the role of the Financial Ombudsman Service in the UK redress landscape

Caroline Wayman
principal ombudsman and legal director
Financial Ombudsman Service
The office of Parliamentary Commissioner for Administration (Parliamentary Ombudsman) was the first ombudsman scheme created back in 1967.

The first private sector ombudsman was the Insurance Ombudsman Bureau (IOB) established in 1981 and others quickly followed.

In 2001 a number of voluntary schemes (banking, building societies, insurance and investment) were brought together by law to form the Financial Ombudsman Service.

Statutory private-sector ombudsman schemes now exist in other sectors – and non-ombudsman forms of “alternative dispute resolution” (ADR) have also grown, backed by various voluntary codes.
The Ombudsman Association (formerly the British and Irish Ombudsman Association) five key criteria:

- Independence
- Fairness
- Effectiveness
- Openness and transparency
- Accountability
ombudsmen across the consumer world

- Statutory ombudsman schemes now exist in sectors such as legal services, energy and property services.
- The current landscape can be confusing for consumers, with some businesses covered by multiple ombudsman schemes and some sectors having more than one ombudsman scheme.
- This has made it increasingly important for ombudsman schemes to work together to deliver a redress framework that can be easily understood both by consumers and businesses.
- We have been working to this end with government departments, regulators and other ombudsman schemes.
We operate within the financial services framework, which includes the following statutory bodies:

- Financial Services Authority / Office of Fair Trading
- Money Advice Service
- Financial Ombudsman Service
- Financial Services Compensation Scheme
We were set up by law to resolve individual complaints between consumers and financial businesses about a wide range of financial matters.

We are independent and impartial – so when we decide a complaint, we look carefully at both sides of the story and weigh up all the facts.

If we decide a business has acted wrongly – we can direct it to put things right.

Consumers are always free to go to court instead - but if the consumer does accept our decision then it becomes binding.

Our award limit has increased from £100,000 to £150,000 for complaints referred to us on or after 1 January 2012.
our approach

- We decide each case by reference to what is **fair and reasonable** in all the circumstances.

- In considering what is fair and reasonable we will take into account, relevant:
  - law and regulations;
  - regulators’ rules, guidance and standards
  - codes of practice; *and*
  - (where appropriate) what is considered to have been good industry practice at the relevant time.
our workload

- Over **1.25 million** initial enquiries received in 2011/2012.

- **1 in 5** of these enquiries turned into a formal dispute, resulting in a **record 264,375 new cases**.

- This is a **28% increase** on the 206,121 new cases received in 2010/2011.

- It is the highest number of new cases we have received **in any year** since we were set up.

- The record level in 2011/12 resulted from a **51% increase** in complaints about **PPI**.
“mass complaints” and the ombudsman

- Since we were set up we have received over 1.4 million complaints with over half of these involving so-called “mass complaints”.

- The most complained-about financial products since we were set up include:

  - **25%** payment protection insurance (PPI)
  - **21%** mortgage endowments
  - **7%** bank and credit-card charges
  - **47%** other

- The most recent “mass complaint” issue (PPI) is having a substantial impact on our workload.
PPI: overview

- In 2011/2012 we received a further 157,716 PPI complaints.

- PPI accounted for 60% of our total new workload during the year and we recently received our 500,000th PPI complaint.

**Annual trend:**

- 2012: 157,716
- 2011: 104,597
- 2010: 49,196
- 2009: 31,066
- 2008: 10,652
- 2007: 1,832

*Year ended 31 March*
“mass complaints”: the challenges

- We are a “demand led” organisation so forecasting the volume of complaints likely to be referred to us is a crucial part of our planning.
- So-called “mass complaints”, and the way in which financial businesses deal with them, can make this difficult and raise major operational challenges.
- The challenges of our PPI caseload are unprecedented and there is considerable uncertainty around likely volumes in future years.
- PPI now makes up the majority of our cases (but five years ago accounted for just 2%). So we have had to substantially increase our capacity to reflect this.
PPI: our “change programme”

- We are **rapidly expanding** our case-handling capacity at all levels - including at the more senior ombudsman level.
- We are looking to **streamline processes** – making our processes quicker – without reducing standards of service / quality.
- We are exploring **how technology can help us** reach more people and increase efficiencies – *eg* through “e-enablement”;
- We are **developing the expertise of our people** even further by introducing stronger professional development.
- We have introduced a **supplementary PPI case fee** and consulted on a **new charging structure** for businesses.
complaint landscape

- The complaint landscape has changed significantly since we were set up in 2000.
- In 2000/2001 we received 31,347 new complaints while in 2011/2012 we received 264,375;
- The impact of so-called “mass-complaints” has been significant.
- The impact of harder times – with family finances and job security coming under pressure – has also been significant.
- Consumers and businesses are becoming more entrenched and we are seeing cases being harder fought.
- The proportion of complaints referred to us by claims managers on behalf of consumers has continued to rise.
46.5% of all new cases brought to us in 2011/12 were made on behalf of consumers by a claims manager (88% of these were about PPI):

- 88% payment protection insurance (PPI) complaints
- 8% credit card complaints
- 1.5% mortgages
- 2.5% other types of complaint (including pensions, current accounts and mortgage endowments)
We do all we can to make sure claims managers who refer complaints to us understand and follow our processes.

We meet regularly with the larger claims managers and their trade associations to identify practical steps that can be taken.

We work closely with the Claims Management Regulator (a part of the Ministry of Justice). But we do not handle complaints ourselves about claims managers.

We continue to tell consumers that they do not need the help of a claims manager to bring a complaint to us.

But we understand that there will always be some consumers who will want someone by their side to fight their case.
lessons learned

- Our work in resolving disputes has a significantly greater impact if the lessons learned can be fed back to prevent future problems.
- This is why we have continued our work to make the activities and decisions of the ombudsman service even more open and transparent.
- We completed a consultation on our proposals for publishing ombudsman decisions (with information about consumers kept confidential).
- We have invested significant time in helping financial businesses learn from what we see – through events, outreach and publications.
lessons learned (cont)

- We continue to have close dialogue with the FSA and OFT – both through the joint “co-ordination committee and on specific issues.
- This has helped to identify emerging issues that affect large numbers of consumers or businesses – and where regulatory action may be needed.
- We remain fully committed to developing a similarly close and effective working relationship with the new FCA,
- The new FCA will have a much greater focus on earlier intervention. The insight we provide can help the FCA to prevent problems from escalating.
benefits of an ombudsman

- It provides an informal alternative to the courts and is seen as being quicker, cheaper and more accessible.
- It allows disputes to be resolved at relatively low cost and is free to consumers (funded by industry).
- It provides consumers with the certainty that a complaint will be taken forward and a decision made on it.
- It can help to improve consumer trust and confidence across the business sector.
- It can help businesses to learn from situations where things have gone wrong – to help prevent future problems.
- It provides strong incentives for businesses to resolve complaints effectively and efficiently in the first place.