from **Caroline Wayman**
Chief ombudsman &
chief executive

write to **Financial Ombudsman Service**
Exchange Tower
London
E14 9SR

Rt Hon Mel Stride MP
Chair of the Treasury Committee
House of Commons
Committee Office
London
SW1A 0AA

22 January 2021

Dear Mr Stride

Thank you for your letter of 4 January 2021. I have provided additional information below in response to the further points you have raised.

Our funding

– *How has the Financial Ombudsman Service Board challenged the proposed budget and funding proposals?*

Our governance arrangements enable our Board to provide close scrutiny of our plans and budget, and funding arrangements. While what I describe below relates specifically to our 2021/22 budget cycle, this is, of course, an annual cycle and broadly reflects the steps we take every year.

The Board's initial scrutiny of our 2021/22 plans and budget began in September 2020 – when the Board considered a high-level initial view of anticipated demand for the following year – including the likely case volumes and type – as part of its strategic away day discussions. The discussions also helped inform subsequent engagement with stakeholders as the service continued to refine its assumptions and develop proposals for consultation.

A more detailed review of the budget and associated funding proposals began with Board meetings in November – on the 2nd and 24th respectively. In the earlier November meeting, the Board noted that it would discuss volume assumptions and funding options further when it would have the benefit of the feedback from a range of key stakeholder meetings. The Board asked for the later November papers to include an analysis of alternative volume assumptions and funding scenarios (showing, in particular, the impact on the service's reserves).

At its later November meeting, the Board examined how the service was continuing to test the high-level assumptions underpinning its draft 2021/22 plans and budget and noted that this included input from key stakeholder engagement. At this stage in the budget cycle, the assumptions for case volumes and type tend to look at a range of alternative, yet plausible, scenarios and the draft budget envelope is ordinarily based on a central view.

In agreeing the budget envelope for consultation, the Board was clear that it expected costs and efficiencies to continue to be challenged and tested as part of the bottom-up budget process – and before the budget is finalised in March 2021. It agreed too that the current economic climate presented an unprecedented backdrop and that the consultation would need to reflect that and seek views on how best to balance the need to ensure financial stability with the need to respond to the broader economic and fiscal outlook and the impact on fee-payers. It agreed the service should, therefore, consult on a range of funding options and seek views on its reserves policy to inform a review during 2021/2022.

Further detail on the Board discussion on 2 November is provided in the minutes of that meeting, which have been published on our website – and the minutes of the meeting on 24 November will be published as soon as possible after the Board's next meeting on 26 January, after they have been approved.

The Board will next discuss the draft budget and plans at its meeting on 26 January, where the latest assumptions will be based on more detailed operational planning and the outlook as the service passes the third quarter of the current financial year. It will then test the draft budget and funding options against the feedback from the plan and budget consultation at its meeting on 22 February, when the service will have also been undertaking more detailed bottom up planning. As a final step, at its meeting on 22 March, the Board will be asked to sign-off the budget and funding proposals for submission to the FCA Board for final approval at its meeting a few days later. The budget and funding approach will be published soon after – which we are currently expecting will be around 31 March.

Our cases

- *Given the expectation that growing complexity will increase cost per case, what action (with timescales) is being taken to improve case handling times and reduce costs, while ensuring that the cases are handled well?*
- *What strategy (with timescales) is being put in place to clear the backlog of 37,689 cases that have not yet been allocated to a case handler and 56,348 open cases that are more than six months old?*

In our plans and budget for 2020/21 we set out to resolve significantly more cases than we expected to receive, which was part of our overall plan to bring down waiting times. However, as a demand-led service, we continue to face significant uncertainty in the volume and type of complaints being referred to us – two factors that are having a direct and significant impact on our timeliness.

To explain, as financial businesses worked through their backlogs of PPI complaints following the FCA's deadline, volumes subsequently referred to us have proved to be much lower than our forecasts, and conversations with stakeholders, initially suggested. This has resulted in much less of our work being made up of these more straightforward mass claims, which are typically less time and cost intensive than many other areas of our work due to the well-established nature of our approach – meaning that we have been able to successfully reduce the number of PPI cases we have outstanding and that is likely to continue at pace. At the same time, we've seen a very significant increase in our general casework – complaints about the wide variety of other problems we can deal with – which are often far more complex and time-consuming to resolve, not least because they do not benefit from the same types of economies of scale.

So, while in the first half of 2020/21 we resolved around 93% of the complaints we'd expected to in our general casework despite the disruption we faced, we have so far been unable to reduce waiting times in the way we had planned due to this significant increase.

Like many other organisations, the pandemic placed a number of additional pressures on our service in the last year, which has affected our timeliness. Government measures to reduce the spread of the virus meant we had to operate differently. Not only did our people face their own challenges – such as homeworking in less than ideal conditions and balancing childcare responsibilities – our customers were also impacted. Some larger financial businesses had to temporarily suspend their work with us due to staff shortages and some smaller businesses needed more time while they concentrated on the difficulties facing their businesses during the pandemic. And, on the other hand, some consumers needed more time to send us the information we required while they focused on more immediate concerns affecting their lives and livelihoods. This meant that we were unable to progress some cases as quickly as we would have liked – and is likely to affect timeliness for the remainder of the year as we all grapple with a third national lockdown.

We have, nevertheless, remained operational throughout the pandemic – and I am immensely proud of our people who have worked extremely hard to make that happen. At the same time, we've continued to scale up our operation by continuing to recruit and onboard new colleagues – having appointed around 380 new investigators since April last year. In addition to this extra capacity, we also continue to invest in the development of our existing investigators to build capability. And, of course, we have the flexibility of our operating model to focus investigators more on their areas of specialism to take advantage of any economies of scale which may exist. This, together with investments we've made in smarter working – including in online collaboration tools and hardware to help colleagues work more effectively from home – will put us on a stronger footing to overcome the inevitable challenges we will continue to face in 2021/22.

We are currently consulting on our plans and budget for the coming year – on the basis of receiving 160,000 new complaints and resolving 210,000. This would, therefore, significantly bring down waiting times and the number of cases we have outstanding. In doing so, we remain committed to reducing costs and driving further efficiencies where possible and will be able to share a copy of our final plans and budget with you when we publish them at the end of March. I would add, though, that the way in which financial businesses treat their customers – not only in their complaint handling, but also in preventing problems from arising in the first place – is likely to have a significant influence on how many complaints we receive and the overall cost of our service. This reinforces the importance we place on sharing our insight and working with financial businesses, regulators and other stakeholder in order to do just that – one of the pillars of our three strategic priorities.

Service level agreements

– *Please provide a table outlining the staff service level agreement on timescales for different stages of a case; and set out what action is taken if these are not met.*

You previously asked about service level agreements – which had been referred to in the Independent Assessor's report in respect of how we manage expectations in our communications. I have provided a table of the service level agreements referenced in my last letter, and these are monitored through our quality assurance and performance management mechanisms. I thought it might also be helpful to provide a table of how long it currently takes us to resolve complaints overall, which I have included below and highlights how timeliness has been affected by the issues I have already touched on.

Making an introduction to both sides	Within two working days (and no longer than five working days) of being allocated the case.
Providing regular updates	At intervals which are agreed with the parties, though no less than once a month.
Acknowledgement of any contact	Within two working days of receipt.
Proactively making contact	Once every two months while the case is awaiting a decision, should this be necessary.

Time it takes	**2020/21 so far** *(as at 30/11/20)*	**2019/20**
Cases resolved in 3 months	40%	56%
Cases resolved in 6 months	69%	74%
Cases resolved in 9 months	82%	84%
Cases resolved in 12 months	89%	90%

Complexity of our cases

– *How do case-handlers 'specialise' where greater in-depth knowledge is required and how are cases appropriately allocated to these specialist case-handlers?*

Our investigators are trained to handle a large proportion of all the complaints we receive. But for those cases which require more specialist knowledge, such as where more in-depth technical expertise is required, the relevant training is provided – initially within our academy and then on the job as colleagues join our investigation teams. Their knowledge, learning and development is supplemented by comprehensive online technical and legal resources – and supported by professional practice groups which specialise in different areas of expertise.

Our case-handling system allows us to identify cases where we think additional expertise might be required. This might, for example, include cases involving particular products like pensions, medical insurance and legal expenses – or particular issues like banking fraud, Section 75 or subsidence. We are then able to route these cases to investigators with the relevant expertise.

Our diversity and inclusion

– *Given the lack of diversity at senior levels (including the executive, senior managers, and ombudsman panel) particularly in relation to Black, Asian, and Mixed staff members, what action are you taking to improve recruitment and promotion opportunities for ethnic minority staff?*

While we are a diverse organisation, we recognise there is more to do in some areas – and we have a dedicated Inclusion and Wellbeing Group, chaired by two members of our executive team, to oversee our work in this area. We recognise that the tone needs to be set from the top and continue to engage with all our leaders on the issues. That included recently holding workshops with all our senior managers to set out how they can personally contribute to diversity and inclusion, as well as incorporating an inclusion objective for all our managers towards the end of last year.

While we are committed to improving all aspects of diversity and inclusion, there are specific things we are focused on in terms of improving recruitment and promotion opportunities for BAME colleagues, which you have mentioned specifically. This includes reviewing our recruitment campaigns and processes at different stages – application, shortlist and hire – to improve attraction of under-represented groups, together with our recruitment training.

In terms of improving opportunities more generally, we continue to hold regular inclusion conversations with under-represented colleagues to understand their experience, identify barriers and explore actions for improvement. We're also planning to share more stories and learning from our reverse mentoring programme, review the diversity of representation on all our development programmes and publish our ethnicity pay gap data – which will help us remain focused on what more we need to do. Our commitment is underlined by our signing of the Race at Work Charter.

We are proud of the progress we are making in respect of diversity and inclusion and the external recognition we have had in respect of our values-led culture. This has included winning two Inclusive Companies awards, and a Working Families Best Practice Award for mental health and wellbeing, in 2019. We also placed 35th in Stonewall's 2020 top 100 LGBT employers list and were highly commended at the Public Services People Managers Association awards in 2020, specifically for 'Best Inclusion and Diversity Programme / Initiative'. We hope this recognition demonstrates our wider commitment to diversity, inclusion and wellbeing, and means that we continue to attract colleagues with diverse backgrounds, knowledge and experience – who can have the confidence that they will be supported by our inclusive culture. As I mentioned previously, we will publish our diversity, inclusion and wellbeing report for 2020/21 next month and we look forward to sharing this with you.

I do hope this is helpful. As I said before, please let me know if you require anything else or if you would like to discuss anything in more detail. Otherwise, we will share the additional information I have mentioned in my letter over coming weeks, once it has been published.

Yours sincerely

Caroline Wayman
Chief ombudsman & chief executive