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By email: consultations@financial-ombudsman.org.uk

Dear Sir/Madam,

Financial Services Consumer Panel (The Panel)'s response to the Financial Ombudsman Service's (FOS) Funding Consultation

We welcome the opportunity to respond to this consultation. This is the right time for a review of the FOS' funding with the PPI deadline for complaint submissions drawing nearer. Past experience has exposed how flexibility is crucial to the FOS' operational effectiveness and readiness to respond to a future mis-selling scandal.

We generally support all the proposals within this consultation which embody the Funding Principles¹ and promote much needed independence, impartiality and longevity for the FOS. It is crucial that the FOS remains free to all eligible complainants - the proposals advance this important objective.

The proposed rebalancing of the case fee versus levy income funding structure is very reasonable and essential for the FOS' sustainability over time. Those firms that generate the most complaints should rightly pay more, in keeping with the principle of fairness.

The role of the FOS goes beyond answering consumer complaints. The FOS' wider societal benefit should be recognised in the new funding structure. It is an opportunity for the FOS to dedicate resource in this area to help prevent future consumer harm and build on productive stakeholder relations.

We encourage the FCA, MAPS, FSCS and other consumer organisations to continue to collaborate with the FOS to share trends and insight for the benefit of consumers.

Yours faithfully

Wanda Goldwag

Chair, Financial Services Consumer Panel

¹ See pg 17, <https://www.financial-ombudsman.org.uk/files/232245/our-future-funding-a-consultation.pdf>

Consultation questions

Q1) Our planning assumptions reflect our expectation that our service will be smaller in the future, and that our overall cost to the sector will significantly fall. Are you aware of anything that might affect this expectation – for example, issues that could create significant demand for our service?

Lessons should be learned from the PPI mis-selling episode. If an incident of such magnitude were to happen in the future, it is worth considering a blanket redress scheme to ensure consumers are compensated in a timely manner, and to ensure better consistency and certainty for all parties involved.

PPI has raised consumers' awareness of the FOS with demand for the service growing in other areas too. We would want to see increased awareness among consumers of the FOS so that they bring complaints directly to it, for free.

The FOS has already highlighted increases in short-term lending complaints and IT failures. The Panel is concerned about the increase in guarantor loan complaints, which the FOS has already identified, as well as the increased sophistication of scams within the sale of financial products, including pensions. The increase of SIPP and pensions transfer complaints continue to be a worry for the Panel.

As mentioned above, the FOS can really utilise its relationship with MAPS, the FCA, the FSCS and other consumer stakeholders to monitor trends effectively and to be better prepared for sudden fluctuations in case volume.

Q2) Do you have any further insight into the different types of complexities apparent in complaints?

The Panel is pleased that the FOS is focusing some of its resource and expertise to accommodate SME complaints as we envisage the complexity to come from these cases in particular. The FOS has also recognised the increasing complexity of scams across the financial services sector, so the Panel would urge the FOS to continue to monitor trends and be prepared for technological advances which will add to the complexity of scams.

Q3a) To what extent do you support our wider work to help prevent complaints and encourage fairness?

The proposed new funding model grants the FOS the opportunity to better use its resources to raise consumer awareness and build further on stakeholder relationships that will help to prevent complaints, flag trends and share good and bad practice. The FOS is a rich source of data and insight that the regulatory family and consumer stakeholders, should utilise to the maximum. The FOS' website and publications such as ombudsman news are also good sources of intelligence which should be promoted.

The Panel feels the FOS' Consumer Liaison Group (CLG) is a particularly valuable network that should be used as a two-way forum for consumer organisations, which are often resource-constrained, to share concerns, trends and to work collaboratively where possible.

Q3b) Do you have any further suggestions about what more we could do, or ideas for working together with us?

We see a strong need for continued cooperation between the FOS and the Pensions Ombudsman, where a Memorandum of Understanding is already in place, to clarify for consumers which organisation they need to use.

As mentioned above, the FOS should also build on the valuable outreach work it does with consumer organisations to ensure that trends and concerns can be shared effectively and acted on.

Q4) To complement the work we've already done to improve our efficiency, we'd welcome your ideas for how we could work in partnership to deliver additional savings in future. Do you have any suggestions?

No comment.

Q5) To what extent do you agree or disagree that our levy and case fee income should be rebalanced, so there's a broadly 50:50 split?

We agree with the 50:50 split between case fee and levy income. As mentioned above, this approach is directly linked to the Funding Principles by promoting price predictability, adopting a proportionate approach and not creating perverse behavioural incentives.

Q6) In refining our proposal, we carefully considered different funding options – including different types of risk-based models. Do you have any thoughts about alternative approaches to overcoming the obstacles we identified, in ways that are consistent with our funding principles?

There is insufficient information or data, it seems, to fairly and easily implement a risk-based levy. It appears that in order to maintain simplicity and predictability, the proposed 50:50 case fee to levy split of funding income is a sensible approach.

The FOS should keep abreast of discussions within the wider ombudsman scheme landscape on funding, and the matter should be regularly reviewed on this basis. However, the Panel recognises the need for predictability so a further in-depth review of the FOS' funding model post-proposal implementation is unnecessary.

Q7a) To what extent do you agree or disagree with our proposal to reduce the "free" case threshold for non-group account fee firms from 25 to 10?

This approach appears to be justified and the Panel agrees with the reduction of free case fees.

The Panel had reservations about the FOS' early intervention approach to complaints, where the FOS would investigate prior to the eight-week deadline for firms to respond had been reached, due to the incentives it created. While this approach may be beneficial to the consumer/ complainant by potentially getting a complaint resolved earlier, it does nothing to drive better practice and customer service amongst firms. We feel this proposal avoids any perverse behavioural incentives and we support this.

Q7b) To what extent do you agree or disagree with our proposal to reduce the "free" case threshold for groups within the group account fee arrangement from 125 to 50?

As per our response to question 7a, we would agree with the proposed reduction in 'free' case threshold from group account arrangements. If the firm generates high case volumes, in fairness, it should pay more.

Q8) To what extent do you agree or disagree that we should look to maintain a level of reserves of six months' operating income or higher?

While the Panel could not comment on the precise level of reserves the FOS requires, it is reasonable that the FOS should be prepared for a sudden influx of complaints or any other unforeseen changes.

Q9) Do you have any comments about the timing for implementing any changes to our funding model that arise from this consultation?

The timing for implementation is right given the PPI deadline looming and the recent extension of the FOS' remit.

Q10) Do you have any additional feedback about our future funding or the proposals presented here?

No comment.