and seminars. We produced a

range of technical briefing notes and updates and helped firms distribute over 1.5 million copies of our new complaints leaflets. In addition, we launched a monthly publication, *ombudsman news*, containing case studies and commentaries on topical subjects.

3.8 the introduction of our new business process and case-handling system

Our new unified case-handling system was implemented on time and within budget during the summer of 2001. At the same time, we introduced a new, consistent business process across the case-handling divisions, enabling us to improve our productivity and service quality levels. It will also give us the flexibility to move staff across divisions, where necessary, if there are changes in the balance of the workload.

3.9 an emphasis on complaint prevention Our technical advice desk now deals with around 400 calls a week, mostly from professional complaint-handlers in firms. Firms report that the advice we provide enables them to resolve many complaints themselves, without the need for our direct involvement. In addition, staff in our customer contact division (the division that deals with customers' initial telephone calls or letters) do not simply answer enquiries and process complaints. They actively seek opportunities to resolve disputes at this early stage. Where this can be done, we avoid the need to pass on the complaints to our case-handling divisions for investigation. This helps reduce costs for firms and for ourselves.

3.10 A summary of current forecast workload is as follows:

summary of workload

	2000/01 Actual	2001/02 Budget	2001/02 Forecast
Cases at 1 April	11,800	15,300	14,700
New cases	31,300	38,000	38,000
Closed cases	28,400	38,500	38,500
Cases at 31 March	14,700	14,800	14,200
No of weeks' work outstanding	20	22	20
Productivity *	3.3	3.5	3.7

* Productivity is defined as the number of cases closed per case-handler per week

new cases

3.11 At the end of November 2001, the number of new cases was 29% higher, on a comparable basis, than in the previous year. This rate of increase over last year is unlikely to continue for the rest of the year; there was a sharp increase in new cases in the second half of last year, which has now flattened off.

3.12 If we simply extrapolate the current average weekly new case figure for the balance of the year, we come to a full year figure of around 39,000. However, we are seeing a slowing down in the rate of increase in new cases. Our current best estimate is therefore in line with the original forecast figure of 38,000, which we gave in last year's Plan & Budget.

productivity and timeliness

3.13 At the end of November 2001, our cumulative case closure figure was 24,900. This averages at just over 700 a week. However, this period includes the introduction of the new case handling system. If we just look at the 10 weeks from the beginning of October 2001, the average weekly closure rate has been around 780, representing a productivity rate of around 3.8 cases per case-handler each week. This compares with the average productivity rate last year of around 3.3 and signifies an excellent recovery rate so soon after the introduction of the new process and system.

3.14 At current levels, we should achieve a closure figure in the range of 37,500 to 38,500. Clearly, if the level of new cases falls sharply in the last quarter of the year, there may be a constraint on the number of cases that can be closed.

3.15 As far as timeliness is concerned, our target in 2001/02 is to complete 70% of cases within six months of the date when we formally accepted them as eligible cases. At present, we are exceeding this target – completing 73% of cases within this timescale. However it must be borne in mind that the closure time is also affected by factors outside our control, for example, awaiting replies from consumers, member firms, or technical experts.

expenditure

3.16 The approved 2001/02 operating cost budget for the Financial Ombudsman Service (before financing) was £26.5m. We expect costs for 2001/02 to be in line with this budget. A summary is set out in appendix D.

unit cost

3.17 The target unit cost for 2001/02 was £688 (operating costs divided by case closures). At present we are still on course to achieve this figure. If there were a sharp falling away of new cases in the last few months of the year, that could result in our failing to attain this target.

