

Rt Hon. Mel Stride MP
Chair of the Treasury Committee
House of Commons, Committee Office
London
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By email

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from **Nausicaa Delfas**
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Dear Mel,

Thank you for your letter of 7 December 2021 about our recently published independent Periodic Review.

Our Action Plan sets out the key strategic and operational changes that the Financial Ombudsman Service is undertaking, to ensure we provide a relevant and sustainable service in a rapidly changing environment. I am grateful to you for your consideration of the issues it raises at this pivotal moment for the Financial Ombudsman Service.

I have provided our response to your questions below.

The Committee's previous concerns

- 1. What impact do you anticipate your Action Plan will have on the current backlog of cases? You have committed to 'significantly exceed [your] original plans to reduce the [case] backlog' by April 2022. Can you provide us with the original and revised targets? How will you ensure that there is no reduction in the quality of your casework? Will you be targeting the oldest cases first, and will any reduction be evenly spread across case areas? How are you planning to measure this?**

Last year we received over 60% more non-PPI complaints than we were resourced to handle. This was, in part, due to the pandemic, which increased the number of complaints regarding, for example, refunds due to cancelled events, administration of government-backed assistance programmes, and online fraud and scams. While we resolved nearly all the non-PPI complaints we had committed to in the agreed plan and budget for that year, the increased demand meant that we ended the year with nearly 90,000 complaints waiting to be allocated to investigators.

Our 2021/22 budget targeted a reduction to 50,000 cases in our backlog (from 90,000) by the end of this financial year. Our budget has not changed and our Action Plan will not alter our 2021/22 targets. Our aim is to reduce the backlog as much as possible within our existing budget envelope. We have made significant progress and almost half the number of cases are now awaiting allocation to an investigator. With some months of the financial year remaining, we expect to go further, though much of our success in eliminating the backlog quickly will depend on how businesses engage with us, including how many cases they agree to settle following our [consultation on changes to outcome codes](#).

We do, generally, target the oldest cases first, while also prioritising cases where there is severe financial hardship and vulnerability. We are on track to end this financial year with no cases over 18 months old, except those impacted by issues outside of our control, such as ongoing litigation or other external issues. We are carefully tracking the resolution of these cases and, where some

areas within our backlog reduce more quickly than others, we will take steps to redistribute our resource to balance this if necessary.

The quality of our casework is central to our core statutory role – provided for in the Financial Services and Markets Act – to resolve disputes fairly and reasonably. The quality of our public decision making is paramount. In addition to oversight from the courts through judicial review, we also have a clear and robust quality framework in place. We are confident that the interventions underway to clear the backlog do not impact on quality – for example, they have included:

- Changing our approach to training and recruitment to focus our new joiners on areas of most need.
- Moving some phone enquiries to our Customer Help team to allow our investigators to focus on resolving cases.
- Working with the financial services industry to secure proactive settlements on cases in our queues.

The changes we are proposing to our operating model will increase productivity further and make the build-up of backlogs less likely in the future. However, as a demand-led organisation, we will remain subject to unplanned spikes in volumes. This is why it is important that we work together with industry and the wider regulatory ecosystem to anticipate and reduce demand for our service as much as possible.

2. Do you anticipate that this change programme will cause short-term disruption to your casework productivity? What steps will you take to mitigate this risk?

Any change will inevitably impact on operations, but it is imperative we act now. We have clear objectives from the review, which are being widely discussed and are acknowledged as sensible and proportionate within the organisation.

We do not underestimate the scale of changes required. We will mitigate the impact of making these changes by carefully planning how to take forward each recommendation before it happens, with particular focus on sequence, impact and dependencies. An extensive process of staff engagement has already commenced and will be sustained throughout. No one will be surprised by any of the forthcoming changes when they take place.

3. In oral evidence, the Committee has questioned past increases in the levy. Your Action Plan adopts the Periodic Review’s recommendation to “consider revisions to the funding model to incentivise constructive behaviour from industry.” The Review suggests a number of ideas, including “raising the levy or case fee, or the introduction of differential fees”. Will an increase in the levy form part of your new strategy?

At the time of agreeing the budget for 2021/22, we expected to see a reduction in case volumes in the medium to long term. However, since then, our circumstances have changed beyond our control. Having received more cases than expected last year, we need to reduce our queues more quickly than we had allowed for and urgently respond to the new cases we are forecasting to receive – as well as to take forward our Action Plan to set us up for the future.

To do all this requires investment and, unless we take the opportunity to make fundamental change now, we will not be financially sustainable by 2024/25. Our aim for the new funding model is to encourage constructive behaviour by financial businesses and for it to be sustainable for the future. We will be looking at changes to both case fees and levy. We are working through various options and will consult on those in the first quarter of 2022/23, ready for implementation in 2023/24. However, as a first step, we are consulting on increasing the levy and reducing the number of free cases we offer to financial businesses in our 2022/23 budget. We published our [consultation on our proposed plans and budget for 2022/23](#) earlier this week.

Delivering the change programme

4. Which member of your Executive Team is directly accountable for implementing this change programme?

As interim Chief Executive and Chief Ombudsman, I am accountable for implementing this change programme, supported by our wider Executive Team and the Director of Transformation.

5. You are currently recruiting for a Director of Transformation. When do you expect the successful candidate to start this role? Will they be a member of the Executive Team? How long will they be in post?

We are recruiting the Director of Transformation, and we expect they will start their role with us at the end of February on a 2-year fixed term contract. While not a member of the Executive, they will attend our Executive Committee Meetings as necessary and will report for the time being into our interim Chief of Staff as further changes are made to my Executive Team.

6. Are you appointing external advisers to assist with designing and implementing this change programme? Have they been appointed? If so, please provide further details as to their role and the expected cost of their work.

To sustain momentum and ensure continuity, we have secured the ongoing support of Oaklin Consulting, who carried out the Periodic Review. Oaklin were appointed following an open tender process. The additional work will cost about £300k (inc VAT), a sum we are confident represents good value for money. It is critical we quickly turn the ideas in the review into a structured plan of action.

The work of the next three months is to explore the ideas and recommendations in the review and turn them into a clear design, or 'operating model', for the future organisation. This will involve detailed workshops with a wide range of our staff, as well as drawing on industry best practice. As soon as a future model has been agreed the integrated plan to deliver it will be finalised. Once the Director of Transformation is in post, we will review whether additional external advice is warranted and how it is best sourced, being ever mindful of the need to balance cost-efficiency with the benefits of external experience.

April 2022 commitments

7. Do you consider it realistic to achieve the commitments set out in your Action Plan by April 2022? In particular is it realistic to have 'designed' and 'be moving towards' a new target operating model? How are you planning to engage with staff on these changes?

We are confident that we can achieve what we have committed to do by April 2022. Between now and March 2022 we will be carefully considering all of the recommendations and will continue to develop our Action Plan. We will be able to go more quickly in some areas, with other areas taking more time and planning. Revisions to the funding model, for instance, requires public consultation, including with the FCA for approval.

Our recent staff survey shows that our people are keen for change – and we are committed to engaging with them as our change programme progresses. Oaklin took on board the views of hundreds of our staff and we will continue to engage with them through our regular staff updates and sessions led by our Executive and senior leaders. More importantly, we are collaborating with staff through workshops, subject-matter expert groups and challenge groups in the development of the recommendations. And we have provided a dedicated space on our intranet to keep the conversation going.

8. To what extent will your 'refreshed strategy' represent a continuation of, or a significant departure from, your existing strategy?

We currently have three core pillars in our strategy: enhancing our service, preventing complaints and unfairness from arising, and building our capabilities. While we will not be changing these pillars, we will revisit the actions under each to ensure they are clear, actionable, measurable, and have clear accountability. Alongside that, we will assess whether, and adjust where necessary, our mission, values and vision to ensure we are fit for the future.

Our Board and Executive have already started to refresh our ambitions, including the benefits, opportunities and risks of moving the dial in a number of areas:

- **Prevention:** We want to detect trends and insights and share them proactively with our stakeholders and industry, which will also be more timely once we have cleared our queues. We want to take early and decisive steps to prevent detriment and use our voice to share insights, to help drive down the complaints that need to come to us.
- **Delivering outcomes differently:** Building on our experience on driving down the backlog faster, we want to look at different ways to deliver outcomes, for example, by identifying cases that can be handled in innovative ways. We will do more with what we see in groups of complaints, and provide more information for businesses and consumers to make better financial judgements.
- **Latent demand/hidden detriment:** We will target specific areas where we think there is a need to raise awareness, making clear that our service as an ombudsman is here to help resolve complaints.
- **Cost efficiency:** We will continue to resolve disputes which fall within our jurisdiction on a fair and reasonable basis, while being acutely aware of the need to do this quickly and informally. We will use our powers to maintain our effectiveness and productivity, delivering a cost-effective service to our customers and to society.
- **Serving customers:** As an organisation whose purpose is to be there for everyone that has an eligible financial dispute, we must not exclude those that are harder to reach or digitally excluded. So, we will create a seamless omni-channel organisation.

While we look at how we use the recommendations of the Periodic Review to reinforce and refocus areas of our strategy, we remain nonetheless committed to our overarching strategic priorities of reducing queues and waiting times throughout the customer journey and ensuring quality and consistency in decision-making.

9. Are there any of the recommendations within the Periodic Review that you do not intend to adopt? If not, please explain why. Recommendation 9 of the Periodic Review proposes alleviating administrative pressure at the Ombudsman Manager level. This recommendation is not explicitly referred to in your Action Plan. Are you intending to take this forward?

We agree with all the recommendations made in the report – including Recommendation 9. In our Action Plan, we set out that we will consider how we can free up time and capacity in casework teams, at all levels, to focus on casework, by building on the pilot we have already put in place to reduce their administrative burden.

As Oaklin highlights in its report, the high-level recommendations require further analysis before being taken forward. We will now undertake this further assessment and design work to determine how the recommendations are implemented.

10. To what extent do these changes unwind the measures previously implemented in 2015?

As the Periodic Review highlights, the world of financial services is changing rapidly. The model designed in 2015 reflected the volume and mix of cases expected at that time and was predicated on the number of complaints reducing – but this has not materialised. Instead, we have seen significant changes in a number of areas, including more businesses failing, more fraud and scams issues, and a more diverse mix of cases. It is clear that we need to adapt.

We are building on the benefits of our current Investigation model – including having our Ombudsmen at the heart of our casework, rather than at the end of the process. We agree with Oaklin’s assessment that we should build on our specialist functions and make that central to our model. This will be a feature of the changes we make and will help us be more cost-effective and efficient.

Technology

11. Your Action Plan states that you will “develop existing intelligent automation (IA) solutions, before exploring new opportunities.”

a. What do you currently spend on intelligent automation solutions and what is their current purpose? What is your estimate of cost savings from using an IA process?

Intelligent Automation (IA) uses technology to complement people, enabling them to be more efficient. We have an IA tool (called Kofax) which we use to take data from our complaint forms, received through various channels (including email, post and online complaints form), and place it in our casework system. This automates some of the data entry which would otherwise need to be entered by staff, also helping us to scan complaint forms, route and track incoming emails, and classify documents. The tool and support costs us around £120k each year.

The existing capabilities of Kofax have contributed to our customer contact function in time saved. In 2021 we have performed a number of IA ‘trials’ to look at other areas and these suggest that there are additional cost savings that could be realised, and will be quantified on a case-by-case basis.

Possible future examples of the use of IA include: the automatic classification of a case – so that it can be routed to the correct caseworker; the identification of more urgent cases; and ensuring cases are complete before progressing to the next stage to avoid re-work.

b. How do you make sure your IA process is sufficiently reliable? How much human involvement is there in the current IA process? How do you measure success?

We take a number of steps to ensure our IA is sufficiently reliable, including comprehensive testing and monitoring to ensure it is running as expected:

- We consider the process that we are looking to automate from a Data Protection aspect (that we have appropriate basis for managing data in this manner).
- We test the automation with our casework systems to ensure the intended effect is made.
- We monitor that the automation is running.

We are currently procuring the services of a data science partner to develop our thinking in this area – and how we can ensure our IA processes are sufficiently reliable and that we are able to measure success.

c. Once you have developed your existing processes, what future opportunities are there in this area?

This is part of our overall digitisation journey, which involves improving our digital platforms, improving the ways people share information with us, our data and the insights we gain from it. For example, digital portals will enable customers – both complainants and financial businesses – to self-serve, providing an additional channel for routine queries, the setting up of complaints and the sharing of documents.

We'll continue to leverage this to help us better understand our casework, to support both our operational planning and our complaints prevention.

I hope this information is helpful and I look forward to attending the Treasury Select Committee hearing in the New Year.

With best wishes,



Nausicaa Delfas
Interim Chief Executive & Chief Ombudsman