

Stakeholder team – consultation responses
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AFM Response to Financial Ombudsman on consultation ‘our 2020/21 plan and budget’

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
 - Comment on the Services’ future plans; and
 - Reinforce our concerns about its proposed levy and fee structure for 2020/21 and beyond.
2. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not for profit basis). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £19.6 billion, and employ nearly 30,000 staff¹.
3. The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. In particular, FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses² and to take account of corporate diversity³.

¹ ICMIF, <https://www.icmif.org/publications/market-insights/market-insights-uk-2016>

² Financial Services Act 2012, section 138 K: <http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted>

³ <http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted>

4. We appreciate the opportunity to respond on the proposed plan and budget. The Service is an integral part of the financial system in the United Kingdom, and provides a vital and unrelenting opportunity to enhance consumer protection, to reinforce trust in the financial system, as well as to provide the relevant incentives for firms to treat their customers fairly.
5. The concept of a 'cheap and cheerful' system of arbitration, which was very apparent in the early stages of the FOS, has become less relevant, both as the scale of the Service has increased, but also as its role of considering individual cases on their merit has been superseded by a core role in addressing more systemic problems, such as PPI mis-selling.
6. In assessing its future strategy, we found the research by FOS, amongst businesses and consumers, to be illuminating and informative. In particular, the box on 'what matters the most?' on page 34, appears to summarise succinctly the values consumers seek from FOS (free, simple to access, high standards of service and timely decisions). We consider these virtues should remain central to the way FOS operates.
7. This is inferred by the proposed strategic priorities, but we think demonstrating the FOS remains committed to delivering a service that meets customer expectations across these values, might be more clearly stated in those priorities. As currently stated, the strategic priorities on page 35 appear a little abstract, and run the risk that significant resource is diverted towards forward-looking, aspirational projects, for which value is difficult to measure and which reduces the current efficiency of the Service.
8. We were less inclined to see the value in the analysis on pages 31 and 32. The chart recognises 'enhancements to the customer journey' and 'a commitment from business to responding to expectations of being more socially responsible'. But for FOS to describe these developments as 'challenges to our landscape' seems an unfortunately narrow perspective, and infers that anything that reduces demand for your service is a problem. Instead, where FOS is part of the overall financial system, anything that enhances customer experiences and improves outcomes must be seen in a positive light, particularly if it reduces the number of dissatisfied customers and complaints in the system. Furthermore, we would have expected the same focus on vulnerable consumers in this section as in earlier parts of the document.

9. AFM made a carefully considered and researched response to your previous consultation on the future funding model for FOS⁴. We disagreed with the proposals, and were disappointed and surprised therefore that this document has disregarded those arguments and that FOS is ploughing on with a proposed funding structure that appears to be more focused on preserving income in your business, rather than providing an environment in which firms are rewarded for handling complaints fairly. In any other business, shrinking demand would lead to actions to reduce costs and manpower, rather than to dramatically increase prices.

10. Whilst we agree therefore with the need for a financially stable Financial Ombudsman Service, we do not agree with the proposed changes to fees and levies put forward, or the lack of effective analysis to support them.

11. We have responded to the specific questions raised in the consultation below, and would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,



Martin Shaw
Chief Executive
Association of Financial Mutuals

⁴ <https://financialmutuals.org/wp-content/uploads/2019/08/AFM-response-to-FOS-on-our-future-funding.pdf>

Responses to the questions raised in the consultation

1. *What do you think about our projections for the volumes of complaints we'll receive and resolve in 2019/20?*

The consultation highlights the constant challenge for FOS, in projecting accurately the amount of activity for the future.

Whilst it can be argued that the number of complaints received is outside the Service's control, the differences between the budget and the forecast are surprisingly high (315,000 forecast against 460,000 budgeted), which suggests opportunities to improve the accuracy of planning assumptions are necessary.

Similarly, the precision in budgeting for resolved complaints is equally flawed (310,000 forecast against 510,000 budgeted), though here we see greater opportunity for FOS to control activity. Theoretically, receiving a third fewer complaints than budgeted should allow staff to be diverted to resolution, and it is not clear from the commentary why resolved volumes are only 60% of plan.

As it stands, the forecast activity indicates the stock of complaints in resolution will increase during the year. Whilst FOS does not declare how high this stock is, it is an unwelcome outcome for the year.

2. *What's your perspective on the trends we've identified in 2019/20?*

As our members are focused on narrow ranges of insurance and investment products, we do not have a view on banking, PPI and pension-related complaints.

We note that FOS indicates the stream of insurance complaints is below the expectations of both FOS and stakeholders; however, from the perspective of our members, who have traditionally only generated small volumes of complaints to FOS, we are not surprised by current trends, given a relatively benign market for insurance in 2018 and 2019. There is evidence of the market hardening, and combined with FCA's review on general insurance, we anticipate that later in 2020 the volume of complaints may increase.

For non-pension related investment products, we see no reason to assume the reducing volume of complaints seen in recent years will not continue.

3. *Are there other trends you're seeing, or any insights you have, that you think we should take into account for the rest of 2019/20?*
4. *Do you have any views about how our new CMC and SME jurisdictions have been operating?*

As covered above, we do not have anything to add in these areas.

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

As covered above, we do not have anything to add.

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

We agree with the expected reduction in the volume of new complaints in 2020/21.

The proposed budget sees a reduction in the number of complaints resolved, albeit with a welcome reduction in the end of year stock of complaints.

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

We agree that the volume of PPI complaints are likely to remain relatively high, as firms taken time to issue final letters.

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

We have no relevant knowledge.

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

FOS's insight into the growing complexity of complaints, and the increasing incidence of failure by firms is helpful.

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

We note the budget provides for a significant increase in staff costs and staff-related costs, though also for a small reduction in headcount. We accept the need to increase professionalism, and to support staff to improve efficiency. We assess the average staff costs per FTE will rise from £43,300 to £50,000, which is a substantial 15% increase in cost per employee. We can't comment on the specific labour market conditions for Ombudsman staff, though we don't see other regulators making such a substantial increase in staff costs.

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

The budget seeks a four-fold increase in the FOS levy for 2020/21, compared to 2018/19. We responded previously in detail on the detrimental effects of this to our members, and see no new arguments put forward by FOS to substantiate their decision.

The proposal to increase the case fee to £650 from 1 April, including those received in the past means the change is retrospective and does not reflect that firms will be paying higher fees due to backlogs in the Service.

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

13. Do you agree with our proposed strategic priorities?

We have addressed these questions in our cover letter.