Financial Ombudsman Service

FCA FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP25/22

Modernising the Redress System

July 2025

How to respond

The FCA and the Financial Ombudsman Service are asking for comments on this Consultation Paper (CP) by **8 October 2025**.

You can send them to us using the form on our website.

Or in writing to:

Redress Pathways and Risk Team
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Email:
cp25-22@fca.org.uk

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- a list of the names of respondents who made representations where those respondents consented to the publication of their names,
- an account of the representations we receive, and
- an account of how we have responded to the representations.

In your response, please indicate:

- if you consent to the publication of your name. If you are replying from an organisation, we will assume that the respondent is the organisation and will publish that name, unless you indicate that you are responding in an individual capacity (in which case, we will publish your name),
- if you wish your response to be treated as confidential. We will have regard to this indication but may not be able to maintain confidentiality where we are subject to a legal duty to publish or disclose the information in question.

We may be required to publish or disclose information, including confidential information, such as your name and the contents of your response if required to do so by law, for example under the Freedom of Information Act 2000, or in the discharge of our functions. The FCA and the Financial Ombudsman are working closely with the Treasury who have published a separate consultation. Given the connected objectives of these respective consultations, we will be sharing responses to this consultation with the Treasury to assist in its review of the Financial Ombudsman and complement policy making in this area.

Please note that we will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

By responding to this publication, you are providing personal data to both the FCA and the Financial Ombudsman, including your name, contact details (including, if provided, details of the organisation you work for), and opinions expressed in your response. We will process personal data to inform our work as regulator and in reviewing and developing complaints handling rules and policy, both in the public interest and in the exercise of our official authority under FSMA. Any information you provide in response to this publication will be shared with the Financial Ombudsman to assess your response, support FCA's ongoing regulatory policy development, enable a review of existing rules and practices on complaints handling, and enable cooperation between the FCA and the Financial Ombudsman. In addition, Chapter 6 includes proposals relating to COMP to help improve FSCS's operational efficiency. Any information you provide in response to this publication which relates to the COMP proposals or other issues relevant to FSCS will be shared with FSCS to help assess your response, support the FCA's ongoing regulatory policy development and enable cooperation between the FCA and FSCS.

Irrespective of whether you indicate that your response should be treated as confidential, we are obliged to publish an account of all the representations we receive when we make the rules.

The Financial Ombudsman will use CoPilot to summarise responses to this consultation. For context Copilot utilises large language models (LLMs), a type of artificial intelligence (AI) algorithm that uses deep learning techniques to understand, summarise, predict, and generate content. Any output generated by CoPilot will be reviewed by a human to ensure accuracy. Please indicate in your response if you object to the use of AI to review your submission.

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Chapter 1

Summary

Why we are consulting

1.1 The Financial Conduct Authority (FCA) and Financial Ombudsman Service (Financial Ombudsman) are seeking stakeholders' views on proposals to modernise the redress framework, to better serve consumers and give firms greater certainty to invest and innovate.

1.2 This consultation paper (CP) follows our November 2024 joint Call for Input (CFI) and summarises the feedback we received. The Treasury has also simultaneously published a consultation, following their Action Plan published 17 March 2025.

1.3 This response should be read alongside their consultation which includes the following proposals:

- Amending the fair and reasonable test in FSMA.
- Changes to the requirement for the Financial Ombudsman to publish all individual ombudsman decisions.
- A dedicated referral mechanism to support the Financial Ombudsman when applying FCA rules to issues with wider implications or where there is potential uncertainty as to whether a firm's approach aligns with FCA expectations.
- Introducing a 10-year time limit, or 'longstop' date for referring complaints to the Financial Ombudsman, from the event giving rise to the complaint.
- Tools to allow the FCA to better manage Mass Redress Events (MREs), improving outcomes for consumers and firms.

1.4 This CP is the outcome of a review of the redress framework referred to in the FCA's strategy and in the Financial Ombudsman's Plan and Budget Consultation 2025-26. The FCA's strategy recognises the current redress regime can create uncertainty for consumers, firms and investors and that greater predictability would contribute to UK growth and international competitiveness.

Who this applies to

1.5 Our proposals are relevant to all consumers, firms and representatives involved in financial services where redress may be due and the Cost Benefit Analysis at Annex 2 explains how the FCA expects the proposals to impact them. The proposals will also be of interest to policymakers in other regulatory bodies, industry advisers and consultancies, academics and think tanks, experts and media commentators.

What we want to change

1.6 We want greater predictability, certainty and transparency, with appropriate responsibility for firms to identify and address redress issues early.

1.7 We are asking for views on the following:

- Good practice examples for identifying and monitoring redress issues, and clarifying the FCA's expectations for firms carrying out proactive redress exercises.
- Amendments to guidance in SUP 15 clarifying when firms should report the identification of issues causing foreseeable harm or systemic issues to the FCA.
- Criteria to help assess if an issue is a mass redress event or has wider implications.
- A new registration stage for complaints and changes to the delegated authority of determinations at the Financial Ombudsman, to improve the quality, consistency and efficiency of case handling and achieve quicker outcomes for consumers.
- Stronger collaboration between the FCA and the Financial Ombudsman, through a new lead complaint process and a referral mechanism to improve consistency in interpretating regulatory requirements.
- Other amendments to the Dispute Resolution: Complaints Sourcebook (DISP) and Compensation Sourcebook (COMP) to improve the operational efficiency of the Financial Ombudsman and the Financial Services Compensation Scheme (FSCS) respectively, for the benefit of consumers and Financial Ombudsman and FSCS levy payers.

Outcome we are seeking

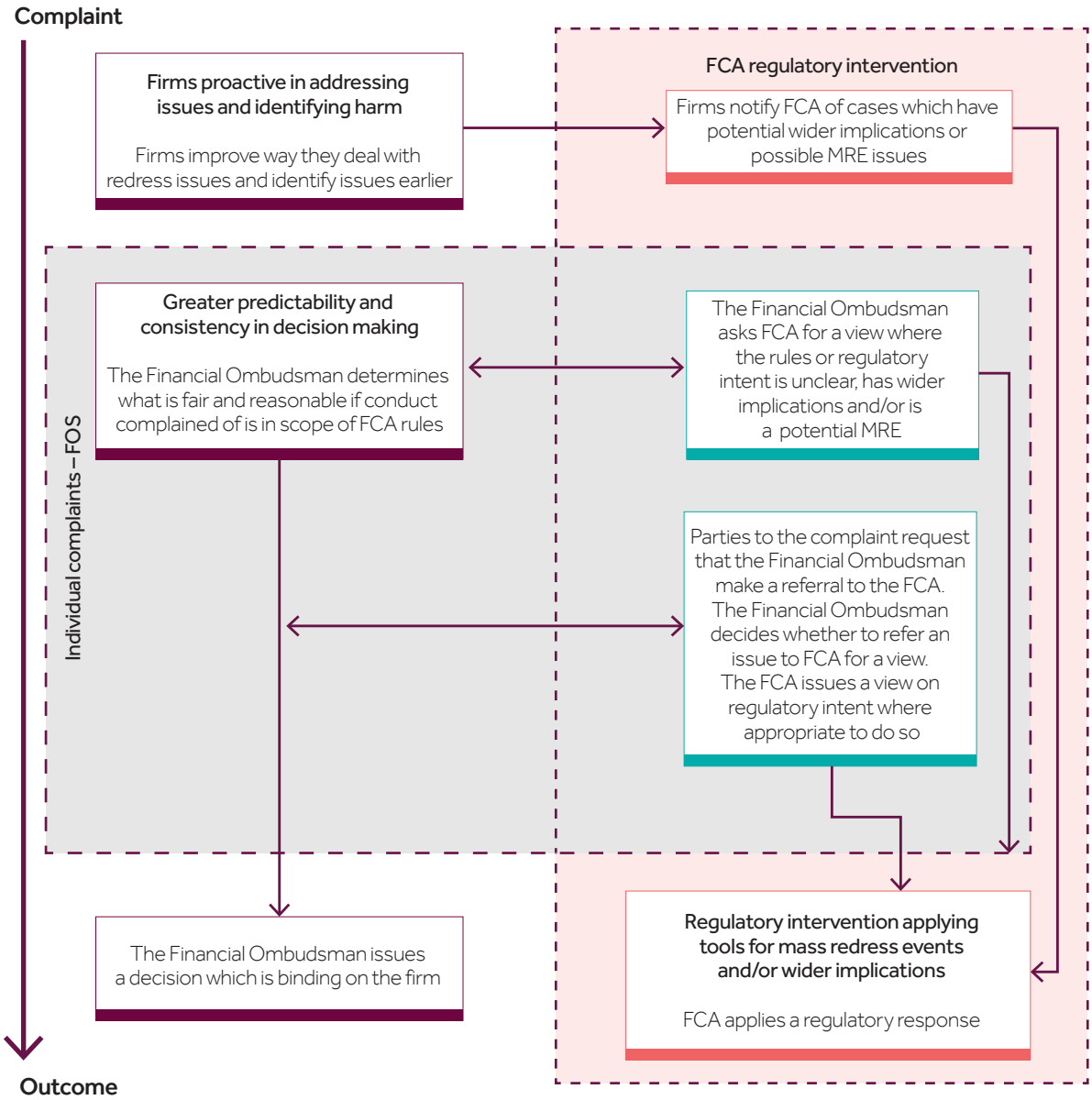
1.8 The proposals in this CP seek to ensure that:

- Consumers can get appropriate redress when things go wrong.
- Firms identify harm at an early stage, proactively address it and resolve complaints more effectively.
- MREs or wider implications issues are identified earlier and notified to the FCA promptly, so problems can be resolved swiftly and efficiently.
- The FCA and the Financial Ombudsman work together to ensure our views on regulatory requirements are consistent, including in relation to the Consumer Duty. This will provide a more predictable regulatory environment, helping to support investment and further the FCA's secondary objective of facilitating growth and the international competitiveness of the UK economy.
- The Financial Ombudsman can resolve complaints more quickly and with minimal formality – with a revised casework model and better-prepared cases leading to faster resolutions, reduced delays and improved outcomes for consumers. The proposals will also encourage earlier redress by firms.
- There is a thriving, internationally competitive financial services sector, with economic growth supported by a more modern, efficient and informal alternative to courts through the Financial Ombudsman.

1.9 A modernised redress framework delivers greater certainty, consistency and predictability for markets overall giving firms more clarity on expected redress payable. Fostering this trust and confidence supports greater investment and innovation across markets and the wider UK economy.

1.10 Figure 1 sets out how our proposals come together, illustrating how we envisage the revised redress system operating:

Figure 1



Measuring success

1.11 We will assess the success of our proposals through:

- Firms feeling more confident in the predictability and consistency of Financial Ombudsman decisions, measured through firm feedback via supervisory channels and other forms of engagement.
- Firms notifying the FCA about material issues and acting more proactively to put them right.
- Reducing the time that consumers have to wait to receive appropriate redress, measured through complaints data and supervisory work.
- Earlier identification of potential mass redress events leading to more consumers receiving appropriate redress in a prompt, consistent and orderly manner.
- Lower numbers of poorly evidenced complaints referred to the Financial Ombudsman.

Next steps

1.12 We welcome views by 8 October 2025 on the proposed FCA Handbook rules and guidance changes, and the other proposals in this CP. To respond to this consultation, or if you want to contact us before responding, please use one of the methods outlined on page 2 in the 'How to respond' section. Annex 1 provides a full list of consultation questions. To respond to the Treasury's consultation, please see their website.

1.13 We aim to publish a Policy Statement in H1 2026, confirming the changes we have decided to make and the implementation periods.

Chapter 2

Improved predictability and consistency

2.1 In this chapter we focus on how we can ensure greater predictability, consistency and certainty in redress outcomes for firms and consumers.

Fair and reasonable test

2.2 Currently, an ombudsman determines complaints based on what is, in its opinion, fair and reasonable in all the circumstances of the case, taking account of the law, FCA rules and guidance, codes of practice and good industry practice. Question 12 in our CFI asked whether there are additional or different considerations the Financial Ombudsman should take into account when deciding what is 'fair and reasonable' in all the circumstances of the case. Responses prompted a wider debate on the way the FOS determines cases in general.

2.3 Some industry respondents stated the Financial Ombudsman acts as a 'quasi-regulator' in that its approach to what is fair and reasonable creates new standards for firms. Some respondents were concerned the current approach to considering what is fair and reasonable can lead to inconsistent and unpredictable outcomes and they referred to the interpretation of the Consumer Duty and other less prescriptive regulations. Respondents were also concerned that the current approach gives rise to new interpretations or retrospectively and improperly applying FCA rules and guidance. Some also called for greater Financial Ombudsman alignment with FCA rules and increased transparency in decision-making. Others also argued that placing fairness above legal standards or regulatory requirements risks distorting the market and undermines international competitiveness.

2.4 However, some firms also acknowledged the value of the fair and reasonable test in allowing for individual circumstances to be considered. Consumer groups viewed the test as essential for protecting consumers, particularly given the complexity of financial products.

Our response

2.5 The Treasury's review of the Financial Ombudsman reaffirms the importance of the service in delivering quick, informal and cost-effective dispute resolution, but also recognises the need for greater coherence with the broader UK financial regulatory framework. Following its review, the Treasury's view is the fair and reasonable test should be retained, but adapted to better align with the FCA's regulatory standards. The Treasury does not propose to amend the test to rigidly apply law and regulation, as some CFI respondents proposed, as this would replicate the role of the courts and move the Financial Ombudsman away from its function of providing quick and informal dispute resolution.

2.6 Under the Treasury's proposals, where FCA rules are material to the complaint, complying with those rules in a manner consistent with the FCA's intent for those rules, will mean a firm has acted fairly and reasonably. This approach would ensure that, where FCA rules apply to the situation complained of, the Financial Ombudsman will not hold firms to standards that are different from those set by the FCA at the relevant time.

2.7 However, this position would not apply where FCA rules are not material to the complaint. In these cases, the Financial Ombudsman would still consider what is fair and reasonable, for both parties, taking account of the relevant law.

2.8 Where an issue requires regulatory interpretation, the Financial Ombudsman would consult the FCA and potentially refer matters to the courts for legal clarity where it considers this appropriate to ensure regulatory coherence.

2.9 If the Treasury's proposals are taken forward, we will take steps to help support changes in the shorter term. This may include considering potential changes to our Dispute Resolution: Complaints Sourcebook (DISP) before any legislative change, to ensure the Handbook provisions align with legislation.

Process for the Financial Ombudsman to seek the FCA's view on its regulatory requirements

2.10 In response to question 16, many industry respondents suggested the Financial Ombudsman and FCA are sometimes misaligned on the application of FCA rules. They felt this was particularly the case where outcomes-focused rules are not prescriptive and open to interpretation. These respondents said they would like the FCA to provide a view to the Financial Ombudsman where the outcome of a significant number of similar cases depends on appropriately applying FCA rules.

2.11 The Treasury is proposing to introduce a formal referral mechanism to strengthen alignment between the Financial Ombudsman and the FCA on interpreting regulations where uncertainty exists. This mechanism aims to improve clarity and consistency, particularly where the interpretation of FCA rules is central to the outcome of complaints.

2.12 The topic was also raised by respondents to Q12 of the CFI. Again, several respondents felt the Financial Ombudsman should be required to seek FCA or the courts' views on the meaning of rules. Several respondents felt that the Financial Ombudsman should consider whether the firm had acted to deliver outcomes consistent with the Consumer Duty, including duties to consumers with characteristics of vulnerability, as well for the Financial Ombudsman to consider reasonable consumer expectations.

2.13 Under the proposed referral process, the Financial Ombudsman would be able to refer issues that require interpretation to the FCA for a view. If the FCA's view on a systemic issue is relevant to individual complaints, Financial Ombudsman caseworkers would use this view to help determine complaint outcomes.

2.14 This statutory referral process would build on the current Memorandum of Understanding (MoU) between the Financial Ombudsman and the FCA. This includes a commitment to early engagement on regulatory interpretation and provides a framework for cooperation. The referral process would formalise this collaboration, providing a structured route for seeking the FCA's interpretation of how its rules should be applied. This would also reduce perceptions that the Financial Ombudsman is acting as a quasi-regulator.

2.15 The Treasury has also proposed a wider implications notification process, distinct from the referral mechanism, where there is no regulatory uncertainty, but issues are identified that potentially have wider implications. The FCA would not be required to respond with a view on these notifications and instead their purpose is to facilitate an early regulatory response, where appropriate, to issues which have potential to put consumers at risk or disrupt markets.

Our response

2.16 Where the Financial Ombudsman is making determinations on issues with wider implications or that rely on the interpretation of FCA rules, and where it feels there is ambiguity in how the FCA expects those rules to be applied, there should be a formal mechanism for the Financial Ombudsman to request a view from the FCA on its own interpretation of its rules. The Treasury clarifies this would not require the FCA to consider the merits of individual cases nor direct the Financial Ombudsman on how it should determine them. However, it would require the FCA to give a clear view on what its rules are intended to achieve and sets a 30-day deadline for the FCA to provide an initial response.

2.17 This approach is expected to deliver several benefits, including better alignment between the Financial Ombudsman and the FCA, greater predictability for firms and consumers and more efficient complaint handling. It may also reduce referrals to the Financial Ombudsman by enabling firms to resolve complaints earlier, as the FCA will have a greater role in giving regulatory clarity where issues of wider implications are identified.

2.18 As set out in paragraph 2.14, our MoU sets out how the Financial Ombudsman can ask the FCA to provide a view on regulatory requirements if an issue has wider implications. Ahead of any legislative change being implemented, we have updated our MoU to set out the steps we will take when an issue with wider implications or a possible MRE is identified.

2.19 Subject to any legal restrictions on disclosing information, the FCA and Financial Ombudsman will, where either identifies an issue it considers may have wider implications for consumers or firms, take the following steps:

- Consult one another at an early stage.
- Engage and communicate at appropriate levels of seniority, to discuss matters of mutual interest.

2.20 On relevant issues, the Financial Ombudsman will seek a view from the FCA on the interpretation of its rules and how redress could be assessed. It will do this as early as possible before issuing an ombudsman decision and give the FCA any relevant information and draft determinations it can share.

2.21 The FCA will seek to provide an initial response as promptly as reasonably possible. It will try to do this, if it considers it has sufficient information, within 30 days of receiving a request. This aligns with the timeframe set out in the Treasury's CP.

2.22 We will continue to work with the Treasury as it considers a legislative referral mechanism and how this would work in practice. We will consider at a later date if we need to amend DISP to implement the new process.

A right to ask the Financial Ombudsman to consider referring an issue to the FCA

2.23 The Treasury also proposes that firms and complainants should be able to request that the Financial Ombudsman refers an issue to the FCA on the same basis as described above, where the Financial Ombudsman has not already done so. Parties would be able to request a referral after the Financial Ombudsman's initial assessment but before a final determination so that, where relevant, the Financial Ombudsman can decide whether or how the FCA's view impacts their case determination.

2.24 This proposal is not meant to act as an appeals mechanism for parties who may be dissatisfied with the Financial Ombudsman's decision in an individual case. It is meant to preserve the operational independence of both the Financial Ombudsman and the FCA, while offering parties a defined opportunity to challenge regulatory interpretation in cases of broader significance.

2.25 The Treasury has directed the FCA to develop the grounds on which someone would be able to request this referral. We will consult on this in due course following the Treasury's consultation. See Annex 5 which shows a FOS case journey flow chart.

Transparency around the approach to ombudsman decisions

2.26 The Financial Ombudsman has a statutory obligation to publish each individual determination made by an ombudsman to promote transparency and underpin confidence in their work.

2.27 The Treasury is reviewing whether this remains a helpful way of providing a clear view to consumers and firms of the types of complaints brought, bearing in mind the large volume of decisions published each year. It is considering placing a requirement on the Financial Ombudsman to publish a quarterly 'lessons learned' document, outlining at a thematic level, the types of cases investigated and how the Financial Ombudsman considers the relevant FCA standards apply. The Financial Ombudsman is considering how such an approach could be implemented ahead of any legislative change.

Wider Implications Framework (WIF)

2.28 In response to questions 23-27 in the November CFI, many industry respondents suggested significant changes to the WIF's current purpose and ways of working. These included that it serves either as a first point of challenge on whether an MRE is occurring or likely to develop, or act as a cross-sector task force once an MRE has started to develop. These respondents thought that the WIF should be opened up more to industry, so firms can give evidence and views on potential or actual MREs. Some felt that the Prudential Regulation Authority (PRA) should also become a member of the WIF to give an early view on systemic risks and the prudential impact of MREs on firms. Some stakeholders suggested the WIF should act as an appeals mechanism for disputes on issues with wider implications.

2.29 Many respondents also felt that the WIF lacks transparency and that WIF meetings and decision-making are not public enough. They suggested that WIF members should do more to engage with industry and consumer groups to ensure their views are considered. Some respondents argued that industry should have representation on the WIF, while others said that its members should engage more with specific stakeholder groups when issues arise which affect them.

2.30 Of the limited number of responses giving views on the WIF Terms of Reference, most supported making amendments. These included broadening stakeholder access to WIF meetings, introducing a formal mechanism for stakeholders giving views and a formalised process for updating stakeholders on how their feedback has influenced decisions.

2.31 Most respondents supported the amendments we made to the WIF Terms of Reference on WIF members attending the FCA industry and consumer panels to improve stakeholder engagement. However, some suggested going further, by committing to engage panels more regularly than twice a year and with a wider range of stakeholders.

2.32 Respondents suggested a range of other improvements to how we engage and communicate, including quarterly forums to discuss emerging issues, alerts sent to stakeholders on emerging issues and greater feedback on relevant regulatory reporting.

Our response

2.33 It is not the function of the WIF to serve as an appeals mechanism for disputes on issues with wider implications. The WIF is designed to handle significant issues that could have wider implications in a timely, transparent and coordinated way. It does not itself seek to resolve the harm but instead acts as a body that ensures relevant members have the right information to develop their own individual actions.

2.34 The WIF currently can invite other organisations for input if needed. For instance, as part of the fraud and scams workstream, the PSR engaged with the WIF on its Authorised Push Payment (APP) Fraud work.

2.35 The WIF does not decide the approach that members should take when a redress event has occurred, so it would not be appropriate for stakeholders to always engage directly with the WIF. Instead, stakeholders should engage directly with the WIF members who are considering the issue and provide them with any relevant input.

2.36 The WIF regularly publishes a public issues log outlining the topics it is considering, as well as executive and annual chair-level meeting minutes. We believe this gives stakeholders sufficient opportunity to understand ongoing WIF discussions and areas of interest.

2.37 We considered if, as well as publishing executive and chair meeting minutes, we should also publish WIF director or working level meeting minutes. However, we do not believe this would be appropriate, as these discussions often include market sensitive information, such as early discussions around potential MREs that could themselves inappropriately trigger speculative mass complaints.

2.38 In November 2024, the WIF made further changes to its Terms of Reference, where members agreed to attend the FCA statutory panels every 6 months. The first set of these engagement sessions have now taken place and were used to gather firm and consumer group feedback to inform future WIF discussions. We will continue to monitor the success of these sessions. If we feel that further changes are needed to enhance the WIF, we will consider these.

Time limits for referring complaints to the Financial Ombudsman

2.39 Under DISP 2.8.2R, the Financial Ombudsman can only consider a complaint referred to it within 6 years from the event complained of or, if later, within 3 years from the date on which the complainant became aware (or ought reasonably to have become aware) they had cause for complaint. The Financial Ombudsman can still accept out of time complaints if they consider the complainant's failure to complain within the time limits was due to 'exceptional circumstances' or if the firm consents.

2.40 Question 14 in our CFI asked if the current time limits should be amended and, if so, how to maintain appropriate consumer protection.

2.41 Industry stakeholders largely supported introducing a longstop date to prevent complaints from being brought to the Financial Ombudsman more than 15 years after the date of the event complained of, regardless of when the customer became aware of the issue. They argued the lack of a longstop date creates uncertainty, leading to difficulties securing professional indemnity insurance and potentially deterring investment. They also argued there was a conflict with expectations around limits on data retention in the General Data Protection Regulation (GDPR). Views varied on the appropriate duration of such a longstop – with some suggesting they should be consistent with the time-limit for making a claim in court as set out in the Limitation Act 1980.

2.42 Some also raised concerns about how the Financial Ombudsman has interpreted the current time limits that limit its jurisdiction to consider complaints and the provision for out-of-time complaints to be considered under the 'exceptional circumstances' provision.

2.43 Consumer groups and individual consumers generally opposed changes to existing time limits. Many argued this could widen the gap between more sophisticated consumers and others, or consumers with vulnerable characteristics who may only become aware of an issue after media or parliamentary publicity some years later.

2.44 Others, including legal and compliance professionals, offered mixed views. Some supported longstop dates of varying time periods, while others argued for removing time limits altogether in favour of improving consumer awareness and understanding.

2.45 Some suggested that a longstop date might not be appropriate for products which consumers do not check regularly. A longstop date might be more appropriate for products that consumers 'monitor' more often, such as credit cards or other shorter-term lending. Some suggested that, depending on the length of the time limit introduced, consumers may still be able to seek redress through the courts. However, they recognised this would not be the best route, given the costs.

Our response

2.46 The Treasury is consulting on introducing a 10-year longstop date within which complaints must be brought to the Financial Ombudsman. The Treasury also proposes to give the FCA limited flexibility to make exceptions to this, where longer timeframes are justified in exceptional circumstances. Consumers would keep the right to bring cases to the courts outside of the longstop, subject to any existing rules and statutory time limitations.

2.47 If the Treasury proceeds with legislative change to implement a longstop date, we will work with them to consider and consult on exceptions.

Chapter 3

Improved outcomes for mass redress events

3.1 In this chapter we address the feedback received to questions 1-5 in the CFI about defining mass redress events and how our review links to wider considerations and the FCA's objectives.

Challenges caused by mass redress events

3.2 Respondents identified challenges MREs cause for consumers, industry and the Financial Ombudsman.

Increased volumes of complaints

3.3 Firms explained that during MREs they can experience rapid increases in complaint numbers, overwhelming usual systems and processes. This can cause delays and frustration for consumers who can be left uncertain about how their claim is progressing.

Role of Professional Representative (PRs)

3.4 Many firms raised concerns about the role of PRs. They felt PRs sometimes put forward meritless complaints, leading to unnecessary costs for firms and the Financial Ombudsman. It was suggested that more should be done to improve customer awareness of the complaints process to avoid any PR fees reducing any eventual redress. Some argued that all PRs should be brought into the FCA's regulatory perimeter to improve consistency of rules and supervision.

3.5 PRs disagreed that they pursue poorly evidenced complaints and highlighted their important role in helping customers get redress in complex cases. Consumer groups likewise highlighted the challenges that vulnerable customers, and other groups such as prisoners, face in accessing the Financial Ombudsman's services.

Our response

3.6 We recognise the challenges consumers and firms face when dealing with rapid increases in complaint volumes caused by MREs.

3.7 We agree there is a role for PRs in the redress system as they can help consumers raise complaints to firms quickly and easily. However, we recognise some of the concerns raised, such as large numbers of complaints with low uphold rates being referred to the Financial Ombudsman, and the impact these have on firms and the Financial Ombudsman, especially for MREs.

Defining mass redress events

3.8 Our CFI proposed a formal definition of an MRE to help identify earlier and more clearly events with potential wider implications that may need careful management before they become systemic.

3.9 Around two thirds of respondents agreed and said we should define an MRE. They felt a definition would provide greater consistency, predictability and reduce costs and complexity for firms, which would help support the FCA's objectives. Likewise, a large majority of respondents agreed with our assessment of the difficulties that MREs can cause for firms and consumers.

3.10 When considering how to define an MRE, respondents said we should:

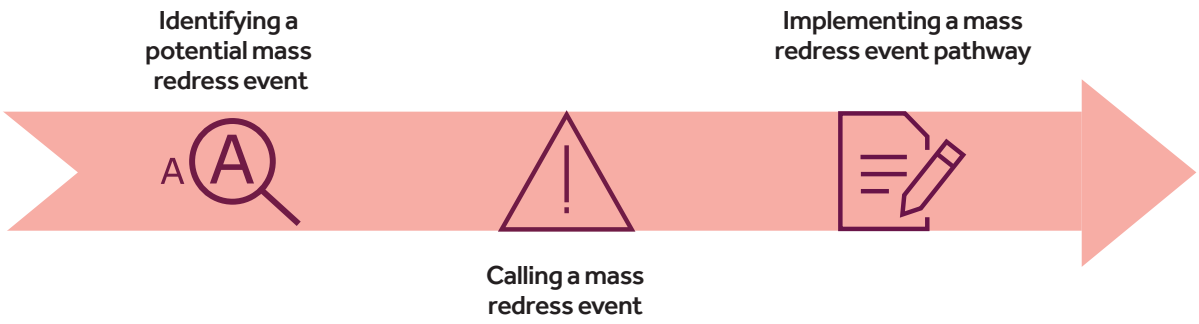
- Allow stakeholders to nominate events to be considered as MREs.
- Ensure the definition captures potential MREs.

3.11 However, some respondents disagreed. They felt producing a comprehensive definition would be challenging and require regular amendments to keep up with changing circumstances and events. They were also concerned that the 'mass redress event' label could attract greater media attention and public awareness which PRs could exploit.

Our response

3.12 Where MREs occur, we want to ensure they are resolved in an orderly manner, firms are empowered to rectify any harm and that consumers receive redress as quickly as possible.

3.13 To meet this objective, we must ensure we identify potential MREs early, undertake appropriate investigations to assess if the issue is indeed an MRE and then implement an appropriate approach ('redress pathway') for any redress due.



3.14 A consistent framework is needed for deciding if an issue meets the MRE threshold. Any framework also needs to have sufficient flexibility to allow for different types of event. Our CFI highlighted examples of 2 previous mass redress events with different characteristics:

a. ***Payment Protection Insurance*** – Resulted in £38.3bn redress paid to 34.4 million consumers (average redress figure of c£1,000)
b. ***British Steel Pension Scheme*** – Resulted in £100m redress paid to 1,870 consumers (average redress figure of c£53,000)

3.15 We propose to consider potential MREs against a framework of 6 criteria, all commonly identified in past MREs. We have chosen the criteria based on experience and considering any respondents' views to our CFI. We do not propose to set rigid thresholds against these criteria or set how many criteria must be met for an issue to become a 'mass redress event'. We believe this would limit the framework's flexibility and weaken its ability to identify different types of MREs. Instead, we propose to use our judgement when considering issues against these criteria to decide whether there is, or potentially is, an MRE.

3.16 The proposed criteria are where an issue:

a. Affects a high number of consumers.
b. Has a significant impact on individual consumers, including those in vulnerable circumstances.
c. Is likely to lead to a high redress bill.
d. Results in a significant number of firms being unable to meet their redress liabilities.
e. Leads to a high number of Financial Ombudsman complaints.
f. Driven by a systemic/repeatable failing that damages confidence in the financial system.

3.17 Stakeholders have an important role in raising potential MREs with the FCA and sharing intelligence. However, the Treasury has made it clear in its Consultation Document that it is the responsibility of the FCA to investigate a potential MRE and decide the appropriate regulatory response.

Question 1: **Do you agree with the proposed criteria for considering whether an issue is an MRE?**

Managing a mass redress event

3.18 Respondents agreed that improved transparency and communication while the FCA considers there to be an ongoing MRE, or a potential MRE, would benefit all parties. Improvements suggested included:

- Establishing real-time communication channels with the FCA and the Financial Ombudsman for firms and consumers to stay informed about the status of redress events.

- Establishing an independent advice service for financial services to help customers enforce their rights and reduce volumes of referrals to the Financial Ombudsman.
- More proactive communication from the FCA and Financial Ombudsman with industry and the media about their response to redress events and guidance for consumers.

3.19 Some firms suggested that more of the Financial Ombudsman's data and insights could be made public, through thematic reviews of upheld complaints to help firms proactively amend their practices. Consumer organisations also called for the Financial Ombudsman and FCA to be more proactive in working with them to identify issues before they escalate into MREs.

3.20 A large majority of respondents agreed with the FCA's proposals for dealing with MREs, including legislative and rule amendments to enable it to:

- **Extend the time limits for firms to send a final response** to the complainant, as set out in DISP 1.6.2R. This may include pausing relevant limitation periods or extending time for consumers to refer a complaint to the Financial Ombudsman while the FCA investigates an issue and considers what action might be appropriate.
- **Direct the Financial Ombudsman to refer complaints back to firms** for resolution and not charge, or reduce, the case fee if no or limited work has been carried out on the case if the FCA decides to take regulatory action such as implementing a redress scheme.

3.21 Alternatively, amendments to the **dismissal grounds** could give the Financial Ombudsman discretion to refer cases back to firms for resolution where a regulatory intervention is confirmed.

Pause the complaint handling requirements

3.22 The majority of respondents agreed that where there is a suspected MRE, the timescales set out in DISP rules should be paused while the firm waits for the FCA to either give regulatory interpretation of rules or decide to take regulatory action. Respondents felt this would improve consistency and alignment of decisions with FCA rules. Some highlighted the need to limit pauses to complex cases only where FCA clarification is essential and/or in the case of an MRE. These respondents also raised concerns about the proposal prolonging delays to decisions being potentially harmful to both firms and consumers. Some suggested a maximum amount of time for a pause, such as 3 or 6 months.

3.23 In response to question 17, some respondents said it was important to set a maximum time limit for pausing DISP complaints timescales or that the FCA should have a statutory obligation to act expeditiously. One respondent highlighted the potential impact of pre-MRE FCA investigations on markets, including for Professional Indemnity insurance cover. They supported the need for FCA powers to be proportionate, with triggers attached to them and clear guardrails for using them.

3.24 Respondents highlighted the cost savings for firms from complaints being passed back to them and reducing or waiving Financial Ombudsman case fees. They also said closer cooperation between the FCA and the Financial Ombudsman, and clear criteria for what constitutes an MRE, would give firms greater certainty and predictability. This would support the FCA's market integrity and growth and competitiveness objectives.

3.25 A small number of respondents disagreed with the proposal, raising concerns that the additional delay to decision-making could lead to potential consumer detriment. Some suggested that the Financial Ombudsman should be required to apply to the FCA before pausing complaints it had already received.

3.26 Some respondents suggested that firms should be able to request a pause to DISP timescales if the Financial Ombudsman Service is in the process of seeking a view from the FCA on regulatory requirements.

Amendments to the dismissal grounds

3.27 Question 13 in our CFI asked what amendments to the Financial Ombudsman case dismissal grounds should be considered when the Government repeals the Alternative Dispute Resolution for Consumer Disputes (Competent Authorities and Information) Regulations 2015 (ADR Regulations). Over three quarters of respondents who replied to this question called for amended or widened grounds. Just under a quarter were against any changes and a very small number were neutral. Respondents gave various views and suggestions. For instance, reinstating certain grounds that were in place before July 2015 before the ADR for Consumer Disputes (Competent Authorities and Information) 2015 Regulations, or introducing new grounds. For a new ground, one example suggested was where the respondent no longer keeps relevant data, information or documentation about the issue, for example, due to complying with GDPR requirements.

3.28 Firms and trade associations supported expanding the grounds for dismissing complaints, particularly poorly detailed or bulk-submitted complaints. They also advocated for dismissals in cases involving proactive redress schemes or where the Financial Ombudsman had issued 'lead decisions' that firms were willing to apply to other complaints. The Financial Ombudsman can make lead decisions to set out the general approach it takes on key issues involved in a large number of cases.

3.29 Some suggested that dismissing decisions should be linked to new case fee structures. Many respondents called for fair dismissal practices overall, such as stronger evidentiary requirements PRs must meet before the Financial Ombudsman accepts a case. They also called for effective coordination between the Financial Ombudsman and FCA to efficiently address issues arising from individual complaints.

3.30 Tied to this, there was some support for either pausing or dismissing complaints, with a mixture of views on which would be most appropriate. Respondents raised the scenario where the FCA is deciding whether to implement a firm or industry-wide consumer redress scheme, and where the case may be more appropriate for law enforcement to investigate. There were also calls for the FCA to clarify or widen some existing grounds, such as the evidential threshold for 'frivolous' and 'vexatious'. One respondent

suggested that where substantive new information or allegations are brought by a consumer to the firm, the Financial Ombudsman should be able to send the complaint back for the firm to consider the new material first, which could result in speedier complaint resolution.

3.31 Industry, consumer groups and representatives widely agreed that the Financial Ombudsman is a vital avenue for complainants to get a fair hearing and redress. There was also general consensus that any amended grounds, such as new bulk dismissal grounds, need to ensure that complainants can still access justice and redress through other routes. This is especially the case if the FCA, law enforcement or the courts do not have sufficient resources or jurisdiction to handle issues referred to them. Respondents felt that decisions to dismiss complaints on any amended grounds must remain proportionate, considering the severity of harm to consumers (especially if more vulnerable) and the impact on firms. On the impacts on firms, industry respondents strongly supported reinstating the dismissal ground of the legitimate exercise of a firm's commercial judgement, formerly in place pre-July 2015 (at DISP 3.3.4R(11)).

3.32 Some respondents, especially consumer representatives, were concerned with how new dismissal grounds, such as bulk dismissals, could be misused in certain cases. For example, with investment scams and APP fraud cases, especially where vulnerable or low-income consumers may be represented by PRs. They favoured collaborative efforts to improve the quality of complaints and felt that bulk dismissals could unfairly penalise consumers. Some of these respondents suggested that incorrect categorisation of complaints by firms, without sufficient safeguards in place, could lead to the Financial Ombudsman making bulk or individual dismissals which result in unintentionally poor outcomes for complainants. One suggestion was that the Financial Ombudsman should be able to dismiss complaints on the basis that they be made against a third party involved in the case, with APP fraud being named as one example.

Redress schemes

3.33 Some respondents suggested the FCA could respond more quickly to MREs. They pointed to past examples where they felt the FCA has been slow to intervene, for example, in applying s404 powers, and that more should be done to work with firms on proactive redress schemes. One stakeholder said the statutory test to carry out a s404 scheme is too rigid and amending this will allow the FCA to use their powers more effectively. Stakeholders also highlighted that s404 powers are limited to breaches of FCA rules, not principles, which means we cannot use them for Consumer Duty breaches.

Our response

3.34 We welcome the proposals for legislative changes set out in the Treasury's consultation paper. They set out an intention to explore ways to give FCA greater flexibility when it identifies a potential MRE or an issue with wider implications and on when to pause complaints handling time limits for firms.

3.35 The proposals:

- enable the Financial Ombudsman to determine complaints in accordance with the terms of a firm led redress scheme and to apply to complaints already referred to the Financial Ombudsman (but not finally resolved).
- enable the FCA to direct the Financial Ombudsman to refer cases back to firms for resolution.
- allow a more proportionate tests for the FCA to satisfy before it can use its powers to implement a s.404 consumer redress scheme to give the FCA greater flexibility, with the effect of reducing timeframes and operational impact.

3.36 If the Treasury proceed with the proposals for legislative change, we will consult on amendments to rules to implement the changes. Paragraph 5.40 gives more detail on potential changes that could be made to the Financial Ombudsman's dismissal grounds.

Chapter 4

Firms identifying, reporting and rectifying harm effectively

4.1 In this chapter we address the feedback to questions 6-8 and 20-21 in our CFI. These questions cover firms identifying harm, reporting this to the FCA and rectifying harm effectively.

Further guidance for firms in DISP

4.2 A majority of respondents asked for further guidance to better identify and address harm, but most did not explicitly suggest this required changes in DISP. For example, a number of respondents suggested a quarterly video update from the Financial Ombudsman and FCA, summarising complaint trends and regulatory expectations. Many requested greater clarity, particularly on how to identify systemic issues, the types of harm that could require remediation and fair value definitions. Some respondents were clear that they did not want additional guidance in DISP as they were concerned this could be overly prescriptive.

4.3 In the Call for Input review of FCA requirements following the Consumer Duty's introduction, some respondents suggested potential amendments, mainly to clarify, merge or simplify existing rules and guidance. For example, consolidating DISP 1.3.3R and 1.3.6G – which covers appropriate systems and controls for complaints and potential root cause analysis and guidance in situations where firms might consider remedial actions – with PRIN 2A.2.5R which covers the Consumer Duty's cross-cutting obligation to act in good faith. This requires firms to take appropriate action to identify and rectify issues causing foreseeable harm to retail consumers, with the provisions in PRIN 2A.10 setting out redress or other appropriate action.

Our response

4.4 We are considering options to simplify or consolidate the DISP rules presently affected by PRIN 2A.2.5R and PRIN 2A.10, which we propose to consult on in a later publication.

4.5 On further guidance for firms on identifying and addressing harm, in December 2024, we set out examples of good practice and areas for improvement on complaints data and root cause analysis. We have supplemented this with further guidance in Annex 4, which sets out good and poor practice examples. This will help firms better understand how they can proactively identify and resolve issues, and comply with the DISP and PRIN requirements.

4.6 This good and poor practice example document currently refers to times when firms should report an issue to the FCA. We will update the document to reference the Handbook guidance we propose to add to SUP 15, depending on the outcome of this consultation.

Question 2: **Do you agree with the guidance provided in Annex 4 of this consultation paper, for how firms can proactively identify and rectify potential issues?**

Appropriate opportunity for firms to resolve complaints fairly

4.7 Many responses to question 7 highlighted problems with the 8-week deadline for firms to resolve a complaint before it is referred to the Financial Ombudsman. They suggested firms were often taking more than these 8 weeks and struggled to provide consumers with an adequate response within this deadline. Firms outlined a number of reasons for delays. These included a high volume of complaints about the same issue within a short timeframe, a need to request information from third parties or to access archived data.

4.8 On the other hand, some consumers or their representatives suggested that delays in addressing complaints were unacceptable. These respondents also raised ongoing issues about the same failures or fact-patterns which cause multiple complaints. They suggested this could be resolved with appropriate sanctions, such as fines, to ensure that firms comply with their duties to avoid repeated mistakes and issues are resolved more effectively.

4.9 A few respondents suggested that reintroducing the 2-stage procedure for firms to deal with complaints could help, by giving firms more time to respond to complaints. However, a majority disagreed with reintroducing this (See Q.8).

Our response

4.10 Reflecting on both firm and consumer views, we do not believe it would be appropriate to extend the 8-week deadline as set out in DISP. We think this generally works well for most cases. In the case of MREs, where firms are potentially receiving a very high number of complaints on the same issue, we propose instead that the FCA have more flexible powers to pause the DISP timescale as one of our MRE tools, as set out in 3.21.

2-Stage Process

4.11 Up until 2011, firms could operate a 2-stage complaints procedure. While some firms used this process appropriately, it was abolished as it gave firms an incentive to deal with complaints to a lower standard in the first stage, since many consumers would then not take their complaint further. The vast majority of respondents to question 8 rejected the suggestion to reintroduce the 2-stage complaints procedure. In most cases, they felt that reintroducing it would lead to unnecessary complexity and additional costs for all parties without reducing complaint volumes.

4.12 The minority of respondents in favour of reintroducing the 2-stage procedure suggested firms would benefit from having more time to follow up with complainants, challenge outcomes and seek resolution before a Financial Ombudsman referral. Many highlighted the need for clear guidelines, effective monitoring and consumer education. They stressed the importance of strict timelines and additional support for customers in vulnerable circumstances.

Our response

4.13 There is some merit in allowing firms more time to effectively resolve complaints themselves. However, we consider this is outweighed by reintroducing complexity without necessarily achieving any real benefit to consumers or reduced complaint volumes. We therefore agree with the majority of respondents and do not plan to reintroduce the 2-stage procedure. We will instead focus on giving more clarity to firms through the new referral mechanism and providing guidance where needed. We will also take the steps outlined elsewhere in this consultation to better identify and manage potentially systemic issues to resolve complaints more quickly and reduce the volume of complaints referred to the Financial Ombudsman.

Collecting data on emerging redress events / Notifications from firms, including PRs

4.14 In response to questions 20 and 21, most respondents highlighted the need to avoid additional reporting burdens on firms, especially for those with the lowest proportion of complaints. These respondents felt that it would be better to clarify existing requirements under SUP 15 instead. Some also suggested we should simplify reporting requirements under the Retail Mediation Activities Returns, given the significant requirements in SUP 15.2/15.3, and PRIN 11.

4.15 Non-industry respondents, including consumer groups, stressed the importance of early identification of potential MREs and placing the onus on firms, including Professional Representatives (PRs), to provide the FCA with timely information.

4.16 Most respondents suggested improved reporting from consumer representatives including PRs, charities and group action law firms to maximise opportunities to identify and resolve redress issues more efficiently. Some highlighted the added value of using new technologies that allow for the collection of real-time data, while some raised concerns about speculative over-reporting.

4.17 A small number of respondents felt that existing rules were sufficient under PRIN 11. However most suggested that existing requirements could be supplemented by creating pre-defined thresholds linked to either volume of complaints, number of customers affected, uphold rates or potentially significant prudential or reputational implications for firms.

Our response

4.18 We agree with firms it is important to avoid creating additional reporting burdens where possible. At the same time, early reporting of potentially systemic or recurring issues is vital to improve our ability to identify and better manage emerging MREs.

4.19 We are currently consulting on changes to complaints reporting rules. If implemented, these changes would mean firms report complaints on a 6-monthly basis. While we consider this is an appropriate timescale for firms reporting on regular complaints, it may still be insufficient to identify a potential emerging MRE earlier. We consider we need a specific process so that firms report potentially systemic or recurring issues as early as possible.

4.20 SUP 15 refers to the firm notification requirements outlined in the FCA Handbook. It details when and how firms and insolvency practitioners are required to notify the FCA of events which have, or may have, serious regulatory impacts including rule breaches other key matters including civil, criminal or disciplinary proceedings. To supplement this, we propose including clarificatory guidance in SUP15.3.8G, highlighting situations where we clearly expect firms to notify us.

4.21 The proposed guidance includes criteria, and in certain cases, thresholds for when firms should submit a SUP 15 notification. However, where the thresholds are not met but the firm considers there is still an issue to report, we would expect the firm to do so. We know the criteria and thresholds need to be appropriate to a wide variety of firms, both in terms of size and business model. We have created the criteria and thresholds in a way that aims to ensure relevant emerging issues are reported in a timely way, without creating a disproportionate burden on firms.

4.22 The proposed criteria are that firms should report an issue which:

a. Affects a high number of consumers (>40% of the firm's consumers from the affected product line or service), or
b. Has a high potential redress bill, should complaints be upheld by the firm, the Financial Ombudsman or the courts (>£10m or 50% of the firm's annual revenue from the affected product or service line), or
c. Has led to a significant spike in consumer complaints, or
d. Leads to concerns that redress that could be due if the complaints were upheld, either via the firm, the Financial Ombudsman or the courts, may adversely affect the firm's capital adequacy or solvency, or
e. Affects multiple consumers and has a significant impact on each individual consumer (>£10k loss per consumer on average).

4.23 When considering whether to submit a SUP 15 notification, firms should have regard to the impact of the issue on consumers in vulnerable circumstances.

4.24 We also encourage firms, consumers and PRs to raise issues with us at an early stage to ensure potential MREs are managed appropriately.

Question 3: **Do you agree with the additional guidance proposed at SUP 15.3.8G for when firms are expected to report serious redress risks or issues to the FCA?**

Financial Ombudsman Decision Frameworks

4.25 The Financial Ombudsman is introducing interactive decision frameworks for its caseworkers, to improve consistency and transparency in complaint handling. These digital tools guide caseworkers through a structured series of questions and considerations when assessing complaints. While they are initially being developed for common case types, such as those involving Section 75 of the Consumer Credit Act, the frameworks are part of a broader programme of reform.

4.26 This initiative responds to stakeholder concerns about the consistency and predictability of Financial Ombudsman decisions. The frameworks aim to provide earlier and clearer guidance for both caseworkers and the parties involved in a complaint. They help ensure that similar cases are approached in a consistent manner, while still allowing flexibility to account for individual circumstances. They also provide a greater level of certainty in how the Financial Ombudsman approaches similar cases.

4.27 These tools are not intended to replace caseworker judgement. Instead, they support caseworkers by offering clear pathways, prompts and links to relevant guidance and policy. This helps ensure well-reasoned decisions, aligned with regulatory expectations and allows caseworkers to focus more time on complex or nuanced issues. The frameworks are being shared with the FCA for feedback.

4.28 Rollout will be gradual, with small-scale testing starting in H2 2025. The frameworks are being developed alongside other initiatives, such as the proposed registration stage and the lead complaints process referenced below – as part of a wider effort to modernise and improve complaints handling. The Financial Ombudsman intends to publish summary versions of the frameworks.

Chapter 5

Financial Ombudsman activities and complaint procedures

5.1 In this chapter we address the feedback received to our CFI around specific activities and complaint procedures at the Financial Ombudsman and how to improve them.

Referring to an ombudsman for a final decision and routes to appeal

5.2 Question 9 asked what options we should consider to ensure firms and complainants resolve complaints fairly at the earliest opportunity before a final ombudsman decision.

5.3 Most firms and trade associations responded cautiously to the idea of limiting access to an ombudsman decision under the current Financial Ombudsman operating model. They acknowledged operational changes could help streamline complaint handling and reduce resolution times, but stressed the importance of fairness, transparency, and accountability, particularly given the lack of an appeal mechanism. Many firms requested further information on these proposals before forming a definitive view.

5.4 Consumer groups were concerned that restricting access to an ombudsman could disproportionately affect consumers with lower financial literacy or limited access to representation. They called for stronger quality control at investigator stage and greater transparency in decision-making. However, some also noted the time it currently takes for the Financial Ombudsman to respond to complaints is often too long.

5.5 Legal and industry stakeholders were divided. Some supported changes with clearly defined scenarios and criteria, while others felt that restricting access to an ombudsman decision could risk undermining justice.

5.6 PRs were largely opposed to any changes, citing the potential negative impact on consumers, particularly those with complex or lower-value claims.

5.7 Some respondents argued our focus should be on other stages in the complaint process. These included ensuring fairer complaint resolution by firms before referral to the Financial Ombudsman, addressing high levels of unnecessary referrals and the Financial Ombudsman seeking FCA views on interpreting rules in wider implication or potential MRE scenarios. A few respondents also suggested the Financial Ombudsman make greater use of test cases to the courts to resolve disagreements, in both MRE and non-MRE scenarios.

Our response

5.8 The Treasury is proposing changes to the statutory framework of the Financial Ombudsman to strengthen consistency in case determinations. Currently, determinations can be made by any ombudsman, without a single point of overarching responsibility. The proposed reform would assign formal authority for all determinations to the Chief Ombudsman, who could delegate this function to their team within defined parameters. This approach aims to support strategic oversight and promote consistent, predictable outcomes across Financial Ombudsman decisions, in line with the Treasury's broader aim of greater regulatory certainty for consumers and firms.

Financial Ombudsman 'Lead Complaints' process

5.9 The Financial Ombudsman proposes to introduce a structured 'lead complaints' process to actively address novel and significant complaint issues as they emerge, working collaboratively with firms and the FCA to resolve these emerging issues efficiently.

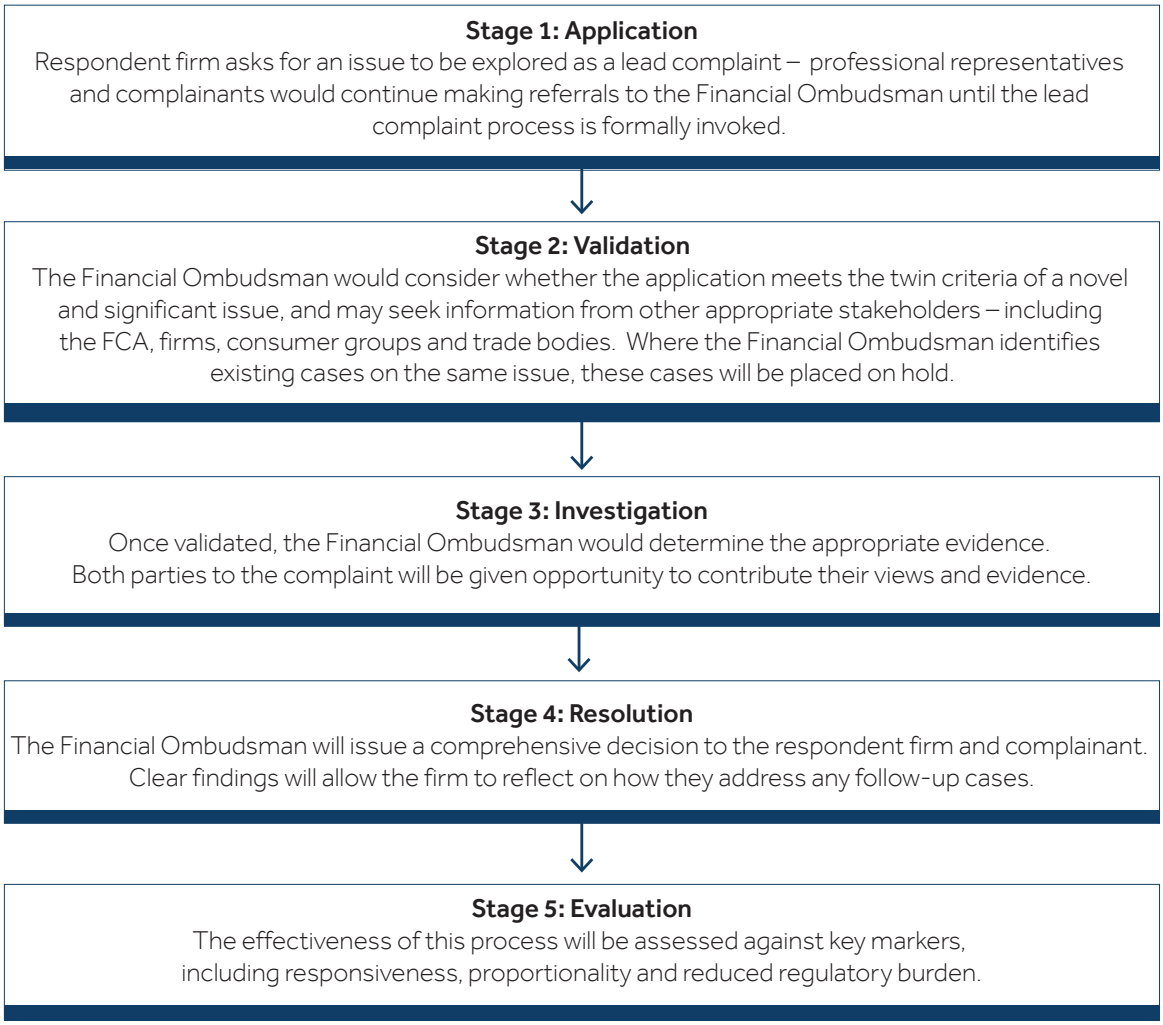
5.10 Under the proposed model, firms would be able to apply for the Financial Ombudsman to consider a representative sample of lead complaints. These will be considered against both 'novel' (new products or services or potential new interpretations of regulation) and 'significant' (those likely to generate large volumes of complaints/high levels of redress) criteria. The Financial Ombudsman would investigate these in depth and use the findings to guide the resolution of similar 'follow-on' complaints.

5.11 During this process, firms could pause their consideration of related complaints at the Financial Ombudsman (see below on the proposed registration stage). This would reduce associated case fees. It would also provide a quicker and more efficient customer journey, with firms resolving disputes directly with their customer. The detail provided by the Financial Ombudsman's 'lead' decisions would give all parties clarity, leading to more consistent outcomes.

5.12 This process would also provide a framework for early regulatory alignment, allowing the Financial Ombudsman to seek FCA input where appropriate via a referral mechanism. DISP and legislative options for this mechanism's implementation are discussed in Chapters 2 and 4, and the Treasury's consultation paper.

5.13 Along with the proposed registration stage, the lead complaints process would also complement other proposals, including the handling of MREs in Chapter 3. Importantly, the lead complaints test process is not intended to offer advisory opinions on hypothetical issues, preserving the Financial Ombudsman's statutory role as a dispute resolution body rather than a regulator.

5.14 The proposed process would follow 5 stages:



5.15 We will consider at a later date if any amendments to DISP are necessary to implement this process, for example to extend the 8-week deadline for issuing a final response letter (FRL) while the Financial Ombudsman investigates lead complaints.

Question 4: **Do you support the introduction of a 'lead complaints' process to address novel and significant complaint issues?**

Question 5: **Do you think that the lead complaints process will achieve its intended benefits?**

Question 6: **Do you agree that firms should be allowed to pause related complaints at the Financial Ombudsman while lead cases are under investigation in the lead complaints process?**

Question 7: **What safeguards should there be to ensure the lead complaints process is not used to delay or avoid complaint resolution?**

Case fee rules and rules for complaints brought by Professional Representatives

5.16 Question 10 asked whether there should be different routes and regulatory requirements for represented and non-represented complaints. Options included higher evidential standards, the Financial Ombudsman not accepting complaints until those standards are met, or being able to dismiss poorly laid out or poorly evidenced complaints in bulk. The CFI noted that PRs have expertise in complaints and the vast majority of PR-represented complaints are not upheld by the Financial Ombudsman. The Financial Ombudsman implemented new case fee rules on 1 April for PR-represented complaints.

5.17 Over two thirds of respondents to this question agreed that different requirements should apply, under one fifth did not agree and around 1 in 10 were neutral. There was broad agreement on the challenges PRs pose, with many believing the new case fee rules for PR-led complaints and the new dedicated complaint form should help to address the issues the CFI identified. A few respondents felt problems lie more with SRA-regulated PRs than FCA-regulated PRs.

5.18 Those who supported different requirements for PRs suggested strengthening DISP and the Claims Management: Conduct of Business sourcebook (CMCOB). Suggested areas for strengthening included explaining the case facts, evidencing the grounds for complaint and considering the respondent's response fully before referring to the Financial Ombudsman. They also noted factors such as PRs' greater expertise and familiarity with complaints compared to individually represented complainants. There were calls for any changes to aim for greater fairness and quality in complaints referred to the Financial Ombudsman. More stringent evidentiary standards could improve the complaint experience overall, reducing the burdens placed on the Financial Ombudsman and delivering better outcomes for both represented and non-PR represented complaints.

5.19 Others were more cautious. They felt that different requirements should not unfairly penalise good actors, or result in less access to redress, transparency or fairness for complainants (especially vulnerable consumers) depending on whether they are represented by a PR or not. A few suggested there should be similarly higher requirements for individually represented complaints, to avoid an uneven playing field. Others believed that effective dialogue between regulators, PRs and wider industry could help to refine any new approaches on PR-led complaints, or called for stricter regulation of PRs to ensure fewer poorly evidenced complaints are made to the Financial Ombudsman.

5.20 There were some calls for further changes to the case fee rules for PR-led complaints, such as adding a vexatious costs element, or proportionally increasing costs for specific PRs as volumes of rejected complaints increase. Some respondents also asked for updates on the impact new PR-led case fee rules have had on the quality of complaints and consumers' access to redress. Some suggested different regulatory regimes for PRs have led to problems. Some suggested non-FCA regulated PRs should be brought within the FCA's remit. Others said there should be greater alignment and engagement between the SRA and the FCA on standards for poor conduct firms.

5.21 Other suggestions included new requirements for PRs to publish data on the volume and uphold rates of their complaints and more stringent FCA enforcement action against poor conduct PRs. Others suggested more stringent PR advertising rules and a clearer requirement for PRs to flag (before taking on claimants) their level of fees and that consumers can pursue their case individually without charge.

5.22 Question 11 asked what amendments might be needed to the Financial Ombudsman's case fee rules during MREs. Nearly three quarters of respondents on this question agreed with the premise. Most of the remainder who responded were neutral rather than against the idea of further case fee rule changes.

5.23 Consumers and their representatives who supported case fee rule changes suggested that firms pay higher fees if they refuse to settle after a case ruling or charging higher fees to PRs in a MRE versus non-MRE scenario (especially if bringing many poorly evidenced or frivolous cases). Some of these respondents supported the Financial Ombudsman's proposed case fees for PRs, arguing that they could reduce the risk of frivolous or poorly evidenced complaints. A few were particularly supportive of the proposals as they suggested this would make the case fee rules align more with the 'polluter pays' principle.

5.24 There was broad consensus among industry that a more flexible approach, such as significantly reduced or waived case fees, may be more proportionate for firms. This would particularly be the case where an MRE results in reduced workloads and lower operational costs for the Financial Ombudsman where cases are passed back to firms. Examples given included paused or deferred fees until the FCA has decided on an appropriate course of action to address the event, an increased free case fee threshold and capped, reduced fees or fees split across firms in an 'economies of scale' approach. Other ideas outside of MRE-focused case fees included more variable case fees in a tiered structure tied to factors such as time spent on a case (operational costs to the Financial Ombudsman), firm size, amount of redress due, if the case was upheld or rejected, or complaint volumes generated by a firm. Some suggested reduced fees, rebates or waivers could be useful in other non-MRE-related circumstances as this could incentivise firms towards more efficient and robust complaint handling. For example, if a case was resolved early through the Proactive Settlement Scheme, withdrawn by the claimant or dismissed by the Financial Ombudsman.

5.25 Several respondents warned that any case fee changes, including the Financial Ombudsman's proposed new PR charging rules, must not reduce consumer access to redress, especially for those more vulnerable or on lower incomes. These respondents supported ongoing monitoring of the impact of the new rules on consumers' access to redress, as well as on PRs' conduct and respondent firms party to complaints. PRs raised concerns about the financial burden on them, proposing that case fees should only be payable when a complaint is closed, to avoid prolonged costs. Additional recommendations included offering rebates when cases are referred back to firms or form part of a redress scheme.

5.26 Alternative ideas proposed included charging case fees upfront rather than charging firms after the complaint concluded, more transparent approaches and communications from the FCA during MREs. Respondents also suggested earlier FCA intervention against problem firms to ensure good conduct, such as harsher penalties and other stricter enforcement action for the worst offending firms. One respondent suggested fines could be redirected to fund the Financial Ombudsman rather than the Treasury.

5.27 In addition to the response below, the Financial Ombudsman will be holding a separate case fee consultation in late summer 2025.

Our response

Differential requirements for PR-led and non-PR-led complaints

5.28 From 1 April 2025, the Financial Ombudsman introduced a new charging model for PRs, such as claims management companies and legal firms who bring complaints on behalf of consumers. This change aimed to make the Financial Ombudsman's funding arrangements fairer and ensure that PRs submit better-evidenced complaints based on a diligent consideration of their merits.

5.29 Under the new approach, once a PR submits more than 10 complaints in a financial year, a fee of £250 is charged for each additional case (reduced to £75 if the complaint is upheld). This fee does not apply to complaints brought directly by consumers or by informal representatives such as friends, family members, charities or voluntary organisations. PRs acting entirely pro bono are also exempt.

5.30 The decision to introduce this charge followed a significant increase in complaints submitted by PRs, with many poorly prepared or later withdrawn. This trend puts pressure on the Financial Ombudsman's resources and contributes to delays for other complainants. By introducing a fee, the Financial Ombudsman aims to encourage PRs to submit better-prepared complaints and focus on cases with genuine merit. It also ensures those who benefit financially from the complaints process contribute to its cost. At this stage, no further changes to the representative charging model are planned, however our case fee level remains under ongoing review.

5.31 The Financial Ombudsman also continues to take forward other measures to improve the quality of complaints it receives from PRs, including:

a. Introducing a mandatory online form for PRs to use when submitting complaints in September 2024. This led to a significant reduction in enquiries from PRs and notable improvements in the quality of submissions received.
b. Running a pilot for irresponsible lending cases in which PRs were required to send through more information before cases were converted and become chargeable. This also led to a considerable reduction both in the number of cases submitted by the PRs involved and in the number of cases withdrawn later on. The Financial Ombudsman have taken lessons from this as they develop the registration stage proposals.
c. Continuing to liaise closely with the FCA and the SRA as the 2 regulators for PRs and continuing to make formal referrals to those bodies.

Proposed registration stage

5.32 The Financial Ombudsman proposes to introduce a new 'registration' stage in its complaints-handling process. Positioned between the existing referral and investigation stages, this new step aims to bring greater structure, fairness and efficiency in managing complaints. At its core, the registration stage would serve as a checkpoint to assess whether a complaint is appropriate to proceed to investigation stage. The registration stage has implications for charging but also for the quality of complaints and to improve operational agility.

5.33 Before a complaint can be registered, the Financial Ombudsman would assess it against the following proposed criteria:

a. Final Response Letter (FRL): The respondent firm must have issued a FRL or the 8-week deadline for providing a final response to a complaint under DISP 1 must have passed.
b. No Fundamental Challenges: There must be no fundamental objections to the complaint's admissibility or jurisdiction.

5.34 Regulatory or Legal Status: The complaint must not be subject to ongoing regulatory action or litigation. For example, if the FCA is actively investigating the issue, the matter is before the courts or is being investigated by another public body such as the Police or the Serious Fraud Office, then the Financial Ombudsman may decide that it is appropriate to hold cases at the registration stage to avoid prejudicing proceedings or duplicating efforts.

a. Minimum Evidential Standards: The complaint must meet minimum evidential standards, which may be tailored to specific products or policy areas to ensure they are relevant and proportionate.

5.35 The rationale for this new stage addresses limitations in the current model, where complaints move directly from referral to investigation without a formal mechanism to assess their appropriateness for investigation. This can mean cases become chargeable even if inadequately prepared, affected by regulatory action or lacking sufficient evidence. The current model also limits the Financial Ombudsman's ability to manage large-scale complaint events, such as MREs, in a more strategic and orderly way.

5.36 By introducing a registration stage, the Financial Ombudsman aims to ensure that only well-formed, appropriately evidenced complaints progress to the chargeable investigation stage. This would improve the quality and speed of investigations and support a more proportionate and transparent charging model. For instance, cases closed or paused before registration may incur no fee or a reduced fee, while a larger case fee would apply only once a complaint is formally registered. This is in line with broader reforms to introduce differential charging and supports the Financial Ombudsman's strategic goals of fairness, efficiency and an improved customer experience.

5.37 A recent pilot with representatives submitting high volumes of irresponsible lending complaints demonstrated the benefits of this approach. By requiring more information upfront, the Financial Ombudsman saw a significant reduction in both the number of cases submitted and those later withdrawn.

5.38 The registration stage also enhances the Financial Ombudsman's operational agility. It would allow it to temporarily pause cases, such as those awaiting FCA regulatory interpretation or subject to potential redress schemes, without triggering a larger case fee. This is particularly valuable for MREs, where high complaint volumes could otherwise overwhelm the current model. It also encourages firms to resolve complaints early to avoid higher fees.

5.39 For consumers, the registration stage offers greater clarity on what is required to progress a complaint, reducing the risk of delays or abandonment due to incomplete submissions.

5.40 We are also engaging with the Government on its planned revocation of the Alternative Dispute Resolution for Consumer Disputes (Competent Authorities and Information) Regulations 2015 (ADR). We are considering any changes we could make to DISP rules to give the Financial Ombudsman greater power to dismiss cases in certain scenarios, including where there may be a redress scheme. This could enable customers to get a quicker resolution to their complaint and receive appropriate redress under the separate redress scheme. It would also mean firms would not be charged a Financial Ombudsman case fee in these cases.

5.41 Overall, the registration stage represents a significant shift in how the Financial Ombudsman manages its casework. It enables a more structured, responsive and proportionate approach to complaint resolution. The Financial Ombudsman is committed to resolving complaints quickly and informally. The registration phase allows the Financial Ombudsman to more effectively manage cases which it would not ordinarily be able to progress due to regulatory action or incomplete evidence.

5.42 The rules likely to be affected by introducing a registration stage are:

- DISP 1, which would need updating to reflect the introduction of the registration stage and associated evidential requirements for firms to meet.
- DISP 3.5, which would need changing to redefine when a case becomes chargeable, allowing for cases to be paused or passed back to firms without triggering a larger fee.
- The Financial Ombudsman Fees Manual (FEES 5) would need amending to support a differential charging model, enabling reduced fee levels depending on whether a case is registered, paused or closed early.
- DISP 3.3, which would need amending to allow for case dismissal if there are alternative schemes under which the complaint can be dealt with.

Question 8: **Do you agree in principle with the introduction of a new registration stage before a complaint is investigated by the Financial Ombudsman?**

Question 9: Do you agree that the registration stage will help complainants preparing and submitting complaints to the Financial Ombudsman?

Question 10: What safeguards should there be to ensure the registration stage does not limit access to justice, particularly for vulnerable consumers?

Question 11: Do you agree that the Financial Ombudsman being able to pause or pass back cases at the new registration stage would improve respondent firms' ability to manage mass redress events or emerging regulatory issues?

Question 12: Do you agree that the Financial Ombudsman should consider differential case fees for cases in the registration stage?

Chapter 6

Other changes to improve Financial Ombudsman and FSCS operational efficiency

6.1 As part of our review of the redress system, we also propose a series of changes to the Dispute Resolution Sourcebook (DISP) and Compensation Sourcebook (COMP) in the FCA Handbook.

6.2 These changes aim to improve the Financial Ombudsman and FSCS's operational efficiency, reducing burdens on both organisations. These changes should also benefit both consumers and the firms who pay Financial Ombudsman and FSCS levies.

DISP changes

6.3 We set out these proposed amendments in full at Appendix 1. If we proceed with them following consultation, we will set out in the policy statement when they come into force. The changes would be:

- Adding guidance at DISP 1.4.4AG to clarify DISP 1.4.4R to further illustrate how respondents could meet their obligation to fully cooperate with the Financial Ombudsman. For instance, complying with directions on evidence or information by the Financial Ombudsman which it needs to properly assess a complaint. This should improve firms' understanding of their obligations, reducing the likelihood of delays and other barriers to the Financial Ombudsman obtaining the evidence it needs to assess a complaint, improving its operational efficiency as a result.
- Amending DISP 1.6.1R to require respondents to provide, when acknowledging complaints, information about the time they have to provide a FRL to the complainant. Providing this information would avoid unnecessary delays and burden on the Financial Ombudsman caused by premature referrals, which lead to it referring thousands of complaints back to the respondent businesses (28,000 in the financial year 2024/25). It reduces the need for a complainant to work out when the Financial Ombudsman would be able to start considering their complaint. It would also help respondents to comply with their duty to provide appropriate explanations in FRLs.
- Clarifying the scope of DISP 1, to ensure the proposed changes also apply to Gibraltar-based firms passporting services into the United Kingdom, where relevant.

Question 13: **Do you agree with the proposed changes to DISP to improve the Financial Ombudsman's operational efficiency?**

COMP changes

6.4 FSCS plays a critical role within the wider redress system. By giving protection to customers of firms that have failed, it helps to foster confidence in the wider financial system.

6.5 FSCS is funded by levies on the financial services industry. These levies cover both the cost of compensation paid out to consumers for eligible claims due to failed firms and the cost of running FSCS. It actively manages its costs to minimise levies for authorised firms. This includes making recoveries where possible and working with us to address underlying issues likely to cause consumer harm. Making changes to improve FSCS's operational efficiency in handling claims should help reduce costs.

6.6 FSCS's efficient processing of claims is particularly important when an MRE occurs, and redress is required on a large scale. Our experience of MREs show they often involve firm failures, potentially affecting many consumers. Ensuring FSCS processes are efficient is key in an MRE, to ensure affected consumers get timely and accurate redress.

6.7 We have identified 4 areas of the Compensation sourcebook (COMP) in the FCA Handbook where amendments will help improve FSCS's operational efficiency. They will help streamline FSCS processes, removing blockers that can lead to higher administration and resource costs.

6.8 The intended COMP changes are not intended to change the perimeter established by altering who will be an eligible claimant. The level of protection consumers receive should not change, but FSCS will be able to resolve certain types of valid claims more efficiently. This will benefit consumers through swifter payment of redress and help participant firms through lower expenses, supporting them to focus more of their resources on other areas, such as improving their services or growth.

Proposed amendments to COMP

Chapter	Proposed amendment	Rationale
COMP 4 & 12A Eligible claimants	Provide a clearer and simpler list of persons not eligible to claim in COMP 4.2.2R and exceptions to this in COMP 4.3R. Moving exceptions to ineligibility involving pension schemes from COMP 4.2.2R to COMP 4.3. Transposing the majority of COMP 12A into a new COMP 4A.	We propose to simplify the current eligibility criteria to reduce complexity in the Handbook by being clearer on who is and is not eligible. There will be no change to who is or is not eligible to claim compensation from FSCS, or to the look-through rules. The regulatory perimeter remains unchanged, while at the same time the overall compensation process is simplified and more efficient. Simplification will make it easier for FSCS to identify if a claimant is eligible and should lead to cost savings for Insolvency Practitioners, FSCS and others. It should also help potential claimants better understand if they are eligible. Relocating and clarifying most of the material in COMP 12A into a new COMP 4A will ensure the table of eligibility and the look-throughs are in the same place. This will give further clarity on the special cases where a claim may be made by a person claiming for someone else. Following Feedback Statement 22/5 we do not currently propose to make changes to the CIS look-through rules which will remain in COMP 12A. We also propose to amalgamate certain categories within COMP 4 where this simplifies the Handbook and improves clarity on who is eligible, without amending the perimeter.
COMP 6 Relevant persons and successors in default	Broaden scope of COMP 6.3.4R to enable FSCS to determine a relevant person in default where either they are not cooperating with FSCS, or personal circumstances prevent them from cooperating. Examples could include a director being diagnosed with a serious or terminal illness, personal bankruptcy or ongoing director disqualification proceeding.	The proposed amendment addresses situations which can lead to substantial delays for claimants. For example, where a director has provided a response to initial FSCS contact but has then persistently not provided the required information to enable FSCS to investigate claims. This situation negatively affects both eligible claimants and participant firms through delays to processing claims and increased FSCS costs. In all cases, FSCS would need to be satisfied that there was no evidence that the relevant person would be able to meet claims against them before it can declare a firm in default.

Chapter	Proposed amendment	Rationale
COMP 11 Payment of compensation	Amended COMP 11.2 to provide greater flexibility on where FSCS pays compensation, where it is more appropriate to pay the compensation to a different person (natural or legal), while still ensuring this is in the claimant's best interests.	This would reduce FSCS's administrative burdens, allowing compensation in certain circumstances to be paid more quickly. For example, where it would be desirable to pay compensation into a scheme of arrangement, or to pay an administrator where a special administration is in place, enabling distribution according to the court- approved distribution plan. The broad discretion proposed is to enable appropriate payments in other situations not envisaged. FSCS would still consider other factors, including a direction from the claimant, when deciding on where to pay compensation.
COMP 12 Calculating compensation	Amend COMP 12.2.10R and introduce COMP 12.2.11R to enable FSCS to use its discretion to settle claims without further investigation where it considers this reasonable. When considering use of this discretion, FSCS must take into account factors including whether, based on information available to FSCS at the time, the costs of investigating the merits of the claim are likely to be disproportionate to the potential benefits of the investigation, having regard to the need to minimise those costs and burdens. FSCS will also need to take into account the need to preserve public confidence in, and the efficient and effective operation of, the compensation scheme.	The current rules allow FSCS discretion to settle claims where it judges the costs of investigating are disproportionate to the benefits, and it is in the interest of levy payers. However, FSCS has notified us the current evidential burden is high, and it has dealt with cases where it has been unable to rely on this discretion. FSCS's view is that this limits the usefulness of the current provision and leads to these cases incurring increased costs and unnecessarily delays compensation payments. The proposed amendment better enables FSCS to use the discretion within the rules in appropriate circumstances, for example where cases have already undergone a full investigation by another appropriate body (e.g. a s. 166 skilled person), and that investigation indicates that protected claims exist. Where FSCS receives claims under a consumer redress scheme, it may be reasonable for it to rely on any assessment carried out by other bodies that are part of the wider regulatory framework, such as the Financial Ombudsman. The circumstances where COMP 12.2.10R are likely to be used are still rare.

Question 14: **Do you agree with the proposed amendments to COMP 4 and COMP 12A to simplify the list setting out who is and is not eligible to make a claim to the FSCS?**

Question 15: **Do you agree with the proposed amendments to COMP 6.3.4R to enable the FSCS to determine a relevant person in default, where they are not co-operating with the FSCS, or where personal circumstances prevent them from co-operating?**

Question 16: **Do you agree with the proposed amendments to COMP 11.2 to give the FSCS greater discretion over where compensation is paid under specific circumstances as described in that provision?**

Question 17: **Do you agree with the proposed amendments to COMP 12.2.10R and the additional factors listed in COMP 12.2.11R that FSCS must take into account, when considering if a claimant is eligible?**

Wider considerations and changes

6.9 As well as challenges caused directly by MREs, respondents to our CFI raised additional considerations and changes they wanted us to consider as part of our review, in response to Questions 3, 4 and 15 in our CFI.

Role of the Financial Ombudsman

6.10 Respondents agreed the redress system would benefit from clearer public explanation of the roles and responsibilities of the FCA, the Financial Ombudsman and firms.

6.11 Some firms said the Financial Ombudsman's role in dealing with MREs should be scaled back. Several respondents felt the Financial Ombudsman has evolved into a 'quasi-regulator' which effectively sets precedents, with potentially unintended consequences for consumers and firms.

6.12 Some also argued the requirement for complainants to consent to their case being referred to courts in case of test cases should be removed. They felt this would reduce pressure on firms and the Financial Ombudsman and deter PRs from making meritless complaints. They argued this would also streamline the redress system in cases which rest on points of law by producing test cases earlier in the redress process.

6.13 Some respondents also highlighted the composition of the Financial Ombudsman's board as a concern. These respondents felt it has insufficient members representing industry and consumer perspectives. They asked the FCA to use its power to appoint board members to ensure more representation of these groups, to reflect the interests of all stakeholders.

Our response

6.14 We recognise the Financial Ombudsman has faced challenges in dealing with greater numbers of more complex claims in recent years. In Chapter 4 we address feedback on the role of Financial Ombudsman and its activities in more detail, and in Chapter 5 set out our proposals to improve its efficiency when dealing with redress events, with the aim of ensuring better outcomes for consumers and firms.

Redress awards

6.15 Some respondents felt more should be done to prevent companies from avoiding their redress liabilities if they fail before customers receive redress payments. They said loopholes allowing directors of these companies to set up new firms, and face no personal financial repercussions, should be closed. Concerns were also raised that schemes of arrangement can lead to customers not receiving redress. It was argued that the criteria for agreeing these schemes should be narrowed.

6.16 Firms argued that redress awards under the current system can place excessive burden on them and contribute towards failures. Concerns were raised with interest of 8% per annum being applied to redress awards, particularly given there is no automatic 'longstop' for complaints. Some argued interest should be tailored to the circumstances of individual cases or redress events. Respondents from smaller firms also highlighted the particular challenges they can face in maintaining their financial sustainability when facing high redress costs.

Our response

6.17 The Financial Ombudsman has recently consulted on whether the current approach of awarding 8% simple interest on compensation awards remains appropriate. Feedback from the CFI highlighted concerns that this fixed rate may no longer reflect prevailing economic conditions or deliver fair outcomes.

Annex 1

Questions in this paper

Question 1: Do you agree with the proposed criteria for considering whether an issue is a mass redress event?

Question 2: Do you agree with the guidance provided in Annex 4 of this consultation paper, for how firms can proactively identify and rectify potential issues?

Question 3: Do you agree with the additional guidance proposed at SUP 15.3.8G for when firms are expected to report serious redress risks or issues to the FCA?

Question 4: Do you support the introduction of a 'lead complaints' process to address novel and significant complaint issues?

Question 5: Do you think that the lead complaints process will achieve its intended benefits?

Question 6: Do you agree that firms should be allowed to pause related complaints while lead cases are under investigation in the lead complaints test process?

Question 7: What safeguards should there be to ensure the lead complaints process is not used to delay or avoid complaint resolution?

Question 8: Do you agree in principle with the introduction of a new registration stage before a complaint is investigated by the Financial Ombudsman?

Question 9: Do you agree that the registration stage will help complainants preparing and submitting complaints to the Financial Ombudsman?

Question 10: What safeguards should there be to ensure the registration stage does not limit access to justice, particularly for vulnerable consumers?

Question 11: Do you agree that the Financial Ombudsman being able to pause or pass back cases at the new registration stage would improve respondent firms' ability to manage mass redress events or emerging regulatory issues?

Question 12: Do you agree that the Financial Ombudsman should consider differential case fees for cases in the registration stage?

Question 13: Do you agree with the proposed changes to DISP to improve the Financial Ombudsman's operational efficiency?

Question 14: Do you agree with the proposed amendments to COMP 4 and COMP 12A to simplify the list setting out who is and is not eligible to make a claim to the FSCS?

Question 15: Do you agree with the proposed amendments to COMP 6.3.4R to enable the FSCS to determine a relevant person in default, where they are not co-operating with the FSCS, or where personal circumstances prevent them from co-operating?

Question 16: Do you agree with the proposed amendments to COMP 11.2 to give the FSCS greater discretion over where compensation is paid under specific circumstances as described in that provision?

Question 17: Do you agree with the proposed amendments to COMP 12.2.10R and the additional factors listed in COMP 12.2.11R that FSCS must take into account, when considering if a claimant is eligible?

Question 18: Do you agree with our assumptions about the sizes of the compliance and legal teams involved in familiarisation and gap analysis, and with our treatment of costs associated with changes to firms' complaint acknowledgment letters?

Question 19: Do you agree with our analysis of the costs and benefits of these proposals?

Annex 2

Cost benefit analysis

Executive summary

1. Although 'redress' is often seen as meaning 'compensation', it is wider and refers more generally to ways in which a situation or wrong can be put right. Where redress is provided in financial services, the aim is often to put complainants back in the position they would have been in had the wrongdoing not occurred. In recent years, there have been several mass redress events – such as the mis-selling of payment protection insurance (PPI) or unsuitable advice about the British Steel Pension Scheme – where large volumes of complaints have been made about, and redress paid for, the same issue.

2. The FCA has identified 3 areas where the current redress framework could be improved:

- **Mass redress events** can create operational difficulties and costs for firms and the Financial Ombudsman, resulting in delays in consumers receiving the appropriate redress, and leading to inconsistent and disorderly outcomes. Identifying and acting on these mass redress earlier could help to mitigate these issues.
- **Firms not identifying and rectifying harm promptly, proportionately and proactively.** Firms responding to the Call for Input (CFI) stated that further guidance would help them to identify and rectify harm at an earlier stage.
- **Financial Ombudsman and FSCS operational efficiency**. Several provisions currently in the DISP and COMP sourcebooks create an additional burden on the Financial Ombudsman and the FSCS. This can create unnecessary costs and lead to delays in consumers receiving the redress they are owed.

3. The FCA's cost benefit analysis assesses the impacts of the following proposals.

Mass redress events

- Introducing metrics to help define a mass redress event.
- Guidance making clear when firms should notify the FCA of issues that may indicate that a potential mass redress event is emerging.

Firms identifying and rectifying harm effectively

- Non-Handbook guidance to firms on identifying and rectifying harms.

Financial Ombudsman and FSCS operational efficiency

- Various changes to DISP that are relevant to the Financial Ombudsman and aim to improve the clarity of complaint handling and redress processes, and
- Changes to increase the operational efficiency of the Financial Services Compensation Scheme.

4. The outlined proposals are expected to bring benefits to firms, consumers and the regulatory family by allowing us and firms to identify and, if necessary, control potential mass redress events earlier, securing more efficient, orderly and consistent outcomes for firms and consumers and reducing uncertainty. It is not reasonably practicable to estimate the monetary value of these benefits because the scale, nature and timing of any future (potential) mass redress events is uncertain. However, the FCA has used the experience of previous mass redress events to provide case studies and illustrative figures to indicate the potential scale of these benefits. For instance, 34.4 million consumers received around £38.3bn of redress between January 2011 and April 2021 following the mis-selling of payment protection insurance. In the FCA's recent Policy Statement on further temporary changes to handling rules for motor finance complaints, it estimated that firms could receive around 560,000 relevant complaints in the 3 months to the end of January 2025 if we did not intervene. These examples indicate the significant impacts that mass redress events can have for firms and consumers.

5. In the case of proposals that increase the operational efficiency of the FSCS, the FCA provides evidence on the cost and time savings realised per case where the proposals can be applied, or on the proportion of cases where the proposals could lead to efficiencies. For instance, the FSCS estimates that proposed simplification of the list of people not eligible to claim will reduce management expenses related to claim handling of £200,000 per year in addition to any savings related to escalation and legal referrals. Meanwhile, they estimate that the proposed changes to COMP 11 to make some payments of compensation more efficient could apply to 20% of cases.

6. Firms will need to familiarise themselves with and assess their current practices against the new rules and guidance the FCA is proposing. The FCA assumes that all regulated firms will have to do so. The FCA estimates a one-off cost to firms of £34.6m, or £727 per firm.

7. To the extent that the FCA's earlier action on mass redress events leads to a greater or lower number of claims being made through professional representatives, these proposals could impact the revenues of professional representatives such as claims management companies. However, any such impact would depend on the scale, nature and timing of any future mass redress events and on the nature of any FCA intervention in response, as well as prevailing market dynamics at the time. As such, the direction and magnitude of any such impact is uncertain.

8. The FCA's estimation of the costs and benefits of our proposals is based on our assessment that the good and poor practice on identifying and rectifying harms and the SUP 15 guidance we are proposing do not impose new obligations on firms.

9. The FCA considers, in line with stakeholder feedback, that by helping to modernise the redress system, the proposals considered in this CBA, will support the UK's competitiveness and medium-to-long-term growth. By reducing uncertainty and increasing market stability, these proposals are likely to support investment and innovation by firms and participation by consumers. However, the size of these effects is uncertain.

10. Overall, the FCA concludes that our proposals considered in this CBA are a proportionate response to the issues we have identified in the market. The FCA expects the costs to each firm to be very low (at £727 per firm). Meanwhile, the benefits of the proposals could be significant given the scale of the impacts that previous mass redress events have had on firms, consumers, and the regulatory family.

Introduction

11. The Financial Services and Markets Act (2000) requires the FCA to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires the FCA to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

12. In this Consultation Paper, the FCA – alongside the Financial Ombudsman – is proposing a package of measures to modernise the redress system.

13. This CBA is concerned only with the proposals in the package that involve changes to FCA-owned rules or guidance, given FSMA stipulations.

14. This analysis presents estimates of the significant impacts of FCA proposals. The FCA provides monetary values for the impacts where it believes it is reasonably practicable to do so. For others, it provides a qualitative explanation of their impacts.

15. The CBA has the following structure:

- The market
- Problem and rationale for intervention
- Options assessment
- Our proposed intervention
- Baseline and key assumptions
- Summary of impacts
- Benefits
- Costs
- Wider economic impacts
- Monitoring and evaluation.

The market

What is redress?

16. Redress means remediation of wrong done to a person in breach of rules or requirements. Financial compensation paid to complainants for the harm they have suffered is often referred to as the main form of redress, which, when provided, often aims at putting the complainant back in the position they would have been in, had no breach or wrongdoing occurred.

17. Several stakeholders, organisations and schemes play a role in the UK financial services sector's redress system. These are discussed in turn below.

Firms

18. Firms regulated by the FCA are required to follow certain complaints-handling rules. These rules require FCA-regulated firms to deal with complaints fairly, consistently, and promptly. The DISP sourcebook in our Handbook sets out FCA rules and guidance that apply to complaints handling and complaints resolution.

19. While consumer-facing firms generally receive the greatest volume of complaints, some provisions in DISP are relevant to some wholesale firms. For instance, some provisions in DISP are relevant to MiFID firms as they pertain to MiFID complaints.

20. Firms generally have up to 8 weeks to resolve complaints. For complaints relating to payment services, firms have up to 15 business days to resolve the complaint or, in some exceptional cases, to tell the customer when they will reply fully. In the latter case, the firm has up to 35 business days (from receipt of the complaint) to resolve the complaint.

21. In each year since 2021, financial services firms have received around 3.5-4 million complaints. The vast majority of complaints relate to either banking and credit products, or insurance and pure protection. Similarly, in each year since the end of the surge in PPI payments, firms have paid around £500mn per year in redress.

The Financial Ombudsman Service

22. If a firm does not respond to the consumer within the time limit specified above, or if the consumer is unsatisfied by the firm's response to their complaint, the consumer can refer their complaint for free to the Financial Ombudsman.

23. The Financial Ombudsman is an independent and impartial statutory scheme established by Parliament in 2001. When disputes between firms and consumers are not resolved, the Financial Ombudsman is tasked with determining cases referred to it on a 'fair and reasonable' basis. Where it upholds a complaint, it can award compensation to consumers for financial loss or for distress and convenience, or can direct the firm to take other appropriate steps to resolve the situation.

24. There are time limits for referring complaints to the Financial Ombudsman. Where a firm has sent a final response or summary resolution to the consumer, that consumer has 6 months to refer the case to the Financial Ombudsman. In addition, these complaints must be referred to the Financial Ombudsman within specific time limits: generally, either within 6 years of the event being complained about or within 3 years of when the consumer knew, or ought reasonably to have known, that they had cause to complain – whichever is later.

25. The Financial Ombudsman is funded by levies and case fees paid by firms:

- The FCA collects a levy, based on the volume of cases that the Financial Ombudsman expects to receive, from regulated firms who are covered by the Financial Ombudsman's service.
- Respondent firms pay a case fee after their first 3 complaints in a financial year, up to £650. However, in 2023/24, 60% of firms whose customers referred complaints to the Financial Ombudsman did not pay any case fees, as most firms have very few cases referred. For firms who do pay case fees, this cost is likely to be lower than the legal costs of defending the case in court. The Financial Ombudsman also has a group-account fee arrangement with 8 of the largest firms, which are paid in advance and dependent on their expected share of overall cases.
- The Financial Ombudsman's budget, including operational expenses and transformation costs, for the 2025/26 financial year is £285mn. This represents an increase of around 17% from the latest forecast of their costs for the financial year 2024/25. This increase is driven by an increase in the number of complaints they expect to resolve.

26. Between 1 July and 31 December 2024, the Financial Ombudsman received a total of 141,846 new complaints, of which 33% of the complaints were upheld in the consumer's favour.

Professional representatives

27. While consumers can refer a complaint to the Financial Ombudsman free of charge, some consumers appoint a professional representative (PR), such as a solicitor or claims management company (CMC), to do so on their behalf. According to the Financial Ombudsman, around 20% of the 400,000 cases referred to them in the 2 years to May 2024 were brought by PRs.

28. For consumers, using a PR can provide reassurance and reduce the time and effort required to make a complaint. PRs have expertise in relation to the claims process and the financial products and services that claims may concern.

29. However, some PRs charge up to 30% of any redress award paid to consumers for their services. In addition, most complaints to the Financial Ombudsman from PRs are not upheld in the consumer's favour. In the last 6 months of 2024, only around 25% of cases brought by PRs resulted in an outcome in favour of the complainant, compared to 37% of cases brought directly by consumers.

30. PRs accounted for almost half of all complaints referred to the Financial Ombudsman in H2 2024, compared to 22% in H2 2023. This was driven by complaints related to credit affordability and car finance.

31. In April 2025, the Financial Ombudsman introduced a new charging regime for cases brought by PRs. PRs now pay a charge of £250 for each case they refer to the Financial Ombudsman, once they exceed sending 10 cases in that financial year. They receive £175 if the complaint is found in favour of the consumer they represent. If the complaint is not upheld or withdrawn, the respondent firm will pay a reduced maximum fee of £475 instead of £650.

The Financial Services Compensation Scheme

32. The Financial Services Compensation Scheme (FSCS) is a statutory scheme that provides compensation to consumers when certain authorised financial services firms are unable to meet claims against them. When a firm fails, consumers can (subject to various eligibility conditions) make a claim to the FSCS for compensation.

33. There are limits to the amount of compensation that the FSCS can pay out. These limits vary across different product types and are set by the FCA and the Prudential Regulation Authority (PRA). For many product types, the limit is £85,000 per person, per firm. The PRA has recently consulted on raising the deposit protection limit – the maximum amount typically protected if a depositor's bank, building society or credit union becomes insolvent – to £110,000.

34. The FSCS is funded by the financial services industry, through levies on firms regulated by the FCA and the PRA.

Consumers

35. A large proportion of consumers are aware of the Financial Ombudsman and the FSCS. The FCA's 2024 Financial Lives Survey (FLS) found that 69% of consumers were aware of the Financial Ombudsman, and a similar proportion of relevant consumers were aware of the FSCS. Consumers with characteristics of vulnerability, however, were less likely to be aware of either organisation.

36. Nonetheless, the 2024 FLS found that only a minority of consumers who experience a problem with a financial services product make a complaint about it. The size of this minority varies by product type, from 13% for residential mortgages to 37% amongst those who have accessed a defined contribution pension in the last 4 years. Many did not complain as they believed that nothing would happen and there was no point, while others reported that it was too trivial an issue, that they were too busy or didn't have time, that it was too difficult, or that they did not know how to complain.

37. According to the 2024 FLS, 7.7% of UK adults made a claim for compensation relating to financial services in the 3 years to May 2024. In the 3 years to February 2020, 20% had done so; the marked decrease between 2020 and 2024 reflects a large fall in the number of claims made for the mis-selling of payment protection insurance (PPI).

38. Of consumers that could recall the channel through which they made a claim for compensation in the 3 years to May 2024, the majority made their claim directly (i.e., to the firm, the Financial Ombudsman or the FSCS) rather than through a PR.

Mass redress events

39. As explained in the joint FCA-Financial Ombudsman CFI, mass redress events (MREs) occur when a large number of consumers complain about the same or similar issues, often resulting in significant amounts of redress. Recent examples of MREs relate to the British Steel Pension Scheme (BSPS), PPI and motor finance commission.

40. As mentioned in the CFI, 1,870 former BSPS members received around £100m of redress for receiving unsuitable advice to transfer out of their defined benefit pension scheme. Meanwhile, some 34.4 million consumers received around £38.3bn of redress over the 10 years from January 2011 due to mis-sold PPI.

41. In addition to large financial impacts, MREs can also have significant operational impacts on firms and the Financial Ombudsman. For example, with respect to motor finance commissions, the FCA has temporarily paused the 8-week deadline for a final response to relevant customer complaints, to prevent firms and the Financial Ombudsman from being overwhelmed by a surge in complaints.

42. Overall, MREs can have a significant impact on firms, consumers and the regulatory family and can involve considerable uncertainty. These issues are outlined in the 'Problem and rationale for intervention' section below.

43. The FCA can play an important role during MREs by defining the regulatory response to the event. The actions we can take to deal with MREs include imposing formal statutory schemes – such as industry-wide or single-firm redress schemes – or encouraging affected consumers to submit complaints and supporting voluntary redress exercises led by firms. The most appropriate action, if any, to mitigate any actual or potential harms is dependent on individual cases and available evidence.

44. For instance, the FCA set a deadline for making PPI complaints to the firm that sold the PPI, and ran an awareness campaign to ensure consumers were aware of the deadline. This served to reduce firms' uncertainty about their long-term PPI liabilities while ensuring fair and consistent outcomes for consumers.

Problem and rationale for intervention

45. The proposals considered in this CBA seek to modernise the redress system by addressing problems in 3 areas: identifying and coordinating the response to mass redress events, firms identifying and rectifying harm effectively, and Financial Ombudsman and FSCS operational efficiency. In this section, each of these problems are discussed in turn.

Mass redress events

Drivers of harm – ineffective or outdated regulation and externalities

46. The absence of a formal regulatory definition of an MRE or metrics to define one means that the FCA cannot identify and act upon (as appropriate) MREs as soon as they might otherwise be the case.

47. In addition, as discussed in Consultation Paper 24/22 (CP24/22), the Financial Ombudsman case fee is designed to cover the marginal cost to the Financial Ombudsman of resolving a complaint under normal market conditions. However, the Financial Ombudsman's broader operational costs, which are likely to rise following a large rise in complaints, are spread across the industry via a levy. As a result, during MREs, firms who have not caused harm may bear some of the cost of that harm (a negative externality).

The harm

Burden on, and costs to, firms

48. During MREs, some firms are likely to face an influx of complaints and to be unable to scale up their complaints departments quickly enough to deal with those complaints within the timelines required by our rules (usually 8 weeks). For example, in Policy Statement 24/18 (PS24/18), the FCA's illustrative estimate was that if it had not intervened, firms could have received over 560,000 relevant complaints in the three months to January 2025.

49. Firms being overwhelmed by surges in complaints can also lead to large volumes of cases being referred to the Financial Ombudsman. Firms can then face significant costs from Financial Ombudsman case fees. If half of the 560,000 complaints in the illustrative estimate referenced above were referred to the Financial Ombudsman the associated case fees would have been over £180m.

50. The burden on, and costs to, firms during an MRE can cause firms to fail at an increased rate. For instance, in 2012 (before the FCA's announcement of a deadline for PPI claims), nearly 20,000 people submitted claims to the FSCS relating to PPI allegedly mis-sold by a firm that had failed, up from over 10,000 the year before. High and rising rates of firm failure could reduce consumers' confidence and willingness to participate in the relevant financial market.

51. Delays in identifying MREs can exacerbate these issues by delaying the FCA taking any appropriate action.

Burden on, and costs to, the Financial Ombudsman

52. Delays in identifying and acting on MREs are likely to increase the chance that the Financial Ombudsman experiences a surge in referrals, creating operational difficulties. While the Financial Ombudsman has established processes for dealing with such surges in complaints, it must nonetheless consider each complaint individually. The costs to the Financial Ombudsman of scaling up its operations in response to such a surge in its caseload may exceed its case fee, which is based on the cost of resolving complaints in normal circumstances.

53. For instance, the Financial Ombudsman received nearly 160,000 and 380,000 cases relating to PPI in 2011/12 and 2012/13 respectively, compared to around 163,000 cases in total in 2010/11. In 2012, the Financial Ombudsman had introduced a £350 supplementary case fee for PPI cases in anticipation of the large increase in their PPI caseload.

Less timely outcomes for consumers

54. During MREs, consumers can face delays in receiving the redress they are owed as a result of the operational difficulties that firms and the Financial Ombudsman face. Delays in us being able to identify and take appropriate action on MREs can extend these delays. As well as being undesirable in itself, such delay may cause them stress.

Uncertainty

55. More broadly, delays in identifying and responding to MREs extend the period of uncertainty for firms and consumers. Firms face uncertainty about the extent of their redress liabilities. In past MREs, firms have had to put aside large amounts of capital to provision for their redress liabilities. For instance, Fitch Ratings said in February 2025 that it expected lenders' motor finance provisions, and related operational costs, to exceed £2 billion in 2025. Consumers, meanwhile, face uncertainty about the amount of redress they will receive.

56. Such uncertainty is likely to cause stress for consumers and to deter investment by firms.

Firms identifying and rectifying harm effectively

Driver of harm – lack of guidance

57. Firms responding to our CFI stated that further guidance would help them to identify and rectify harm at an earlier stage. Without such guidance, firms' practices will be inconsistent, and some firms will fall short of best practice.

The harm

58. Where firms identify harm at an early stage and resolve it in a prompt, proportionate and proactive manner, this can help to mitigate the risk of a mass redress event. For instance, if a firm conducts effective root-cause analysis on a complaint it receives, it may identify and resolve an issue in its processes before a large number of consumers are affected.

59. At present, therefore, a lack of guidance on identifying and rectifying harm effectively means that some firms are hindered in their ability to identify and rectify harm at an earlier stage, which increases the risks of MREs and the harms associated with them (described above). Consumers are also likely to receive inconsistent outcomes depending on the practices of the firm they transact with.

Financial Ombudsman and FSCS operational efficiency

Driver of harm – ineffective or outdated regulation

60. Some provisions currently in the DISP and COMP sourcebooks create an additional burden on the Financial Ombudsman and the FSCS. For instance, the current rules in COMP (the FCA's sourcebook on compensation that sets out the FSCS's main powers

and duties) give the FSCS discretion to settle claims without investigation where in its reasonable opinion, the costs of investigating are disproportionate to the benefits, and it is in the interest of levy payers. However, the evidential burden that currently applies to the use of this discretion is disproportionately high. As a result, the FSCS has encountered cases where they believe that they are unable to rely on the discretion even where it appears to apply.

61. Similarly, some provisions in DISP and COMP are (or are perceived to be) unclear. For instance, some consumers appear not to understand when is appropriate for them to refer a complaint to the Financial Ombudsman. In the financial year 2024/25, the Financial Ombudsman signposted around 28,000 consumers back to the respondent business because they either had not yet submitted a complaint or the 15-business-day/8-week period had yet to elapse. For firms, this lack of clarity can result in a failure to fully cooperate with the Financial Ombudsman, leading them to provide evidence that is incomplete, or provided too late.

The harm

62. Where rules are unclear, this creates uncertainty for firms and consumers. It can also cause delays in the resolution of issues. Since both the Financial Ombudsman and the FSCS are funded by industry, increased costs for the Financial Ombudsman and the FSCS are ultimately borne by firms. They may in turn be passed on to consumers.

Options

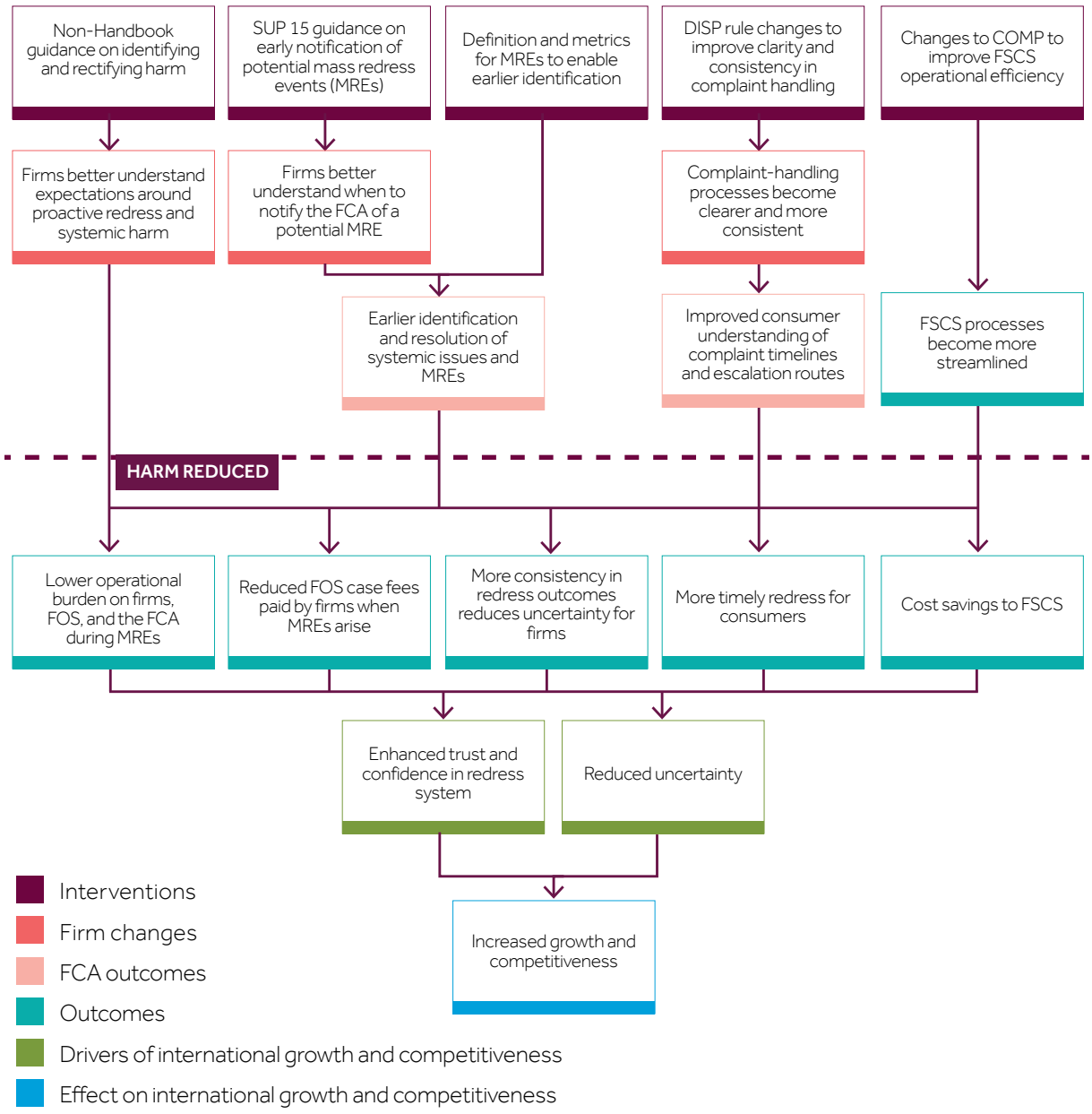
63. Before choosing the proposed package of interventions, the FCA assessed different options for responding to the problems with the redress system as it currently stands. The key alternative options and the FCA's assessment of them are summarised in the table below.

Assessment of options not taken forward

Option	Assessment
Do nothing – rely on existing rules and the Consumer Duty	The FCA consider that not intervening would be inappropriate given the issues highlighted in the 'Problem and rationale for intervention' section above.
Wait for legislative change before intervening The Treasury has announced that it is consulting on legislative change to modernise the redress system. The FCA has considered waiting for such legislative change to be implemented before intervening ourselves.	Waiting for legislative change will cause delays in us intervening. Where the FCA is able to intervene before legislative change is brought in, it considers that it should do so in order to improve the functioning of the redress system in as timely a manner as possible.

Our proposed intervention

64. The causal chain diagram below sets out how the FCA's expects the proposed interventions to take effect. The proposed interventions aim to modernise the redress system by improving how mass redress events are identified and managed, supporting firms to proactively identify and rectify harm, and enhancing the operational efficiency of the Financial Ombudsman Service and FSCS. These changes are intended to deliver more timely and consistent redress for consumers, reduce uncertainty and operational burdens for firms, and enable earlier and more effective regulatory responses. Collectively, they are designed to foster a more predictable and efficient redress framework.



Mass redress events

Defining MREs

65. The FCA proposes to introduce a set of metrics to help define a mass redress event. This will allow us to identify and deal with MREs at an earlier stage and will provide firms and consumers with greater regulatory certainty. See Chapter 3 of this Consultation Paper for details of the proposed criteria.

SUP 15 guidance

66. The FCA proposes to provide Handbook guidance making clear when firms should notify us of issues that may indicate that a potential MRE is emerging. Please refer to the descriptions in Chapter 4 for details on the circumstances in which the guidance would clarify that the FCA expects firms to notify it of an issue.

Firms identifying and rectifying harm effectively

Good and poor practice on identifying and rectifying harm

67. The FCA proposes to publish examples of good and poor practice to help firms understand how they could identify and rectify harm to consumers, including when and how to design and implement redress exercises. This publication supports compliance with existing obligations and expectations under DISP 1.3.3R, DISP 1.3.6G, PRIN 2A.2.5R and PRIN 2A.10. Please find the proposed guidance in Annex 4.

68. The publication will help firms understand when they should take reasonable steps to proactively identify and rectify the harm their acts or omissions may have caused to their customers.

Financial Ombudsman and FSCS operational efficiency

Changes to complaints handling rules for firms in DISP

69. The FCA and the Financial Ombudsman propose rule changes to DISP that aim at improving the clarity of complaint handling processes. These changes are designed to support better consumer outcomes, reduce operational friction, and ensure consistency in how firms and the Financial Ombudsman interact.

70. The FCA and the Financial Ombudsman propose to:

- Require firms to state in their written acknowledgment whether the complaint is subject to the 15-business-day deadline (e.g., for complaints to electric money and payment institutions) or the standard 8-week deadline. This will help consumers understand when they can expect a final response and reduce premature referrals to Financial Ombudsman.
- Illustrate further what is expected of respondents to meet their obligation to fully cooperate with the Financial Ombudsman, including when complying with directions on evidence or information the Financial Ombudsman needs to properly

assess a complaint. This will reduce the likelihood of delays and other barriers to the Financial Ombudsman obtaining the evidence it needs to assess a complaint, improving its operational efficiency as a result.

Changes to COMP

71. The FCA proposes to make several changes to COMP aimed at enhancing the FSCS's operational efficiency. The goal of these amendments is not to alter the level of protection afforded to consumers, but to allow the FSCS to address certain types of valid claims more quickly and with a lower administrative burden and costs. See Chapter 6 of the CP for details of the proposed changes.

Baseline and key assumptions

72. The FCA assesses the impact of its proposals over a 10-year appraisal period, starting from the point of implementation. Where the FCA estimates the net present value of costs and benefits, it uses a 3.5% discount rate, in line with the Treasury's Green Book.

73. To estimate the cost to firms of complying with our proposals, the FCA has used its standardised cost model (SCM). The SCM is used to standardise the assessment of common recurring costs, like familiarisation costs, across our CBAs. Appendix 1 of the FCA's publication on how it analyses the costs and benefits of its policies provides an overview of the SCM and when and why the FCA uses it.

74. The SCM categorises firms as small, medium or large. These size classifications are then used to inform cost assumptions and estimates. The model ranks firms based on their FCA annual fee blocks.

75. The SCM estimates the cost of staff time using salary data from the Willis Towers Watson 2022 Financial Services Report (for large and medium-sized firms) and a systematic review of adverts on the websites of Indeed, Reed and Glassdoor, cross-referenced against publicly available sources (for small firms). It uprates the salary estimates to account for subsequent wage inflation, and uplifts the resulting salary estimates by 21.0% to account for non-wage labour costs (such as pension contributions, National Insurance contributions, etc.). More information on the SCM can be found in Appendix 1 of the FCA's publication on how it analyses the costs and benefits of its policies.

76. The FCA do not provide monetary estimates for the value of the benefits we expect from our proposals. The FCA do not believe it is practicable or proportionate to do so, because of the broad nature of the expected benefits and – in particular – because of uncertainty as to the timing and nature of any potential future MREs. Nonetheless, given that previous MREs have had significant impacts on large numbers of firms and consumers – with PPI, for instance, seeing over £38 bn of redress being paid to around 34.4 million consumers between January 2011 and April 2021 – the FCA considers that these benefits are likely to be large in magnitude.

77. The FCA considers that the proposed examples of good and bad practice on rectifying harms and the SUP 15 guidance do not impose new obligations on firms. Rather, they make clear and explicit our expectations of firms under existing rules and guidance. The FCA therefore considers that including the costs and benefits associated with firms behaving in line with these pieces of guidance in this CBA would involve double-counting costs and benefits (since they should already have been accounted for when the relevant rules and guidance were introduced). The FCA nonetheless estimate the costs associated with firms familiarising themselves with the guidance and assessing their practices against what is expected of them. Clarifying the FCA's expectations of firms in the guidance has some benefits for firms in terms of greater regulatory certainty.

78. In the baseline, we assume that potential MREs will continue to emerge at some frequency (though we do not make any assumptions about the nature, frequency or timing of those MREs). We assume that in the baseline, the FCA would identify and act on some potential MREs later than it would under our proposals. We also assume that the operational inefficiencies at the Financial Ombudsman and FSCS caused by some DISP and COMP provisions would persist in the absence of our intervention.

79. A key assumption in the FCA's assessment of the likely impacts of the proposals is therefore that it will use the information received through the SUP 15 guidance and the proposed metrics for defining an MRE in order to identify and act, as appropriate, on MREs at an earlier stage than it currently does.

Summary of impacts

80. Tables 1-3 below summarises the costs and benefits the FCA expects the proposals to have. We judge that, although their exact value cannot be quantified for the reasons described above, the non-monetised benefits are likely to be significant and will outweigh the costs of our proposals.

Table 1 – Summary table of benefits and costs

Group affected	Item description	Benefits (£m)		Costs (£m)	
		One off	Ongoing	One off	Ongoing
Firms	Familiarisation and gap analysis			34.6	
	Reduced uncertainty associated with MREs		Non-monetisable		
	More orderly resolution of complaints and reduced Financial Ombudsman case fees		Non-monetisable		
	Impact on PR revenues		Non-monetisable		Non-monetisable

Group affected	Item description	Benefits (£m)		Costs (£m)	
		One off	Ongoing	One off	Ongoing
Consumers	Consumers receive more timely redress when mass redress events occur		Non-monetisable		
	Time saved by consumers due to fewer referrals back to firms from the Financial Ombudsman		Non-monetisable		
FCA, Financial Ombudsman and FSCS	The FCA is able to identify and address (as appropriate) MREs at an earlier stage		Non-monetisable		
	Reduced burden on the Financial Ombudsman from surges in complaints during MREs		Non-monetisable		
	FSCS operational efficiencies		Non-monetisable		
Total				**34.6**	

Table 2 – Present Value (PV) and Net Present Value (NPV)

	PV Benefits	PV Costs	NPV (10 yrs.) (benefits-costs)
Total impact	Not quantified	-£34.6m	-£34.6m
– of which direct		-£34.6m	-£34.6m
– of which indirect			
Key unquantified items to consider	Benefits to consumers, firms, the FCA and the Financial Ombudsman from more efficient resolution of MREs, which are not quantified due to uncertainty over the size, nature and timing of future MREs		

Table 3 – Net direct costs to firms

	Total (Present Value) Net Direct Cost to Business (10 yrs.)	Estimated Annual Net Direct Cost to Business
Net direct cost to business (costs to businesses – benefits to businesses)	£34.6m	£4.02m

Breakeven analysis

81. As explained earlier, the FCA do not believe it is reasonably practicable to quantify the benefits of our proposed interventions. Instead, the FCA conducts a breakeven analysis, expressing the estimated costs in terms of the minimum benefits that would need to be achieved per consumer in order for the intervention to deliver a net positive outcome. This provides a sense of the scale of benefits required to justify the proposals.

82. The Financial Lives Survey 2024 found that 98% of UK adults, or approximately 52.9 million people, have a day-to-day account. The FCA uses this figure as a proxy for the number of individuals who hold any financial product and therefore could be affected by proposals on the redress system.

83. The present value of total estimated costs is £34.6m. Dividing this by the estimated affected population of 52.9m implies that the intervention would need to deliver an average benefit of around £0.65 per person to break even. The FCA believes it is likely that the proposed improvements to the redress system will yield benefits that exceed this threshold. These expected benefits are set out in qualitative terms in the following section.

Benefits

Benefits to consumers

More timely, efficient, and consistent outcomes in MREs

84. The proposed SUP 15 guidance on early MRE notifications should help the FCA spot and address systemic issues sooner, leading to faster payments and shorter wait times for consumers.

85. In past cases like PPI, the operational challenges to the Financial Ombudsman associated with dealing with a significant increase in complaints have meant that many consumers wait years before they receive redress. A report published by the Public Accounts Committee in 2016 found that 39% of PPI cases closed in 2015-16 had taken more than 15 months to resolve, with an additional 17% taking more than 2 years. These delays led not only to prolonged financial uncertainty but also psychological strain for many consumers. The overall PPI redress scheme ultimately resulted in an average of around £1,000 per person being paid out in redress to 34.3 million consumers – illustrating the scale of the potential financial benefit when redress is delivered effectively.

86. Earlier identification and resolution of MREs should help avoid such backlogs, support more consistent outcomes across affected consumers, and reduce the financial and psychological costs associated with delays.

Reduced harm from poor complaints handling

87. The proposed DISP changes aim to make firms' complaints-handling processes clearer and more consistent. For example, requiring firms to spell out response deadlines in acknowledgment letters will help consumers understand their rights and options more clearly. This should reduce confusion, prevent missed deadlines, and lower the number of complaints referred prematurely to the Financial Ombudsman.

88. When complaints are prematurely escalated to the Financial Ombudsman, consumers often face delays as they are redirected back to firms. The proposed intervention aims to give consumers greater clarity on when they can escalate their complaint. By reducing these misdirected referrals, the FCA can help consumers avoid unnecessary steps, save time, and navigate the redress system more efficiently.

89. The FCA's proposal to clarify what is expected of firms in meeting their obligation to cooperate with the Financial Ombudsman – particularly in providing timely and complete evidence – aims to reduce the harm that arises when firms delay or fail to submit relevant information, which can slow down the resolution of complaints, and lead to decisions being made without all the facts. This should contribute to consumers receiving faster and fairer decisions, and where appropriate, redress.

Greater confidence in the redress system

90. Strengthening and clarifying how the redress system works, particularly in relation to mass redress events, should give consumers more confidence in the financial sector overall. As Llewellyn (2005) argues, trust in financial services is important for ensuring participation, consumers purchasing suitable products, and consumer empowerment.

91. Because MREs are large scale and therefore often high-profile in nature, effective handling of these events is critically important for building consumer trust. To the extent that they are aware of the proposed changes, consumers will have greater confidence that where systemic harm has occurred, it will be identified and addressed in a timely and fair manner. This should help to build trust, supporting greater engagement with financial products and services and contributing to improved financial wellbeing.

Benefits to firms

Reduced uncertainty

92. FCA proposals – in particular, the proposals for defining an MRE – will reduce the uncertainty that firms can face as a result of the current functioning of the redress system.

93. The proposals will help the FCA to identify potential emerging MREs more quickly. This will allow us to make any interventions that we consider are proportionate at an earlier stage, which should reduce the amount of disruption that firms face and help to ensure more efficient and orderly outcomes.

94. Uncertainty can dissuade firms from entering or expanding in a market or from innovating. It can also deter investment into firms; several stakeholders have identified uncertainty associated with the redress system as a drag on investment in the financial services sector. By giving firms and investors greater certainty, the proposals should support greater growth and innovation in the UK's financial services sector.

More orderly resolution of complaints, and reduced Financial Ombudsman case fees

95. The FCA expects that the proposals will allow it to identify and act (as appropriate) on potential MREs earlier. This earlier action should help to secure a more orderly resolution of complaints and reduce the likelihood that large volumes of complaints relating to the MRE are referred to the Financial Ombudsman (for instance, if the FCA can intervene before firms are overwhelmed by a surge in complaints that some are unable to process).

96. Firms will therefore benefit from a reduction in the value of Financial Ombudsman case fees they are required to pay. While the FCA is unable to quantify the magnitude of this reduction because of uncertainty about the nature, scale and frequency of any future (potential) MREs, the value of Financial Ombudsman case fees firms must pay can be very large during MREs. As discussed above, if half of number of motor finance complaints we illustratively estimated in PS24/18 had been referred to the Financial Ombudsman, the associated case fees could have been over £180 million. For the avoidance of doubt, this saving in case fees does not represent just a transfer from the Financial Ombudsman to firms. It arises because cases that would give rise to costs for the Financial Ombudsman are not occurring, and so there is a reduced need for the Financial Ombudsman to 'recoup' costs from firms.

97. A more orderly resolution of complaints should reduce the rate of firm failures during an MRE. Firm failures could damage consumer confidence in the relevant market and reduce consumer participation in it as a result.

Benefits to the Financial Ombudsman, the FSCS and the FCA

98. These proposals will benefit the FCA by increasing our ability to intervene early and effectively in MREs, enhancing our ability to help secure more orderly, efficient and consistent outcomes.

99. The Financial Ombudsman will benefit from these proposals as, by increasing the FCA's ability to identify and address potential MREs early, it will reduce the likelihood that the Financial Ombudsman receives a surge in complaints during an MRE. This will help them to manage and plan their caseload and to avoid additional costs associated with the rapid scaling-up of their operations to deal with a large spike in complaints, which could exceed the Financial Ombudsman case fee.

100. We also expect that the Financial Ombudsman will benefit from FCA proposals to clarify expectations around firm cooperation, which aim to reduce the administrative burden arising from late or incomplete submissions of evidence by firms.

101. Lastly, the proposed changes to COMP will create efficiencies and savings for the FSCS. The total time and cost savings associated with these proposals cannot be quantified due to the uncertainty in how often the FSCS will be able to take advantage of them. However, the following estimates offer an indication of the magnitude of these savings:

- The FSCS estimates that the proposed simplification of the list of people not eligible to claim would result in a reduction in management expenses related to claim handling of £200,000 per year. They consider that the true cost reduction would be greater than this since this figure does not include escalations and legal referrals. At present, approximately 10% of legal referrals touch on eligibility issues.
- They estimate that the proposed changes to COMP 6 would lead to up to 2 weeks' reduction in the time spent on data gathering and correspondence during each solvency investigation. They also estimate a 14-day reduction in firm investigation time where the change can be applied. They estimate that around 200 of the roughly 2,000 firms investigated in the last 5 years would be impacted by the broadened powers.
- The FSCS estimates that the proposed changes to COMP 11, which would make the process of paying compensation more efficient for some cases, could affect around 20% of the payments it makes.
- Lastly, the FCA expects that it would remain rare for the FSCS to exercise its discretion in the way enabled by our proposed changes to COMP 12. Nonetheless, the FSCS has estimated that, for some sorts of cases, if were able to exercise its discretion in this way it could save £500-600 per claim.

Costs

Costs to consumers

102. The FCA does not expect that its proposals would impose costs on consumers.

Costs to firms

Direct costs

103. The FCA expects that the direct costs to firms associated with the proposals considered in this CBA are just those associated with familiarising themselves with the proposals and assessing their current practices against them. As discussed above, the FCA considers that the proposed non-handbook guidance on identifying and rectifying harms and SUP 15 guidance clarify our existing expectations of firms, rather than imposing new obligations on them. The FCA therefore considers that any costs, other than familiarisation and gap analysis costs, associated with firms meeting these expectations have already been accounted for when the relevant provisions were introduced.

Familiarisation and gap analysis costs (one-off)

104. Firms will need, on a one-off basis, to familiarise themselves with the new rules and guidance that are consulted on and check their current practices against the rules, guidance and the examples of good and bad practice provided.

105. The proposals are relevant to many regulated firms, including all consumer-facing firms and some wholesale firms (for instance, MiFID firms). The FCA therefore assumes conservatively that all the firms that it regulates will need to familiarise themselves with these new rules and guidance and perform a gap analysis.

106. To monetise the resource costs associated with firms familiarising themselves with the new rules and guidance, the FCA has used the SCM's 'Standard' scenario for the number of people assumed to read the CP at each firm. It assumes that all of these staff are compliance staff, that they will need to read 40 pages and that they each read 20 pages per hour.

107. The FCA's assumptions are summarised in the table below.

Assumptions used in familiarisation cost modelling

Size of firm	Large	Medium	Small
Number of firms	250	1,500	45,830
Number of Full Time Equivalent (FTE) compliance staff assumed to read CP per firm	20	5	2
Average hourly cost of compliance staff time	£68	£63	£52
Average reading speed, words per minute	100		
Average number of words per page	300		
Number of pages to be read	40		

108. The FCA estimates the costs to firms of performing a gap analysis using the SCM's 'Standard' scenarios. It assumes that the gap analysis will require reading 40 pages of rules, guidance and examples of good and bad practice. The assumptions used in modelling the costs of gap analysis are summarised in the table below.

Assumptions used in gap analysis cost modelling

Size of firm	Large	Medium	Small
Number of firms	250	1500	45,830
Size (FTE) of legal team (or equivalent) reading legal text	4	2	1
Days per team member to review 50 pages of legal text	4	3	1
Average hourly cost of legal team (or equivalent) time	£79	£74	£70
Number of pages to be read	40		

109. Together, these assumptions imply total one-off familiarisation and gap analysis costs of £34.6 million. This is equal to a cost of £727 per firm.

110. We have not included in our CBA an estimate of the costs to firms of updating their complaints handling processes to comply with the proposed requirement to include the relevant response deadline in their acknowledgement letters. This is based on an assumption that firms already operate separate processes for dealing with the two types of complaints that would have different deadlines. As such, we expect that requiring them to add a further written acknowledgement will impose negligible additional cost. There may be a small group of firms who currently use a single process for both complaint types and will need to make a small process adjustment to separate them, which could involve an additional cost. However, as we would expect this cost to be relatively small, on grounds of proportionality we have not attempted to gather further information from firms in respect to this point and have excluded it from our estimate.

Question 18: **Do you agree with our assumptions about the sizes of the compliance and legal teams involved in familiarisation and gap analysis, and with our treatment of costs associated with changes to firms' complaint acknowledgment letters?**

Indirect costs

111. If the FCA can identify and act (as appropriate) to address MREs at an earlier stage, this could have an effect on the revenues of PRs if it means that a greater or lower share of claims are submitted through PRs. There is uncertainty around this impact, since it would depend on the nature of any intervention we made in response to the MRE and on prevailing market dynamics at the time of that intervention. We note that PRs are often involved in significant numbers of cases during MREs both prior to and after regulatory intervention. As such, the FCA does not consider that it is reasonably practicable to estimate this impact.

Costs to the Financial Ombudsman, the FSCS and the FCA

112. The FCA does not consider that these proposals will cause us to incur additional costs in dealing with MREs themselves. Rather, they will allow the FCA to deal with them at an earlier stage (which may, indeed, prove less resource intensive as it may allow intervention before problems grow and become more complex).

113. Some FCA resource may be needed to monitor and assess any additional SUP 15 notifications it receives as a result of the proposed SUP 15 guidance. However, as set out above the FCA considers that this proposed guidance clarifies existing expectations and so we attribute these costs are attributed to existing provisions rather than the new guidance.

114. The FCA does not expect that the proposals covered in this CBA will generate additional costs for the Financial Ombudsman or the FSCS.

Wider economic impacts, including on secondary objective

115. The proposals form part of a package of measures that seeks to modernise the redress framework.

116. The FCA expects this package to support the UK's competitiveness and medium-to-long-term growth, though the magnitude of this effect is uncertain. The FCA expects the proposals to have this effect through the following of the 7 drivers set out in its statement on its secondary international competitiveness and growth objective:

- **Proportionate regulation:** the proposals are intended to help create a proportionate redress system.
- **Market stability:** the FCA expects that the proposals will reduce the risk of disorderly outcomes resulting from any future MREs.
- **FCA operational efficiency:** these proposals will allow the FCA to respond more quickly to MREs, improving its ability to secure orderly, consistent and efficient outcomes.
- **International markets:** the proposals will make the UK financial sector's redress system more predictable. This greater regulatory certainty will make the UK's financial services sector more attractive to invest in and for multinational firms to do business in.
- **Trust and reputation:** the FCA considers that these proposals will enhance consumers' trust in the UK financial services sector, since they will have greater confidence that where an MRE does occur, it will be resolved in a way that leads to orderly, consistent and efficient outcomes. This enhanced trust should encourage participation.

Monitoring and evaluation

117. The FCA will assess whether the proposals result in earlier identification and intervention in future (potential) MREs, and whether this leads to better outcomes for firms and consumers. In particular, it will monitor the extent to which the number of Financial Ombudsman complaints diverges from business-as-usual levels, to see if there are reductions in the magnitude of the spikes in complaint volumes that it typically observes in the lead up to a mass redress event. For firm failures, the FCA will use its internal supervisory data to compare observed failure rates following the implementation of our proposals against historical business as usual (BAU) rates, and assess whether there is a reduction in abnormal firm failures during MREs. For consumer outcomes, the FCA will assess whether complaint resolution times, and the time taken to receive redress, reduce materially relative to previous MREs.

118. The FCA will also assess whether the proposed metrics for defining an MRE and the criteria in our proposed SUP 15 guidance are proving to be sufficiently broad as to capture emerging MREs without being too broad so as create an excessive burden on firms and the FCA. This assessment will consider both the number and types of events flagged under the new criteria, as well as the resource implications for firms and for the FCA.

Question 19: **Do you agree with our analysis of the costs and benefits of these proposals?**

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with several legal requirements applicable to the proposals in this CP, including an explanation of why our proposals are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by section 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4) FSMA). This duty applies so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how the FCA has considered the recommendations made by the Treasury under section 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes the FCA's assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA), the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The FCA considers these proposals are compatible with the FCA's strategic objective of ensuring that relevant markets function well, for the reasons set out below. For the purposes of the FCA's strategic objective, 'relevant markets' are defined by section 1F FSMA.

8. The proposals set out in this consultation are intended to advance all the FCA's operational objectives. These include protecting consumers, protecting integrity of the UK financial system and promoting effective competition in the interests of consumers. They also advance the FCA's secondary objective of facilitating international competitiveness and growth of the UK economy in the medium to long term.

9. These proposals support the FCA's operational objectives by ensuring the UK's redress framework for financial services operates effectively, is fit for a modern UK economy and provides appropriate protection for consumers. By identifying mass redress events at an early stage, and taking timely and appropriate action, we ensure consumer receive redress in a swift and orderly manner and we reduce the risk of disorderly firm failures affecting wider market integrity. Fewer failures due to unresolved or unexpected redress liabilities and fewer market exits due to lack of confidence or trust in markets will help to support greater competition, as consumers benefit from a wider choice of firms. Firms being more informed on how to identify, report on and rectify harm appropriately should lead to higher standards of behaviour that also fosters healthier market competition.

10. We consider these proposals also support the FCA's secondary objective to advance the international competitiveness and growth of the UK economy in the medium to long term. A key aim of our proposals is to ensure predictability and consistency in the interpretation of regulatory requirements, giving firms more confidence and certainty regarding their regulatory obligations and redress liabilities. This will create a more stable and predictable regulatory environment that helps to support greater investment, innovation and encourage new entrants to UK markets.

11. In preparing the proposals set out in this consultation, the FCA has also regard to the regulatory principles set out in section 3B FSMA.

The need to use our resources in the most efficient and economic way

12. The proposed non-Handbook guidance to help firms identify and address harm effectively should reduce the need for FCA supervisory teams to guide firms individually on how to resolve redress issues. Our proposed SUP15 guidance ensures firms notify the FCA at an early stage of issues potentially indicating a mass redress event, enabling us to take quick and decisive action to before an issue escalates and causes greater harm. The Financial Ombudsman's planned new registration stage for complaints and its revised casework model should ensure more efficient handling of cases. Other amendments to DISP and COMP should improve the operational efficiency of the Financial Ombudsman and the FSCS respectively, with longer term potential for reduction in the related levies that firms must pay.

The principle that a burden or restriction should be proportionate to the benefits

13. The CBA in Annex 2 outlines the FCA's assessment of the benefits and costs of its proposals. The FCA considers that the benefits for firms and consumers outweigh the burdens imposed.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

14. The FCA has considered the environmental, social and governance (ESG) implications of the proposals and its duty under sections 1B(5) and 3B(1)(c) FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under section 5 of the Environment Act 2021. The FCA does not consider the proposals are relevant to contributing to those targets. The FCA will keep this under review during the consultation period and when considering any final rules.

The general principle that consumers should take responsibility for their decisions

15. The FCA's proposed non-Handbook guidance to help firms identify and address redress issues, including through proactive redress exercises where appropriate, should lead to consumers being able to make more informed decisions. This could apply for example when a consumer is deciding whether to refer a complaint to the Financial Ombudsman.

The responsibilities of senior management

16. The FCA's proposed guidance clarifying SUP15 notifications to the FCA and its proposed guidance to help firms identify and rectify harm gives senior managers clarity on how they should oversee the management and governance of any redress issues arising in their businesses.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

17. The FCA's proposed guidance for SUP15 notifications to the FCA about redress issues and the proposed guidance on how firms should identify and address redress issues both aim to be flexible and adaptable to different sizes and types of firm. The proposed new mechanisms for the Financial Ombudsman to refer issues arising from cases to the FCA will consider the nature of firms and markets impacted by the issues involved in the referral.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

18. The FCA does not believe this principle is relevant to this consultation.

The principle that we should exercise our functions as transparently as possible

19. The FCA believes these proposals support this principle. Notably, plans to strengthen collaboration between the FCA and Financial Ombudsman in advance of any legislative change are set out in amendments to the FCA-Financial Ombudsman MoU. These transparently set out the process for how the Financial Ombudsman can ask the FCA to provide its view on regulatory requirements, where an issue has wider implications or potential to be an MRE.

20. In formulating these proposals, the FCA has regard to the importance of taking action to minimise the extent that it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by section 1B(5)(b) FSMA).

Further specified matters to which the FCA must have regard

21. In the design of our proposals the FCA has considered the the Treasury's latest remit letter sent to the FCA 14 November 2024. The letter notes that the government's top priority in its policy for the financial services sector is to promote growth and international competitiveness. Given this, we have had regard to the following priorities raised in the letter: maintaining and enhancing the UK's position as a world-leading global finance hub; maintaining the vital contribution of financial services to the UK's overall economic growth; and creating a regulatory environment that facilitates growth through supporting competition and innovation. At paragraph 11 we outline how we believe the proposals will help to further the FCA's secondary objective to advance the international competitiveness and growth of the UK economy in the medium to long term.

Expected effect on mutual societies

22. Section 138 K(2) of FSMA requires the FCA to state whether, in our opinion, the proposed rules will have an impact on mutual societies which is significantly different from the impact on other authorised persons. The FCA is satisfied that the proposals in this consultation would not have a significantly different impact on mutual societies compared with other authorised persons. The proposed rules and guidance would apply equally to all firms involved in the identification, reporting and provision of redress to consumers. In developing these proposals the FCA has considered how to mitigate the potential for different impacts on different types and sizes of firm.

Equality and diversity

23. The FCA is required under the Equality Act 2010 in exercising its functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not.

24. As part of this, the FCA ensures that the equality and diversity implications of any new policy proposals are considered. The FCA do not consider our proposals would negatively impact any groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other anti-discrimination legislation applies). The FCA believes the proposals would promote better, more consistent redress outcomes for all consumers, including those more vulnerable. For instance, the proposed non-Handbook guidance on identifying and rectifying harm includes guidance on how firms should consider the needs of more vulnerable consumers, such as tailoring any communications and providing extra support where appropriate. Proposed SUP15 guidance clarifying when firms should report foreseeable harm or systemic issues to the FCA includes whether the issue has a strong likelihood of impacting consumers in vulnerable circumstances. The proposed criteria to help the FCA assess whether an issue should be treated as a potential MRE includes similar criteria focused on the impact on vulnerable consumers.

25. The FCA will continue to consider the equality and diversity implications of our proposals during the consultation period and will revisit them when making the final rules, having considered any feedback we receive. In the meantime, the FCA welcomes comments regarding equality and diversity considerations.

Legislative and Regulatory Reform Act 2006 (LRRA)

26. The FCA has had regard to the principles in the LRRA and the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance. The FCA considers that our proposals are transparent, accountable, proportionate and consistent.

27. For example, proposed good and poor practice guidance for firms on identifying and rectifying harm aims to clearly and succinctly clarify our current expectations for firms, by including good and poor practice examples to help firms meet current expectations around identifying and rectifying harm arising from redress issues. The FCA anticipates this guidance will help ensure greater consistency, accountability and higher standards in how firms address redress issues. The FCA has also drafted the guidance considering other connected guidance, for example non-Handbook good and poor practice guidance previously published by the FCA on how firms can adhere to the Consumer Duty.

28. Similarly, proposed Handbook guidance clarifying SUP15 notifications includes criteria to help firms determine serious redress-related issues they should report early to the FCA. The FCA has designed the criteria to be proportionate and adaptable to different sizes and types of firm.

Annex 4

Good and Poor Practice on identifying and rectifying harm

Introduction

1. **The Dispute Resolution: Complaints** (DISP) and **the Principles for Businesses** (PRIN) sourcebooks make it clear that we expect firms to take reasonable steps to proactively identify and rectify issues that any acts or omissions may have caused to their customers.

2. This good and poor practice guidance gives examples to firms, to help them understand how to comply with our rules, guidance and principles.

3. Throughout this document we refer to 'redress exercises'. A redress exercise can take a variety of forms but is likely to include a firm taking one or more of the following proactive steps: considering its previous conduct, deciding if remedial action is owed to customers, and if so, providing the necessary remedy to the impacted customers without the customer having to raise a complaint.

4. The core objectives of this document are to highlight good and poor practice to:

   - Help firms understand how to proactively identify potential consumer harm.
   - Help firms take appropriate steps to resolve harm when it is identified.
   - Encourage a more consistent approach between firms for firm-led redress exercises.
   - Explain how firms can proactively offer redress to consumers, where appropriate, even where they have not made a complaint.
   - Provide guidance on how firms can provide consumers with appropriate communications to understand the firm's redress exercises, so consumers understand what is expected of them and what they can do if they are unhappy with the firm's outcome.

5. If an issue is effectively identified and rectified by a firm, this removes the need for customers to complain or refer complaints to the Financial Ombudsman Service ('the Financial Ombudsman') to get an appropriate outcome and ensures that customers can get redress quickly and effectively. This may mean fewer complaints go the Financial Ombudsman.

6. We are consulting on this guidance under section 139A of the Financial Services and Markets Act 2000. It provides further guidance to firms on how they can comply with their redress obligations under DISP 1.3.3R and DISP 1.3.6G as well as under the Consumer Duty as set out in PRIN2A.2.5R, PRIN 2A.5 and PRIN2A.10, as applicable.

7. This document does not replace the requirements in the Handbook and should be read in conjunction with our rules. Throughout this document we may identify connected

rules or guidance. Firms may find these rules and guidance relevant when considering the steps they should be taking.

8. This Guidance supplements the Guidance outlined in FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty.

9. Firms may find it helpful to read it in conjunction with the good practice and areas for improvement examples on complaints and root cause analysis published in December 2024.

10. We have provided examples of 'good' and 'poor' practice, largely based on our experience of redress exercises from our supervisory work. There is not just one way to provide redress, and our rules are not prescriptive on how to do so. We want these examples to illustrate some of our expectations and how they link to compliance with our rules:

Good practice

where the good practice relates to a particular rule, it tends to show the practice is likely to be consistent with the relevant rules.

Poor practice

where the poor practice relates to a particular rule, it tends to show the practice is unlikely to be consistent with the relevant rules.

FCA rules and guidance relevant to the setting up of redress exercises and firms providing redress

11. FCA rules and guidance make clear that firms should act in good faith and take appropriate steps to consider if they have caused foreseeable harm to retail consumers or identify recurring or systemic problems, and if reasonable and appropriate, rectify the harm. This arises from our complaints handling rules outlined at Chapter 1 of DISP and the Consumer Duty rules outlined at Chapter 2A of PRIN.

12. In this section, we will set out the relevant rules and guidance, which relate to a firm's duties in identifying such issues and rectifying them, including by setting up redress schemes and providing redress where appropriate.

13. **DISP 1.3.3R** reminds firms of their requirements to have appropriate management controls and to make sure such controls are appropriate to identify recurring or systemic issues, and that they take reasonable steps to remedy these problems where they give rise to complaints. What constitutes 'reasonable steps' a firm should take is variable and may depend on the situation and issues identified by firms. However, this is likely to include analysing the root causes common in several complaints, considering if they affected other processes or products, and correcting these root causes, where reasonable to do so. **DISP 1.3.3BG** provides guidance on the types of processes firms

can put in place to comply with **DISP 1.3.3R** and acknowledges that those may vary, depending on the nature, scale and complexity of their business and the volume of complaints. **The Consumer Duty ('the Duty')**[1] requires firms to act to deliver good outcomes for retail customers. Cross-cutting obligations arising from this include a requirement for firms to act in good faith towards retail customers (**PRIN 2A.2.1R**) and to avoid causing foreseeable harm (**PRIN 2A.2.8R**).

14. FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty provides further guidance on how we expect firms to apply the cross-cutting obligations in **PRIN 2A.2**. This includes:

- If a firm identifies that it has caused customers harm, either through its acts or omissions, the firm must act in good faith and take appropriate action to rectify the situation. This includes considering whether remedial action, such as providing redress, is appropriate (**PRIN 2A.2.5R**).
- The Duty is underpinned by the concept of reasonableness. So, when a firm is deciding if it needs to take remedial action, it should consider the standard that could reasonably be expected of a prudent firm carrying out the same activity in relation to the same product, and taking appropriate account of the needs and characteristics of the retail customers in the relevant target market (**PRIN 2A.7.1R**).

15. When dealing with complaints, firms might also have regard to our findings on complaints and root causes analysis, published in December 2024, which also include examples of good practice and areas for improvements.

16. When dealing with non-retail customers firms should have regard to: **Principle 6** which requires a firm to pay due regard to the interests of its customers and treat them fairly and **Principle 7** which requires a firm to pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

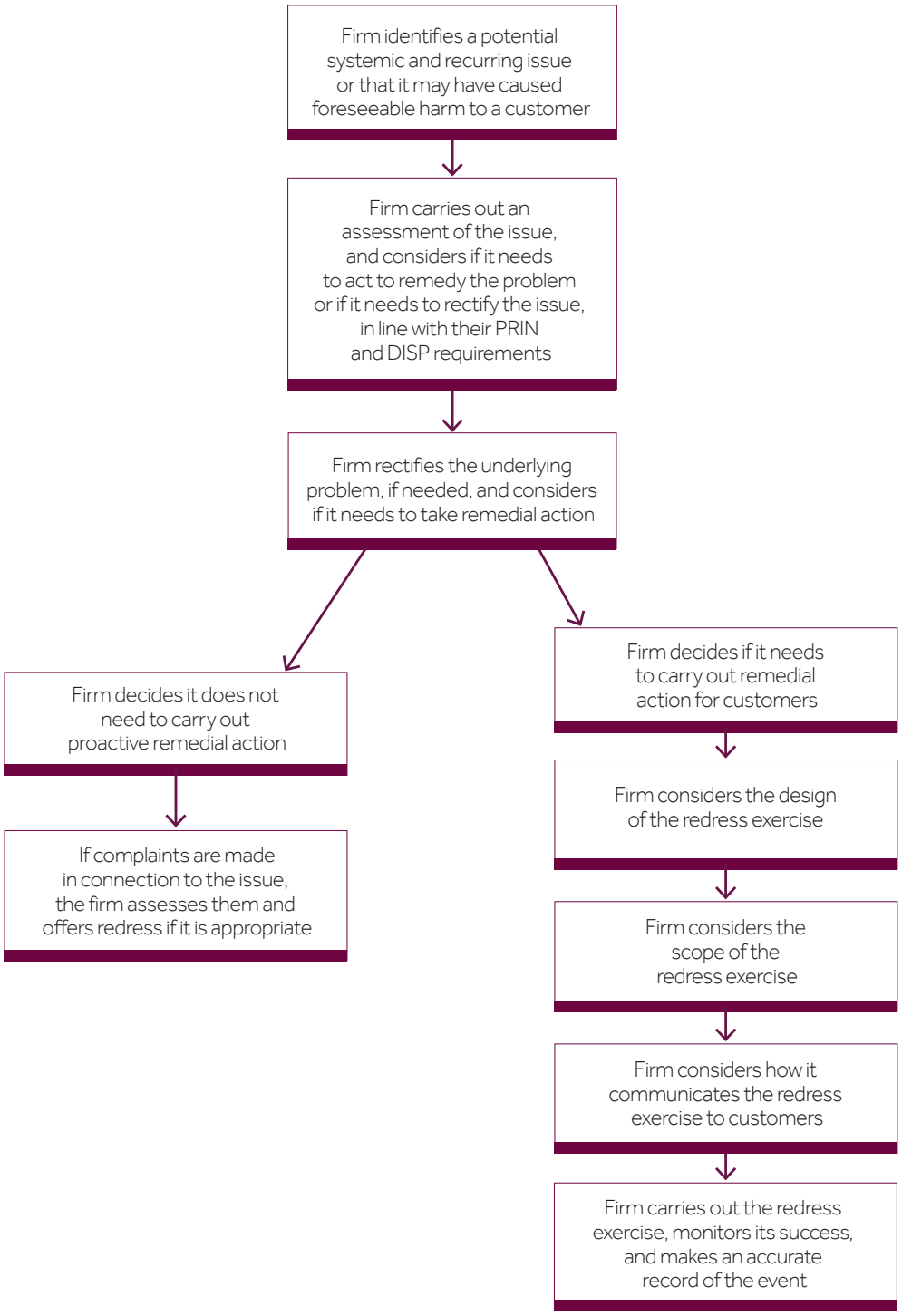
17. The Senior Management Arrangements, Systems and Controls Handbook **(SYSC)** is also relevant to a firm's obligations to carry out proactive redress. **SYSC 9.1.1R** requires firms to maintain orderly records of its business and internal organisation, which are sufficient to enable the FCA to monitor the firm's compliance with its requirements. **SYSC 3.1.1R** requires firms to take reasonable care to establish and maintain such systems and controls as are appropriate to its business. Though, in line with **SYSC 3.1.2G**, the nature and extent of the systems and controls will vary dependent on certain factors, for instance the nature, scale and complexity of the firm's business. Related to this is **DISP 1.9.1R** which further requires firms to keep a record of each complaint received and the measures taken for its resolution. This should assist with the collection of management information relevant to SYSC and their analysis under **DISP 1.3.3R**, including through regular reporting to the senior personnel pursuant to **DISP 1.3.3BG(6)**.

18. These provisions mean that where a firm has identified recurring or systemic problems or that it has caused foreseeable harm it must assess whether remedial action is appropriate. This may be remedying the cause of the issue to ensure that it does not occur again, and/or it may involve offering customers remedial action.

1 Principle 12 of the Principles for Businesses (the Consumer Duty)

19. When offering remedial action, this may be done as part of a redress exercise. The chapter on designing a redress exercise explains the steps firms can take, and the considerations and methods to set up such a redress exercise. We use good and poor practice examples to further illustrate to firms how they can carry out their own redress exercises.

20. The below infographic outlines, at a high level, how firms could typically implement the **DISP** and **PRIN** provisions in simple solutions, including creating a redress exercise.



Root cause analysis and identification of potential systemic or recurring issues and harm

Proactively Identifying harm

In considering this stage, firms should also have regard to the following rules and guidance:* DISP 1.3.3R & PRIN 2A.9.11R, *as applicable.

21. It is important to identify at an early stage when harm has occurred and to understand the extent of the harm. This section explains how to identify harm and steps that can be taken to evaluate the extent of the harm caused.

22. It is important to identify at an early stage when harm has occurred and to understand the extent of the harm. This section explains how to identify harm and steps that can be taken to evaluate the extent of the harm caused.

23. When considering how to proactively identify harm, firms should first consider the types of data or information that could be used.

24. FG22/5 contains more information on firms' responsibilities under the Consumer Duty and the types of data firms can use to identify potential issues. This includes considering customer behavioural insights, performing file reviews on a firm's products and services, and considering feedback given to them by members of staff, their customers, and other parties in the distribution chain.

25. Our review of root cause analysis also provides examples of good and poor practice.

26. As part of their systems and processes, firms will need a system in place to make sure they can identify when the root cause of a complaint is connected to a wider systemic or recurring issue. Having strong systems and controls in place to analyse the different data points outlined above, will help firms to more easily identify consumer harm.

Good practice

Some good practice examples of how firms have identified issues, we have seen are:

- A firm has received a number of complaints about a similar issue. These complaints were referred to the Financial Ombudsman and upheld. The firm reviewed the Financial Ombudsman's decision, and they then identified other customers who experienced a similar issue. The firm decided to carry out a further investigation into these customers to determine if they were owed redress.
- A firm had a process where each month they reviewed their complaints data to consider if there was a repeated issue that needed further investigation. In doing so, they adopted a process to group complaints by reference to what appeared to have caused them, which enabled them to have a high-level view on different types of complaints. One month, they identified that there had been a large increase in complaints made about a similar issue. So, they decided to carry out a review into the issue to see if they needed to reconsider their approach to the related complaints. On investigation, they decided they had followed the correct procedure, and no further action was needed.

- The same firm in example 2, also monitored if there were any trends or similarities when complaints were made. They identified that there had been a large surge in complaints on the same day in the previous month. They decided to investigate the issue and better understand what had caused the surge. They identified that the complaint coincided with a system change that had meant customers were unable to access their accounts. As the issue was temporary and had not resulted in tangible harm to the firm's customers, they decided they did not need to take any further action to rectify the issue.

27. Good practice examples of systems firms have had in place to identify issues:

Good practice – A Central Complaints Forum

- The firm had a central complaints 'forum', which was attended by subject matter experts across the business, including compliance officers, legal representatives, product and complaints team.
- The forum would leverage their expertise to discuss trends and cases from across their business. The team would then do a 'read across' to other functions and products to consider if harm has occurred in other areas in a similar way.

Good practice – Central Data team

- The firm had a central complaints data team, where all key metrics were fed into, including complaints data, social media reporting, sales data, and customer data.
- The team would perform deep dives into products and services, and challenge business areas if they felt harm was occurring.
- The business areas were then able to use the data to conduct past business reviews to identify potential issues.

Good practice – Using external assistance

- An insurance firm conducted a risk analysis of their businesses and identified specific areas where consumer harm was most likely to occur, for example, during the sales process or the handling of claims.
- As the firm used a third-party compliance consultant to assist in providing compliance oversight, they asked the consultant to focus its next compliance audit on these areas, so they could actively identify if harm had occurred. This then allowed them to act quickly if an issue was identified.

Assessing the extent of the issue

28. Once an issue is identified, firms will need to decide if they need to take action to rectify the situation, and if so, decide on an appropriate and reasonable approach. An issue may be best addressed by offering a redress award to the impacted customers if they suffered a loss, or, if there is no clear or minimal loss, this may be addressed by improving the firm's systems or processes to fix the issue, or both.

29. The appropriate response will depend on a range of factors. These include the scale and complexity of the issue, and the number and type of customers impacted, as well as the type and extent of the impact on consumers.

30. An informed decision on the correct remedial action, and whether redress is owed to consumers, will likely require appropriate evidence and analysis by the firm of the root cause and scale of the issue. This involves building a view of what has happened, who has been impacted, and the severity of the harm caused to customers.

31. When assessing the extent of the issue, key areas we expect a firm to consider include:

- What was the root cause of the harm?
- How many other customers may have been impacted?
- Are any of the impacted customers in vulnerable circumstances and if the issue may have affected these customers differently?
- Has the Financial Ombudsman published recent decisions on the same fact-pattern or issue? And if so, what remedial action was considered and why basis?
- For how long has the issue been occurring?
- What are the available ways to rectify the issue for all affected customers?
- If financial compensation is appropriate, how should it be calculated and what would be the total estimated compensation amount?
- If non-financial remedial action is appropriate, how should it be assessed and what would be the impact of providing it for the firm?

Appropriate governance

In considering this stage, firms should also have regard to the following rules and guidance: DISP 1.3.3R, SYSC 3.1.1R and SYSC 3.1.2G, *as applicable.*

32. Firms must have appropriate management controls to make sure they identify and remedy systemic problems.

33. Reporting issues allows the senior personnel to perform their role, in identifying, measuring, managing and controlling risks of regulatory concern. This allows the senior personnel to take appropriate action to address the issue that has been identified, including if the firm needs to carry out remedial action.

34. It is good practice to have clear systems and processes in place, so all colleagues know what issues they should report to the senior personnel, how they do this, and when it is necessary. Firms may want to consider what information they will report to the senior personnel for them to carry out their function.

35. A good practice example of how firms have implemented governance requirements:

Good practice – compliance board

- A firm had an overall compliance board, chaired by their Chief Risk Officer, and with its membership brought together key departments that were responsible for monitoring recurring and systemic issues. This included the complaints team, product teams, and compliance and legal teams.
- In the company's structure, this board had clear oversight responsibilities of redress issues, including overseeing redress exercises. This structure was clearly outlined in an easily accessible document, that was made available to all colleagues, so they knew where they should report issues to if they arise.
- When a working level colleague identified that there was a recurring issue with their systems, they were able to report this issue to the compliance board. They were then able to include an estimation of the number of customers impacted, how much it would cost the firm to take remedial action, and the firm's plan to rectify the issue to prevent it happening again.
- This allowed the compliance board to easily assess the firm's response to issue and provide agreement in writing for the firm's approach. This was then recorded appropriately as part of the governing board regular meeting minutes.
- The compliance board was then able to request updates from their working level contacts, to make sure they were able to monitor the redress exercise and ensure it satisfactorily remedied the issue. This include checking that the root cause had been rectified, and if remedial action was being taken for customers, that it was being carried out.

Appropriate systems and processes

36. How firms comply with their governance requirements depends on factors like the nature, scale, and complexity of the firm's business. For instance, the above good practice example may only be appropriate for complex and large-scale firms.

37. Smaller firms can still easily comply with these requirements, for instance, we have seen good practice examples where:

- the Chief Compliance Officer was the main governing body for redress exercises.
- For firms that are only a few colleagues, we have seen good practice examples where firms enlisted a 'critical friend', as someone who was able to review their work and challenge their rationale for the redress exercise assumptions. At times, this was done with a third-party consultant.

Interaction between the governing body and a redress exercise

38. When designing a redress exercise, a firm must consider how the redress event will be overseen. This includes making sure colleagues know how to report issues which arise and how the governing body will monitor the delivery of the redress exercise.

39. We have seen good practice examples, where a firm has asked its governing body to review the progress of a redress exercise and make key decisions. The decisions taken by the governing body included:

- The agreed scope of the redress exercise and any exclusions applied.
- Their approach to remedial action, including how the firm intended to calculate redress awards (if appropriate).
- Their communication plan for customers.

Notifying the FCA

40. Firms will need to decide if it is appropriate to inform the FCA about the identified issue.

41. In line with Principle 11 (relations with regulators), firms must deal with the FCA in an open and cooperative way and must disclose to the FCA appropriately anything relating to the firm of which that regulator would reasonably expect notice. This likely includes notifying the FCA when firms have identified a systemic or recurring issue or failed to prevent foreseeable harm and decided to proactively offer redress to impacted customers.

42. The **Supervision manual (SUP) 15.3.1R** requires firms to notify the FCA in the most serious of circumstances, especially when a firm anticipates needing to pay a high level of redress to customers. **SUP 15.3.3G** also suggests when firms are deciding whether the FCA should be notified of an event that may occur, a firm should consider both the probability of the event happening and the severity of the outcome should it happen.

Designing a redress exercise

43. As outlined in section 1, if firms identify systemic or recurring problems, or that retail customers have suffered foreseeable harm, then firms must take appropriate action to rectify the situation. This may include undertaking a redress exercise.

44. This chapter focuses on how firms can design their own redress exercise and illustrates this through practical examples of good and poor practice seen by the FCA.

When to Implement a Redress Exercise

In considering this stage, firms should also have regard to the following rules and guidance:* PRIN2A.2.5R, PRIN2A.7.1R, Principle 6, DISP 1.3.3R and DISP 1.3.6G, *as applicable.

45. Once a firm has identified that a recurring, systemic issue or foreseeable harm has occurred, it should appropriately, proportionately and reasonably consider the right steps to rectify the issue.

46. This may involve the firm identifying all of the impacted customers and establishing if they have enough information to make a judgment. Firms may then write to these customers to inform them of the issue, and if appropriate offer them redress.

47. In other cases, firms may also decide, based on reasonable evidence, that a redress exercise is not required to resolve an issue. In such cases firms may, for example, decide that it is appropriate to address the issue through complaints, as and when a customer makes one.

Good practice – Firms deciding if they need to carry out a redress exercise

Example 1:

- An investment provider conducted a root cause analysis into a complaint connected to one of their products. In their investigation they realised they had breached the requirement to carry out an applicable due diligence check on client assets and that their omission led to many of their other customers experiencing a loss.
- They investigated the issue further, and established the extent of the exercise, including:
  - What the root cause of the harm was.
  - How many of their customers had been impacted.
  - The steps they would need to take to rectify the issue.
  - What the total value of remedial action would be.
  - Whether any of their customers had already complained to them or the Financial Ombudsman Service.
- They were able to use this information to report the event to their governing board, who oversaw redress issues. The governing board used the information provided to decide how they would proceed.
- The firm recognised their omission had affected a considerable number of their customers and had a serious financial impact. Therefore, the firm's board decided they would design their own redress exercise and write to those customers explaining what had happened and offered them redress.

Example 2:

- An insurance firm identified that a system error had incorrectly priced their product for some of their customers. The firm carried out an assessment of the issue and realised it was a one-off event that lasted only one day and had only a minimal impact on the price offered to customers.
- The firm rectified the underlying system issue to make sure the error would not occur again, and they then reported similar information as in the above example to their board.
- The board considered the report, and decided they were satisfied that the system error was resolved. But they decided as the event had only occurred over a short period, only impacted a small number of their customers, and had almost no impact on the price offered to customers, that they would not carry out a proactive redress exercise.
- Instead, the firm wrote to the impacted customers to inform them of the issue, and invited them to make a complaint, if they wanted to.

Issues to consider when designing a Redress Exercise

48. When designing a redress exercise, key considerations include:

- Defining the scope of the exercise
- Deciding on an approach to remedial action or redress
- Communicating with impacted customers
- Keeping records of the exercise and the key decisions made
- Monitoring the effectiveness of the scheme and ensuring its operation is successful

Scope of exercise

49. When designing a redress exercise, firms will need to consider the 'scope of the exercise'. This involves the firm deciding which customers may be owed remedial action and how to contact them. Firms will need to identify the appropriate population of customers who may have suffered harm and the scenarios in which they are owed redress. This process will involve the firm making decisions on which customers are included and excluded, based on the concept of fairness, and ensuring the firm offers redress to the customers, when it is reasonable for them to do so.

50. Key parameters firms will usually consider when deciding the scope of their redress exercise include:

- over what period of time the issue occurred
- what products or services were affected by the issue
- what types of customer may have been impacted

Good practice

Example 1:

- An insurance firm identified that a change in its software system had resulted in some premiums being incorrectly calculated. It originally decided to only include customers from the date they identified that there was an error. On further consideration, they realised that the error likely had affected customers from before they identified the issue. Therefore, they decided to perform a further analysis to see when the error first began, and they then identified all the customers that would have been affected from the start of the issue. The firm decided to include all of these customers in the scope of their exercise to reflect the fact the issue had been ongoing.

Example 2:

- In a firm's initial assessment of harm, they had incorrectly priced one of their products, which meant some customers had been paying more than others. They decided to review if the same issue had affected any of their other products, and they realised it had. Therefore, they decided to extend their redress exercise to their other impacted products to ensure the issue was truly rectified.

Example 3:

- A firm decided to exclude a proportion of customers from their redress scheme, as the event that caused the harm occurred more than 6-years ago and the firm expected the customer to be time-barred. However, after reviewing the decision, their governing body highlighted that the customers may have had the required knowledge of the issue and would not be time-barred. Therefore, the governing board agreed to extend the redress exercise to include customers, who were affected more than 6 years ago.

Example 4:

- A firm identified that they had historically been overcharging customers for their service. They decided to rectify the issue with a redress exercise, but a large proportion of the customers had since left the firm. The firm was concerned it did not have the most up to date information to write to the customers. The firm decided to use a tracing service, and managed to identify the contacts for the majority of these customers. This ensured that the customers could be included in the exercise and receive redress where it was due, while minimising the risk of future complaints to the firm.

Poor practice

Example 1:

- When deciding the date from which to start a redress exercise, a firm chose to include all sales made since the start of its previous financial year. The firm had not considered whether clients sold products before this date would also be affected. This meant many customers, who were likely owed redress, would not have been considered in the exercise, and the firm would not have truly rectified the issue.

Example 2:

- A firm had multiple complaints about the same issue go to the Financial Ombudsman about their product. The Financial Ombudsman found in the customers' favour, so the firm decided to conduct a review into their product and customer base. They identified that the issue was a longstanding one, that had affected a number of previous customers who are no longer with them. However, they decided to only include current customers in the exercise, without first trying to make contact with ex-customers, meaning many customers did not receive adequate redress.

Example 3:

- A firm had multiple complaints connected to a similar issue go to the Financial Ombudsman, who decided in the complainant's favour. The firm had other open complaints connected to this issue, so the firm decided to assess the complaints in line with the Financial Ombudsman's decision, and offer the affected customers redress when it was appropriate. However, they chose not to identify other affected customers who had not yet made a complaint, even though the redress was significant. This meant the issue was not truly addressed.

Example 4:

- A firm designed a redress exercise but decided to apply a £250 threshold. This meant, any affected customers, where the redress payment was under £250 would not receive a redress award. This approach meant the majority of the customers they had identified would have been excluded, meaning their redress exercise was not truly rectifying the issue.

Scope of exercise: opt-in or opt-out approach

51. When designing a scheme, firms will need to consider how they will inform their customers and what to do if customers are not sufficiently responsive. There are usually two approaches seen by the FCA:

Opt out approach

- The opt out approach means that a consumer will be included by default in the redress scheme or past business review even if they do not actively participate or opt in to have their case reviewed. Firms will usually ask customers to fill out an "opt out" form, if they do not want to be included in the regime, for instance if the customer wants to go to the Financial Ombudsman directly.

Opt in approach

- The consumer will need to elect to participate in the redress scheme. Those who elect not to be included, or do not respond, will have their cases excluded. It is good practice for firms to provide, and ask customers to complete, an "opt in" form. This form, or the cover letter sending it, explains the consequences of not opting in, will often set out the purpose of the redress scheme and firms could ensure they follow up with the customer if they have not had a reply.

52. The opt in approach creates friction in the process, meaning not all affected customers will necessary receive redress. Therefore, an opt-out approach is likely to be more inclusive and more conductive of full redress being provided to all affected customers notwithstanding their level of involvement in the redress exercise. Firms may want to consider what approach is the most appropriate for their redress exercise.

Approach to remedial action or calculating redress

53. As part of a redress exercise, firms will need to consider how they rectify the issue. This can include offering a redress payment to customers or it may be taking steps to rectify an issue.

54. There are a number of sources of information that may be relevant and useful as firms consider their approach. For instance, firms may wish to consider similarities between the case in hand and other complaints it has received, relevant FCA publications into markets or complaints handling, and decisions or information published by the Financial Ombudsman about similar cases or issues.

55. Good practice examples we have seen on how firms have considered remedial action:

Good practice – financial award

- Due to a system error, an investment firm realised they had overcharged a group of customers for their service for one month.
- The firm decided that to put the customer back into the position they were in had the issue not occurred, that the firm would need to return the additional charge.

Good practice – non-financial award

- An insurance firm realised there was an unfair condition in their contract with a group of customers, but that this contract had not caused harm to the customers.
- The firm decided that to put the customer back into the position they were in had the issue not occurred, they would need to remove the condition in the contract.
- Therefore, the firm removed this unfair condition and wrote to the customers to explain why they had removed the term, and provided the customers with a new contract.

Help in calculating redress

56. The FCA will not usually provide guidance on how to calculate redress awards, which is often fact and context specific.

57. More generally, firms may find past examples of redress scheme rules or guidance which illustrate good practice in devising redress schemes. In particular, the scheme rules and complaints guidance set out in the following Appendices to DISP illustrate appropriate redress calculation approaches for the issues they dealt with:

- DISP App 1 Handling Mortgage Endowment Complaints
- DISP App 3 Handling Payment Protection Insurance complaints
- DISP App 4 Handling pension transfer redress calculations

58. Firms may also want to consider if the customer has experienced any additional distress or inconvenience because of the harm.

Communication and transparency

***In considering this stage, firms should also have regard to the following principles, rules and guidance:* Principle 6, Principle 7 & PRIN 2A.5, as applicable.**

59. During a redress exercise a firm must contact its affected customers. The next part of the guidance will discuss how firms can ensure their communications meet our requirements during a redress exercise.

Designing a communication plan

60. A communication plan is an outline of all the key information a firm will use to communicate with customers and helps firms comply with the consumer understanding requirement in the Consumer Duty. This includes customer contact details, timelines for when a firm may engage with those customers, and key information that will help inform this engagement.

61. A communication plan may be beneficial when designing a redress exercise. It can help the firm design its engagement with consumers.

62. A good practice example of a communications plan:

Good practice

- When carrying out a redress exercise, a firm made a communications plan for how they would contact their customers, and included the following information:
- Key dates on when they would contact these customers and the method they would use.
- Details of any deadlines by which customers would have to provide further information.
- Draft templates that could be used to communicate with customers.
- Information for front line staff about the redress exercise, in case they received questions about the issue.
- An agreed team or contact email for who would handle and resolve queries for affected customers.

Appropriate communications to customers

63. Redress exercises can, at times, be complex and difficult to explain to customers. This makes designing clear communication challenging, as firms may struggle to explain to customers what has happened and how the firm has resolved the issue, in a way that customers can understand.

64. It is therefore important that firms take into account the customers' information needs when designing their communications. Firms should consider the following areas when designing their customer communications:

- explain or present information in a logical manner.
- use plain and intelligible language and, where use of jargon or technical terms is unavoidable, explain the meaning of any jargon or technical terms as simply as possible.
- make key information prominent and easy to identify, including by means of headings and layout, display and font attributes of text, and by use of design devices such as tables, bullet points, graphs, graphics, audio-visuals and interactive media.
- avoid unnecessary disclaimers.
- provide relevant information with an appropriate level of detail, to avoid providing too much information such that it may prevent retail customers from making effective decisions.
- provide customers with adequate time to respond to any communication; and
- provide extra support for customers in vulnerable circumstances to ensure they could be included, e.g., extending deadlines to provide information or to respond if the customer was unable to reply in time.

65. A firm may need to ask a customer for information to assess the harm a customer has suffered and calculate what redress might be due. Firms should only ask customers for more information where it is reasonable for them to do so. Firms should also clearly communicate why they are collecting the information and how the firm will proceed if the client does not provide it.

66. Chapter 8 of FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty provides further guidance on how firms can apply the Consumer Duty, and the consumer understanding outcome of Duty, when communicating with retail customers.

67. Below is a good practice example of ways firms have communicated with consumers:

Good practice

- During a redress exercise, a firm identified that they needed further information from their customers to assess their case. They decided to write to all their affected customers to explain that the customers may be owed redress as part of their exercise and the issue that had occurred, but for the customers to be included, the firm needed further information.
- They were concerned that the redress exercise was complicated, so they designed all their communications to be written with the national reading age in mind.

- The firm initially considered excluding the customers who had not responded from the redress exercise. But they were concerned that this would be unfair to them, as many may have had good reason not to reply. Therefore, the firm tried other contact details they had for the customers, to see if they would receive a response, including via email.
- After trying to contact their customers via email and their other contact details, the firm received further uptake and got the information they needed from the majority of the affected customers, so they were able to proceed with the redress exercise.

Communicating with customers in vulnerable circumstances

68. Firms must consider the specific needs of customers with vulnerable characteristics. We have published guidance (FG21/1 and FG22/5) on how firms can ensure that customers in vulnerable circumstances experience outcomes as good as those for other customers.

69. Firms should refer to this guidance to ensure that a redress scheme meets the needs of vulnerable customers.

70. Good practice example of how firms have considered a consumer in a vulnerable circumstance:

Good practice

- When designing a redress exercise, a firm identified that some of their customers were in vulnerable circumstances, so may not have been able to engage with the redress exercise in the same way as others.
- The firm also recognised that vulnerable customers are less likely to engage with their redress exercise, so the firm decided to operate an 'opt out' approach, to ensure the majority of customers were included.
- As part of their standard letters written to all the affected customers, they also had a clear message at the beginning of the paper. This asked customers to self-identify any issue that may mean they need reasonable adjustments to engage with the communications.
- They included this message in all subsequent communications with all affected customers. They also provided a direct phone number and email address customers could use if they needed further support.
- These efforts combined ensured all of the affected customers were able to be included in the redress exercise and receive remedial action.

Testing communications with stakeholders

71. Where appropriate, firms must test their communications before sending it to affected customers. This will allow firms to prevent any misunderstanding after they have contacted their customers.

72. Some firms find it useful to use a 'pilot exercise' to test their communications with customers. In general, pilot exercises can be useful to test aspects of a proposed redress scheme, before it is finalised, such as communication styles or scope. This gives the firm an opportunity to test their communications with customers, as well as helping firms identify practical issues before the redress exercise is finalised. This enables the firm to make necessary changes to the full exercise to ensure it successfully delivers good outcomes.

73. When deciding if they need to test their communications, firms can consider the circumstances and complexities of the issue and their customer base to make a judgment on if it is needed.

74. More information on how firms can test their communications can be found in paragraph 8.39 in FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty.

75. A good practice example of how a firm has tested their communications:

Good practice

- An investment firm created a redress exercise, as they had failed to do adequate due diligence checks for the assets and funds, they were investing client money into.
- They realised that the issue was complicated and not easy to understand, and they were concerned that when they wrote to the affected customers, they would not understand the issue.
- To remedy this, they decided to test their communications, first with internal colleagues to ensure they understood the message the communication was trying to send, and then with a third-party consultant.
- The third-party consultant was able to do further checks and test their communications with a sample population similar to the firm's customer base.
- The firm was then able to make changes to their communications, based on this feedback, which ensured their letters were at a high quality, and that their customers were able to understand the redress exercise and how they could engage.

How customers may challenge your assessment

76. Some customers may be unhappy with the assessment. For instance, this could be because they are unhappy with the firm's rationale for excluding them or they disagree with the redress offered. Firms may want to consider how customers may challenge their decision after they have been contacted. This would include explaining to customers, that if they disagree with the firm's assessment, then the customer can refer their case to the Financial Ombudsman, for them to consider.

77. Good and poor practice of communicating how customers may challenge a firm's decision:

Good practice

- When the firm wrote to the affected customers, they outlined:
  - The harm that occurred
  - Their assessment of the case (including if the customer was owed redress and their rationale)
  - They then explained if the customer disagreed with the assessment, they could call a specific number or email a specific team to discuss the issue.
  - If after this, the firm and the customer still disagreed, then the firm explained they could take their case to the Financial Ombudsman for them to consider.

Poor practice

- A firm wrote to the impacted customers, and explained:
  - The harm that occurred
  - Their assessment (including if the customer was owed redress and their rationale)
- But the firm provided no explanation of how the customer could challenge the decision or ask further questions.
- Instead impacted customers had to contact the firm's complaints helpline to discuss the issue, who were not aware of the issue, and so were unable to help the customers.

Further advice and guidance

78. Annexes to Chapter 4 of the Consumer Redress Schemes Sourcebook (CONRED), relating to the British Steel Pension Scheme (BSPS) redress scheme, contain template letters firms were required to use in this scheme.

79. Their structure and general approach can be referred to by firms as examples of appropriate communication styles and level of information to be provided to consumers at various stages of a redress scheme, as examples of good precedents, that may help firms when designing their own communications.

Record keeping and monitoring redress exercise outcomes

In considering this stage, firms should also have regard to the following rules:* SYSC 9.1.1R and DISP 1.9.1R, *as applicable.

80. Firms must keep records of analysis and decisions taken by senior personnel in response to management information on the root causes of complaints.

81. It is good practice for firms to keep appropriate documents to ensure they can easily explain what the harm was, how it happened, and how you resolved it. This could include:

- The root cause analysis
- How many customers were affected
- How many customers were excluded from the 'scope' of the exercise, and who they were and the reason they were excluded
- What the remedial action was (if monetary, the total amount and the amount paid to each consumer)
- Authorisation from the firm's governing body on the key decisions made, e.g., redress calculations, exclusions applied, or remedial action taken
- Copies of customer communications.

82. As part of these obligations, firms could also consider how they monitor the exercise and ensure it meets the objectives of the scheme.

83. When monitoring the performance of a redress exercise, firms could also consider what went well and what could be improved, to inform any lessons learned for later exercises.

84. We have seen the following good practice examples:

Good practice

- As part of its record keeping process, a firm monitored the performance of its redress exercise. This included considering customer outcomes, and whether it achieved the expectations the firm had. The firm collected information on:
  - How many customers it had contacted
  - How many of these customers responded
  - If customers challenged any of its decisions or supplied further evidence that disputed its decision.

If it paid a redress award, it calculated how much it paid in total:

- The firm was able to use this information to consider if their redress exercise had achieved good consumer outcomes. For instance, it noticed that one customer had challenged its decision and provided further evidence on why they needed further remedial action.
- The firm considered this feedback, and realised it applied to some of the other customers, and was able to reconsider the redress awards it offered them.
- The firm also ensured to report all of this information back to its governing board, so it was able to track how the firm responded and that it met its obligations.
- The firm also kept a clear record of the redress exercises, including information on how it assessed the issue and made key decisions. This provided it with a depository of evidence that it could use in later redress exercises, to ensure they ran smoothly and efficiently.

Annex 5

FOS case journey flow chart

1

- Pre-registration stage will check:
  - whether the FCA is in the process of providing a view on the interpretation of rules relevant to the case;
  - whether there is ongoing FCA work on a 'Mass Redress Event' (MRE) or wider implications issue that is relevant to the case;
  - whether there is sufficient information to decide the case.
- Where relevant, the Financial Ombudsman may hold the case at this stage without charging a fee.
- Once the issue is resolved, cases may progress as normal or, where relevant, be dealt with under the new mass redress framework.

2

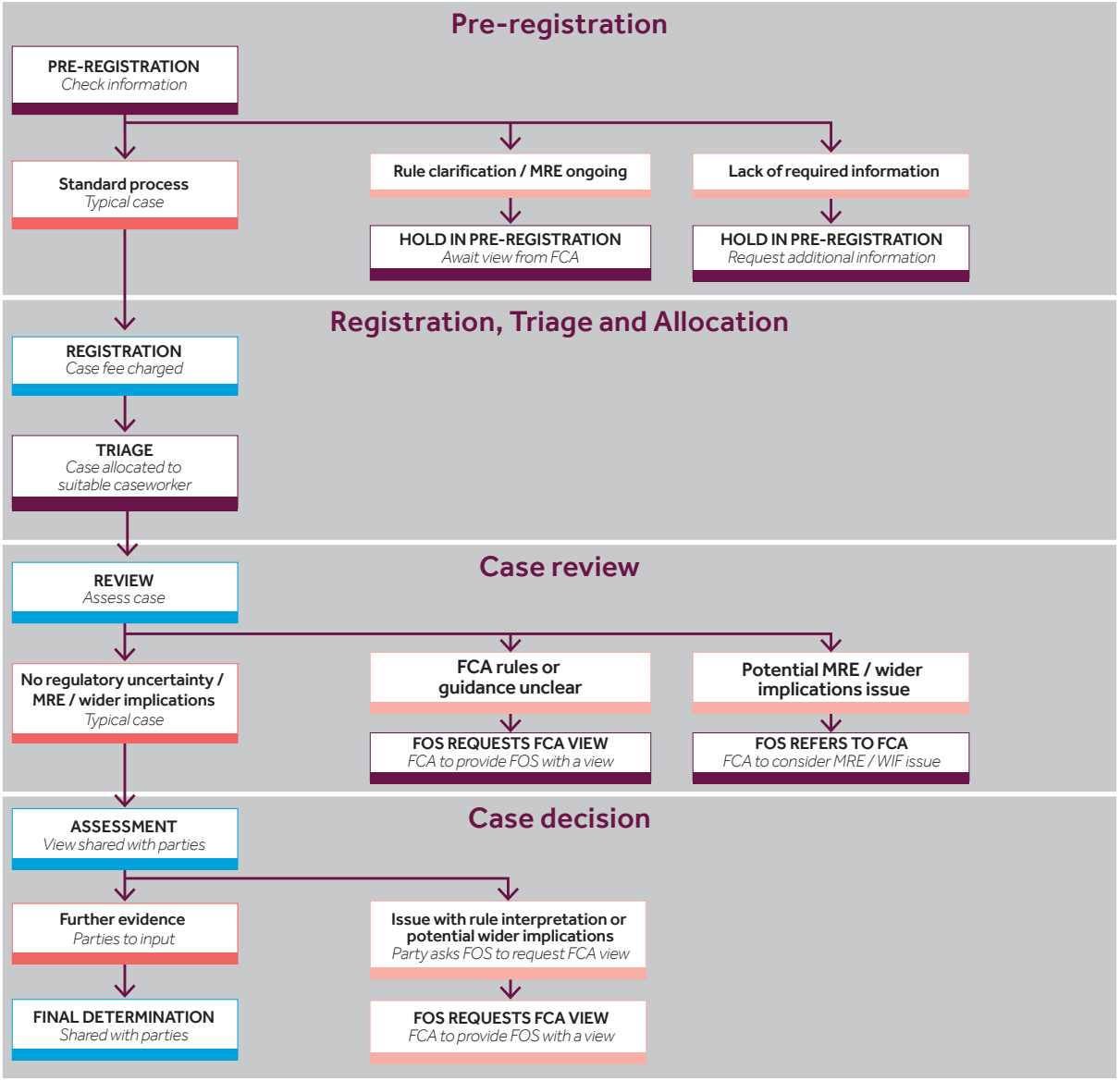
- Once the case has been registered, a fee is charged and the case is assigned to a caseworker (investigator or ombudsman), depending on the complexity of the case.

3

- Once assigned, the case is reviewed by the caseworker.
- If in their view issues in the case raises ambiguity or complex issues on what FCA rules require, including FCA rules or guidance on wider law, the Financial Ombudsman will request a view from the FCA. The case (or a group of cases) may be paused until a response is received.
- If it raises an issue which may have wider implications or has potential to become an MRE, the Financial Ombudsman will refer the issue to the FCA and consider if the case (or a group of cases) should be paused.

4

- Before a final determination is made, the Financial Ombudsman will share its provisional assessment with the parties.
- The Financial Ombudsman will review any further evidence provided by the parties.
- If either party is concerned about the Financial Ombudsman's interpretation of FCA rules, they may request that the FOS refers the issue to the FCA to provide a view, where the FCA has not previously done so.
- If either party believes the case raises a wider implications issue, the Financial Ombudsman may request the FCA considers the issue.



Annex 6

Abbreviations used in this paper

Abbreviation	Description
ADR	Alternative Dispute Resolution
APP	Authorised Push Payment
CBA	Cost Benefit Analysis
CEO	Chief Executive Officer
CONRED	Consumer Redress Schemes Sourcebook
CFI	Call for Input: Modernising the Redress System
CIS	Collective Investment Schemes
CMC	Claims Management Company
CMCOB	Claims Management: Conduct of Business sourcebook
COMP	Compensation Sourcebook
CP	Consultation Paper
DISP	Dispute Resolution: Complaints Sourcebook
ESG	Environmental, Social and Governance
EST	Economic Secretary to the Treasury
FCA	Financial Conduct Authority
FEES	Fees Manual
FRL	Final Response Letter
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FTE	Full-Time Equivalent

Abbreviation	Description
GDPR	UK General Data Protection Regulation
HMT	HM Treasury
LRRA	Legislative and Regulatory Reform Act 2006
MiFID	Markets in Financial Instruments Directive
MRE	Mass Redress Event
NPV	Net Present Value
PPI	Payment Protection Insurance
PR	Professional Representative
PRA	Prudential Regulation Authority
PRIN	Principles for Businesses
PSR	Payment Systems Regulator
PV	Present Value
SCM	Standardised Cost Model
SRA	Solicitors Regulation Authority
SUP	Supervision manual
SYSC	Senior Management Arrangements, Systems and Controls Sourcebook
WIF	Wider Implications Framework

Appendix 1

Draft Handbook text

FCA 2025/XX
FOS 2025/XX

REDRESS REFORMS INSTRUMENT 2025

Powers exercised by the Financial Conduct Authority

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers);
(3) section 139A (Power of the FCA to give guidance);
(4) section 213 (The compensation scheme);
(5) section 214 (General);
(6) section 226 (Compulsory jurisdiction); and
(7) paragraph 13 (the FCA's rules) of Part III (The Compulsory Jurisdiction) of Schedule 17 (The Ombudsman Scheme).

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Supervision manual (SUP)	Annex B
Dispute Resolution: Complaints sourcebook (DISP)	Annex C
Compensation sourcebook (COMP)	Annex D

E. The FCA approves the Voluntary Jurisdiction rules and guidance made and amended and the standard terms for Voluntary Jurisdiction participants fixed and varied by the Financial Ombudsman Service, as set out in paragraph F below.

Powers exercised by the Financial Ombudsman Service Limited

F. The Financial Ombudsman Service Limited makes and amends the rules and guidance for the Voluntary Jurisdiction and fixes and varies the standard terms for Voluntary Jurisdiction participants to incorporate the changes made by the FCA as set out in Annex C to this instrument, with approval from the FCA, in the exercise of the following powers and related provisions in the Act:

(1) section 227 (Voluntary jurisdiction);

(2) paragraph 8 (Information, advice and guidance) of Schedule 17;
(3) paragraph 18 (Terms of reference to the scheme) of Schedule 17; and
(4) paragraph 20 (Voluntary jurisdiction rules: procedure) of Schedule 17.

G. The making and amendment of the Voluntary Jurisdiction rules and guidance and the fixing and varying of standard terms for Voluntary Jurisdiction participants by the Financial Ombudsman, as set out at paragraph F, is subject to the approval of the FCA.

Notes

H. In the Annexes to this instrument, the notes (indicated by "**Note**:") are included for the convenience of readers but do not form part of the legislative text

Citation

I. This instrument may be cited as the Redress Reforms Instrument 2025.

By order of the Board of the Financial Conduct Authority
[*date*]

By order of the Board of the Financial Ombudsman Service
[*date*]

Annex A

Amendments to the Glossary of definitions

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

Amend the following definition as shown.

complaint …

(2) (in *DISP*, except *DISP* 1.1 and (in relation to *collective portfolio management*) in the *consumer awareness rules*, the *complaints handling rules*, ~~and~~ the c*omplaints record rule*, ~~and~~ in *CREDS* 9, ~~and in~~ *SUP* 12 and *SUP* 15) any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a *person* about the provision of, or failure to provide, a financial service, *claims management service* or a *redress determination*, which:

(a) alleges that the *complainant* has suffered (or may suffer) financial loss, material distress or material inconvenience; and

(b) relates to an activity of that *respondent* or of any other *respondent* with whom that *respondent* has some connection in marketing or providing financial services or products or *claims management services*, which comes under the jurisdiction of the *Financial Ombudsman Service*.

…

Annex B

Amendments to the Supervision manual (SUP)

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

15 Notifications to the FCA

…

15.3 General notification requirements

…

Communication with the appropriate regulator in accordance with Principle 11

15.3.7 G *Principle* 11 requires a *firm* to deal with its regulators in an open and cooperative way and to disclose to the *FCA* appropriately anything relating to the *firm* of which the *FCA* would reasonably expect notice. *Principle* 11 applies to *unregulated activities* as well as *regulated activities* and takes into account the activities of other members of a *group* as well as any *appointed representatives*.

…

15.3.8 G Compliance with *Principle* 11 includes, but is not limited to, giving the *FCA* notice of:

…

(3) any action which a *firm* proposes to take which would result in a material change in its capital adequacy or solvency, including, but not limited to:

…

(d) significant trading or non-trading losses (whether recognised or unrecognised)~~.~~;

(4) any circumstances that a *firm* considers:

(a) is likely to adversely impact at least 40% of the *consumers* of a financial service or product line that the *firm* provides or may provide to those *consumers*;

(b) may lead to the *firm* paying a significant total financial sum in redress if the *firm or* the *Financial Ombudsman Service* uphold a *complaint* made against the *firm*, or a court upholds a challenge relating to a c*omplaint* made against the *firm*;

(c) may lead to the *firm* paying financial sums in redress that will negatively impact the *firm*'s capital adequacy or solvency;

(d) has led, or is likely to lead, to *complaints* by a high number of *consumers* of a financial service; or

(e) may lead to substantial financial loss for each *consumer* in a group of two or more *consumers* of a product line.

15.3.8A G In *SUP* 15.3.8G(4)(a) and (e) and SUP 15.3.8BG a 'product line' means a *product* substituting references therein to *retail customer* with *consumer*.

15.3.8B G The *FCA* would consider there to be a 'significant total financial sum' in redress under *SUP* 15.3.8G(4)(b) if it appears a *firm* will need to pay from an affected financial service or product line either:

(1) £10 million or more; or

(2) 50% of the *firm*'s annual revenue from that product line.

15.3.8C G The *FCA* would consider there to be 'substantial financial loss' under *SUP* 15.3.8G(4)(e) if it appears that an individual *consumer* would lose more than £10,000. Other circumstances will also arise where there is 'substantial financial loss' to a *consumer*.

…

Annex C

Amendments to the Dispute Resolution: Complaints sourcebook (DISP)

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

1 Treating complainants fairly

1.1 Purpose and application

…

Application to firms

1.1.3 R …

(2A) …

(3) The following provisions apply to a *Gibraltar-based firm* as they would have applied had they been made (as amended) before *IP Completion Day*:

(a) *DISP* 1.4.4AG

(b) *DISP* 1.6.1R

1.1.3A D …

1.1.3B G *GEN* 2.3 has the effect of preserving provisions as they applied to *Gibraltar-based firms* immediately prior to *IP completion day*. *DISP* 1.1.3R(3) ensures that the provisions listed in *DISP* 1.1.3R(3) apply as amended after *IP completion day* to those *Gibraltar-based firms* subject to *DISP* 1 under *GEN* 2.3.

…

1.4 Complaints resolution rules

…

Cooperating with the Financial Ombudsman Service

1.4.4 R …

1.4.4A G Full cooperation with the *Financial Ombudsman Service* includes, as appropriate, complying with directions on evidence or requests for information from the *Financial Ombudsman Service* required to assess a *complaint*.

…

1.6 Complaints time limit rules

Keeping the complainant informed

1.6.1 R On receipt of a *complaint*, a *respondent* must:

(1) send the complainant a prompt written acknowledgement providing:

(a) early reassurance that it has received the *complaint* and is dealing with it; and

(b) information on the time the *respondent* has to send a written response to the *complaint* under *DISP* 1.6.2R or *DISP* 1.6.2AR, as applicable, clarifying if this is a statement explaining that the *respondent* will send:

(i) in the case of an *EMD complaint* or a *PSD complaint*:

(A) a final response within 15 *business days* of its receipt of the *complaint*, in accordance with *DISP* 1.6.2AR(1); or

(B) in exceptional circumstances, a holding response within 15 *business days* of its receipt of the *complaint* and a final response within 35 *business days* of its receipt of the *complaint*, in accordance with *DISP* 1.6.2AR(2); or

(ii) in the case of any other *complaint*, a written response within 8 weeks of its receipt of the *complaint*, that being either a final response in accordance with *DISP* 1.6.2R(1) or a written response in accordance with *DISP* 1.6.2R(2); and

…

…

Annex D

Amendments to the Compensation sourcebook (COMP)

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

4 Eligible claimants

…

4.2 Who is eligible to benefit from the protection provided by the FSCS?

4.2.1 R An *eligible claimant* is any *person* who at any material time:

(1) did not come within *COMP* 4.2.2R; or

(2) did come within *COMP* 4.2.2R but satisfied the relevant exemption in *COMP* 4.3 ~~or *COMP* 4.4~~.

[**Note**: See *COMP* 4A.2.2G about special cases in *COMP* 12A.1 (Trustees and pension schemes) and *COMP* 12A.3 (Collective Investment Schemes).]

Persons not eligible to claim unless COMP 4.3 applies (see COMP 4.2.1R)

4.2.2 R This table belongs to COMP 4.2.1R

(1)	*Firms* (other than a *sole trader firm*; a *credit union*; ~~a trustee of a *stakeholder pension scheme*(which is not an *occupational pension scheme*) or *personal pension scheme*; a *firm* carrying on the *regulated activity* of operating, or winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*;~~ or a *small business)*; ~~in each case, whose *claim* arises out of a *regulated activity* for which they do not have a permission)~~ and *overseas financial services institutions*	
(2)	~~*Overseas financial services institutions*~~ [deleted]	
…		
(4)	Pension and retirement funds, and anyone who is a trustee of such a fund~~. However, this exclusion does not apply to:~~	
	~~(a)~~	~~a trustee of a *personal pension scheme* or a *stakeholder pension scheme* (which is not an *occupational pension scheme*); or~~

	~~(b)~~		~~a trustee of an *occupational pension scheme* insofar as members' benefits are *money-purchase benefits*; or~~
	~~(c)~~		~~insofar as members' benefits are not *money-purchase benefits*, a trustee of an *occupational pension scheme* of an employer which is not a *large company*, *large partnership* or *large mutual association*.~~
…			
(7)	*Directors* of the *relevant person in default* or, in respect of a claim against a *successor in default*, directors of any *successor* or directors of the *relevant person*~~. However, this exclusion does not apply if:~~		
	~~(a)~~	~~(i)~~	~~the *relevant person in default* is a mutual association which is not a *large mutual association* and the *directors* do not receive a salary or other remuneration for services performed by them for the *relevant person in default*; or~~
		~~(ii)~~	~~in respect of a *claim* against a *successor in default*, the *relevant person* or a *successor*, to whichever the directorship relates, is a mutual association which is not a *large mutual association* and the *directors* do not receive a salary or other remuneration for services performed by them for the *relevant person* or a *successor*, as applicable; or~~
	~~(b)~~	~~(i)~~	~~the *relevant person in default* is a *credit union*; or~~
		~~(ii)~~	~~in respect of a *claim* against a *successor in default*, the *relevant person* or a *successor*, to whichever the directorship relates, is a *credit union*.~~
…			
(9)	*Bodies corporate* in the same *group* as the *relevant person in default* or, in respect of a *claim* against a *successor in default*, *bodies corporate* in the same *group* as a *successor* or the *relevant person*, as applicable~~, unless that *body corporate* is:~~		
	~~(a)~~		~~a trustee of a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or a *personal pension scheme* (but in each case if the trustee is a *firm* it will only be an *eligible claimant* if its *claim* arises out of a *regulated activity* for which it does not have a permission); or~~
	~~(aa)~~		~~a trustee of:~~

		~~(i)~~	~~an *occupational pension scheme* in relation to members' benefits which are *money purchase benefits*; or~~
		~~(ii)~~	~~(unless (i) applies) an *occupational pension scheme* of an employer which is not a *large company*, *large partnership* or *large mutual association*; or~~
	~~(b)~~	~~carrying on the *regulated activity* of operating or winding up a stakeholder pension scheme (which is not an *occupational pension scheme*) or *personal pension scheme*.~~	
…			
(13)	*Large companies*, *large partnerships* and *large mutual associations*		
(14)	~~*Large partnerships*~~ [deleted]		
…			
(19)	~~*Large mutual associations*~~ [deleted]		
…			

…

4.3 Exceptions: Circumstances where a person coming within COMP 4.2.2R may receive compensation

…

Protected investment business

4.3.9 R ~~A *person* is eligible to claim compensation for claims made in connection with *protected investment business* if, at the date at which the *relevant person* (or, where applicable, a *successor*) is deemed to be in default, he:~~

~~(1) came within category (14) of *COMP* 4.2.2 R and he does not exceed the limits for a *body corporate* which qualifies as a small company under section 247 of the Companies Act 1985 or section 382 of the Companies Act 2006 as applicable; or~~

~~(2) came within category (19) of *COMP* 4.2.2 R.~~ [deleted]

4.3.10 R Trustees of pension schemes

A person is eligible to claim compensation for *claims* where they are a trustee of:

(1) a *personal pension scheme*;

(2) a *stakeholder pension scheme* (which is not an *occupational pension scheme*);

(3) an *occupational pension scheme* insofar as members' benefits are *money-purchase benefits*; or

(4) an *occupational pension scheme* insofar as members' benefits are not money-purchase benefits; and the employer is not a large company, large partnership or large mutual association.

4.3.11 R A *body corporate* in the same *group* as the *relevant person in default* is eligible to claim compensation for *claims* where they are:

(1) a trustee of a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or a *personal pension scheme*, provided that if the *body corporate* is a firm its *claim* arises out of a *regulated activity* for which it does not have permission.

(2) a trustee of an *occupational pension scheme* in relation to member's benefits which are *money purchase benefits*;

(3) trustees of an *occupational pension scheme* of an employer which is not a *large company*, *large partnership* or *large mutual association*; or

(4) carrying on the *regulated activity* of operating or winding up a stakeholder pension scheme (which is not an *occupational pension scheme*) or a *personal pension scheme.*

…

Insert the following new chapter, COMP 4A, after COMP 4 (Eligible claimants). All the text is all new and is not underlined.

4A Eligibility special cases

4A.1 Application and purpose

Application

4A.1.1 R This chapter applies to the *FSCS.*

4A.1.2 G This chapter is also relevant to those who may wish to bring a *claim* for compensation.

Purpose

4A.1.3 G In some cases, *claims* may be brought by one *person* for the benefit of another *person* or group of *persons* who they have legal obligations

towards, such as a trustee for the benefit of beneficiaries. In these situations, it is appropriate that the *FSCS* treats the *claim* as having been made by each of the *persons* who will benefit from the *claim*. The purpose of this chapter is to set out the circumstances where these situations arise.

4A.2 Look throughs

4A.2.1 R If a claimant has a *claim* as a *person* in column A of the table at *COMP* 4A.2.3R, the *FSCS* must treat the corresponding *person* in column B of that table as having the *claim* not the *person* in column A.

4A.2.2 G For the purposes of this section, note the *rules* and *guidance* for other special cases in *COMP* 12A.3 (Collective investment schemes).

4A.2.3 R This table belongs to *COMP* 4A.2.1R.

	A	B
(1)	Trustee of an *occupational pension scheme* or trustee or *operator* of, or the *person* carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*.	Member or member scheme (or, where relevant, the beneficiary of any member) insofar as the members' benefits are *money-purchase benefits*.
(2)	Bare trustee	Beneficiary
(3)	*Nominee company*	Beneficiary
(4)	Personal representative	Estate the personal representative is administering
(5)	Agent	*Principal*
(6)	*Firm* with a *claim* under *COMP* 3.2.4R	*Customer*
(7)	*Friendly society*	Member

4A.2.4 R The *FSCS* must:

(1) only pay compensation to or on behalf of a *person* listed in column B of the table at *COMP* 4A.2.3R if that *person* is an *eligible claimant;* and

(2) not pay compensation separately to a *person* listed in column A of the table at *COMP* 4A.2.3R unless that *person* has a *claim* as an *eligible claimant* in a capacity other than that listed in column A of that table.

4A.2.5 R Where this chapter applies, the *FSCS* must take reasonable steps to ensure that any amount paid to a *person* in column A of the table in *COMP* 4A.2.3R is, in each case:

(1) for the benefit of the corresponding *persons* in column B of the table at *COMP* 4A.2.3R if that *person* is an *eligible claimant*; and

(2) no more than the amount of the loss suffered by the corresponding *persons* in column B of the table in *COMP* 4A.2.3R.

4A.3 Trusts, pension schemes and collective investment schemes

4A.3.1 R If any group of *persons* has a *claim* as

(1) trustees; or

(2) *operators* of, or as *persons* carrying on the *regulated activity* of winding up a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme* (or any combination thereof),

the *FSCS* must treat them as a single and continuing *person* distinct from the *persons* who may from time to time be performing those roles.

4A.3.2 R Where the same person has a *claim* as

(1) trustee for different trusts or for different *stakeholder pension schemes* (which are not *occupational pension schemes)* or *personal pension schemes*; or

(2) the *operator* of, or the *person* carrying on the *regulated activity* of winding up different *stakeholder pension schemes* (which are not *occupational pension schemes*) or *personal pension schemes*,

the *FSCS* must treat the *claim* in respect of each trust, scheme or fund as being the *claim* of a separate *person*, unless the *claim* relates to a single pooled investment failure impacting multiple trusts, schemes or funds.

4A.3.3 R Where the claimant is a trustee and some of the beneficiaries of the trust are *persons* who would not be *eligible claimants* if they had a *claim* themselves, the *FSCS* must adjust the amount of the overall *claim* to eliminate the part of the *claim* which, in the *FSCS'* view, relates to any beneficiary who would not be an *eligible claimant*.

4A.3.4 G The look through in relation to *pension schemes* in *COMP* 4A.2.3R(1) means that:

(1) where a member's benefits are *money-purchase benefits*, the *FSCS* will treat any *claim* as though it was made by the member whether the *claim* is made by the individual member or the trustee of the *pension scheme*; and

(2) where a member's benefits are not *money-purchase benefits*, no look through will apply and the *FSCS* will consider any *claim* owed to either the trustee of the *pension scheme* or an individual member on its own merits.

4A.4 Joint claims

4A.4.1 R Subject to *COMP* 4A.3.2R, if 2 or more *persons* have a joint beneficial *claim*, each of those *persons* is taken to have a *claim* for their share, and in the absence of satisfactory evidence as to their respective shares, the *FSCS* must regard each *person* as entitled to an equal share.

4A.4.2 R If 2 or more *persons* who are carrying on business together in partnership have a joint beneficial *claim*, the *claim* is to be treated as a *claim* of the partnership.

4A.5 Foreign law

4A.4.1 R In applying *COMP* to *claims* arising out of business done with a *branch* or *establishment* of the *relevant person* outside the *United Kingdom*, the *FSCS* must interpret references to:

(1) *persons* entitled to as personal representatives, trustees, bare trustees or agents, operators of *pension schemes* or *persons* carrying on the *regulated activity* of winding up *pension schemes*; or

(2) *persons* having a joint beneficial *claim* or carrying on business in partnership;

as references to *persons* entitled, under the law of the relevant country or territory, in a capacity appearing to the *FSCS* to correspond as nearly as may be to that capacity.

Amend the following as shown.

6 Relevant persons and successors in default

…

6.3 When is a relevant person in default?

…

6.3.4 R The *FSCS* may determine a *relevant person* to be *in default* if ~~it is satisfied that~~ a *protected claim* exists (other than an *ICD claim*), and:

(1) the *FSCS* is satisfied that:

(a) the *relevant person* cannot be contacted at its last place of business and that reasonable steps have been taken to establish a forwarding or current address, but without success; ~~and~~

(b) the *relevant person*, or its *directors* or former *directors*, have failed to comply with a request for information from the *FSCS* or otherwise failed to deal with the *FSCS* in an open, co-operative and timely way; or

(c) the *relevant person*, or its *directors* or former *directors*, are facing personal circumstances such that the *FSCS* reasonably believes that they are unable to deal with the *FSCS* in an open, co-operative and timely way; and

(2) there appears to the *FSCS* to be no evidence that the *relevant person* will be able to meet *claims* made against it.

…

Scheme manager's power to require information

6.3.9 R For the purposes of section~~s~~ 219(1A)(b), (d) and ~~(f)~~ (e) of the *Act* (Scheme manager's power to require information) whether a *relevant person* is unable or likely to be unable to satisfy *claims* shall be determined by reference to whether it is *in default*.

…

11 Payment of compensation

…

11.2 Payment

To whom must payment be made?

11.2.1 A R If the *FSCS* determines that compensation is payable (or any recovery or other amount is payable by the *FSCS* to the claimant), it must pay it to either the claimant, ~~or if the *FSCS* so decides, as directed by the claimant~~ or to any other *person* on such terms and on such conditions as the *FSCS* thinks fit, unless *COMP* 11.2.2R, ~~*COMP* 11.2.2AR or *COMP* 11.2.2CR apply~~ applies.

11.2.1 B R When paying compensation to a *person* other than the claimant in accordance with *COMP* 11.2.1AR, the *FSCS* must take reasonable steps to ensure that any amount paid:

(1) benefits the *eligible claimant*; and

(2) is no more than the amount of loss suffered by the *eligible claimant*.

11.2.1C G Factors that the *FSCS* may consider in determining who to pay compensation to under *COMP* 11.2.1AR include, but are not limited to, any direction given by the claimant, and what the *FSCS* reasonably considers is in the claimant's best interests.

11.2.1D G *COMP* 3.2.2R permits the *FSCS* to pay compensation to a *person* who makes a *claim* on behalf of another *person* where certain conditions are satisfied. This includes payment to the personal representatives who make a *claim* on behalf of the deceased (see *COMP* 3.2.3G(1)). *COMP* 11.2.1AR permits the *FSCS* to pay compensation to any other *person* who it considers should receive the compensation. For example, this may be to a funeral services provider directly where the funeral services provider has incurred expenses in providing funeral services under the *funeral plan contract* and is yet to be reimbursed.

…

~~Collective investment scheme claims~~

11.2.2A ~~R~~ ~~Where a *claimant* has a claim that falls within *COMP* 12A.3.1R, the *FSCS* may pay any compensation to:~~

~~(1) the *participants* and not to the claimant; or~~

~~(2) the *collective investment scheme* and (where different) not to the claimant; or~~

~~(3) any combination of the above.~~ [deleted]

11.2.2B ~~G~~ ~~As a result of *COMP* 12A.3.1R, the *FSCS* must try to ensure that the amount paid is no more than the amount of the loss suffered by the *participant*.~~ [deleted]

~~Protected funeral plan business claims~~

11.2.2C ~~R~~ ~~Where a claimant has a *protected funeral plan business claim* the *FSCS* may pay compensation (and any recovery or other amount payable by the *FSCS* to the claimant) to any other *person* on such terms and on such conditions as it thinks fit.~~ [deleted]

11.2.2D ~~G~~ ~~*COMP* 3.2.2R permits the *FSCS* to pay compensation to a *person* who makes a *claim* on behalf of another *person* where certain conditions are satisfied. This includes payment to the personal representatives who make a *claim* on behalf of the deceased (see *COMP* 3.2.3G)(1)). *COMP* 11.2.2CR permits the *FSCS* to pay compensation to any other *person* who it considers should receive the compensation. For example, this may be to a funeral services provider directly where the funeral services provider has incurred expenses in~~

~~providing funeral services under the *funeral plan contract* and is yet to be reimbursed.~~ [deleted]

12 Calculating compensation

…

12.2 Quantification: general

…

Settlement of claims

12.2.10 R (1) The *FSCS* may pay compensation without fully or at all investigating the eligibility of the claimant and/or the validity and/or amount of the *claim* notwithstanding any provision in this sourcebook or *FEES* 6 to the contrary, if ~~in the opinion of the *FSCS*:~~ the *FSCS* considers it reasonable to do so.

(a) ~~the costs of investigating the merits of the *claim* are reasonably likely to be disproportionate to the likely benefit of such investigation; and~~ [deleted]

(b) ~~(as a result or otherwise) it is reasonably in the interests of *participant firms* to do so.~~ [deleted]

(2) ~~This *rule* does not apply with respect to *claims* that are excluded by article 3 of the *Investor Compensation Directive*.~~ [deleted]

12.2.11 R In determining whether to exercise its discretion under *COMP* 12.2.10R, the *FSCS* must take into account:

(1) whether, in the opinion of the *FSCS* based on the information available to the *FSCS* at the time the determination is considered, the costs of investigating the merits of the *claim* are reasonably likely to be disproportionate to the likely benefit of such investigation, having regard to the need to minimise those costs and burdens and allocate them efficiently and proportionately; and

(2) the need to preserve public confidence in, and the efficient and effective operation of, the compensation scheme.

…

12A Special cases

COMP 12A.1 (Trustees and pension schemes) and COMP 12A.2 (Personal representatives, agents and joint claims) are deleted in their entirety. The deleted text is not shown but the sections are marked ‘deleted’ as shown below.

12A.1 ~~Trustees and pension schemes~~ [deleted]

12A.2 ~~Personal representatives, agents and joint claims~~ [deleted]

Amend the following as shown.

12A.3 Collective investment schemes

12A.3.1 R (1) If a claimant has a *claim* in its capacity as a *collective investment scheme*, or anyone who is an operator, depositary, manager or trustee of such a scheme, and the conditions in (2) are met:

(a) The *FSCS* must treat the *participant* as having the *claim* and not the claimant~~;~~.

(b) ~~*COMP* 12A.1.6R and *COMP* 12A.1.7R apply, reading "trustee" as "collective investment scheme, or anyone who is an operator, depositary, manager or trustee of such a scheme", "trust" as "collective investment scheme" and "beneficiary" as "participant".~~ [deleted]

…

12A.3.2 R Where the claimant is a *collective investment scheme* or an operator, depositary, manager or trustee of such a scheme and some of the *participants* are *persons* who would not be *eligible claimants* if they had a *claim* themselves, the *FSCS* must adjust the amount of the overall *claim* to eliminate the part of the *claim* which, in the *FSCS's* view, is a *claim* for those beneficiaries.

12A.3.3 R The *FSCS* must try to ensure that any amount paid to:

(1) the *collective investment scheme*; or

(2) the operator, depositary, manager or trustee of the *collective investment scheme*,

is, in each case:

(3) for the benefit of *participants* who would be *eligible claimants* if they had a *claim* themselves; and

(4) no more than the amount of the loss suffered by those *participants*.

COMP 12A.4 (Foreign law) and COMP 12A.5 (Claims arising under COMP 3.2.4R) are deleted in their entirety. The deleted text is not shown but the sections are marked 'deleted' as shown below.

12A.4 ~~Foreign law~~ [deleted]

12A.5 ~~**Claims arising under COMP 3.2.4R**~~ **[deleted]**

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