

# Directors' Report and Financial Statements



Financial  
**Ombudsman**  
Service

WEDNESDAY



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Company Number 03725015

■ financial year 2011 | 2012 ■

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# introduction

Set up under the Financial Services and Markets Act 2000, the role of the Financial Ombudsman Service is to resolve individual disputes between consumers and financial businesses – fairly, reasonably, quickly and informally

We handle complaints about a wide range of financial and money-related matters, ranging from insurance and mortgages to investments and credit

We are independent and impartial. When we consider a complaint, we look carefully at both sides of the story and weigh up the facts. If we decide a business has treated a consumer fairly, we explain why. But if we decide a business has acted wrongly – and as a result the consumer has lost out – we can order matters to be put right.

It is not our role to write the rules for businesses providing financial services – or to fine them if the rules are broken. That is the job of the regulators – the Financial Services Authority (FSA) and the Office of Fair Trading (OFT). But we do work closely with the regulators – as well as with representatives for the industry and for consumers – to share insights from the complaints we handle and to help prevent problems in the future.

As detailed elsewhere in this report, we continue to see a significant increase in demand for our services, resulting in our handling a record number of front line enquires and complaints from consumers and resolving a record number of cases,

We resolved a record number of 222,333 cases – up 35% on the previous year and the highest number resolved during a single year. In 64% of cases, consumers received compensation.

As we move into another year, we remain committed to developing and improving our service to meet the needs of our customers – businesses and consumers alike – in a rapidly changing world. We have agreed a set of plans and priorities – set out in our document, *our plans for a changing world* (available on our website) – that will help us ensure we can stay ahead, and stay true to our values, next year and beyond.

# chairman's statement

I am delighted to be writing my first Chairman's Statement since taking over from Sir Christopher Kelly in February 2012. During his seven years as Chairman, Chris's leadership and vision helped guide the considerable changes that took place in every aspect of our work and organisation.

Those changes are still taking place. We face some significant challenges, not least in the scale of consumer demand for our services. This document, together with the *annual review* (available on our website), illustrates the scale of these challenges and how we have responded so far.

## ***overview of the year***

2011/12 has been a record year for us. In spite of the increasing demand, we have resolved more cases than ever before. This has been achieved alongside an ambitious "change programme", focused on making our services ever more effective, quick and easy to use.

Our work this year has been dominated by the continued rise in complaints about the mis-selling of payment protection insurance (PPI). In October 2010, the British Bankers Association launched a legal challenge relating to guidance published by the Financial Services Authority – and to our handling of PPI cases. The judgment handed down by the High Court in April 2011 endorsed our approach, and since then, the volume of cases relating to PPI has risen sharply.

Extensive media coverage made large numbers of consumers aware for the first time that they might have been mis-sold PPI policies. During 2011/12, we received over 150,000 cases about PPI – which accounted for 60% of our total annual workload. This was the highest number of cases we have ever received about a single financial product – and we are still receiving over 1,000 new PPI complaints every day.

To ensure that we can handle these volumes – which look set to continue – we are expanding our case-handling capacity and looking at streamlining the way we handle PPI cases. We are making our processes quicker, without compromising on customer service or quality. Inevitably, this issue will remain at the top of our list of challenges for some time to come.

PPI cases are not, of course, the only complaints we deal with. The tougher economic environment has meant we have seen more cases involving financial hardship – with more at stake both for consumers and businesses. I take great pride in our having resolved over 100,000 complaints during the year that *didn't* involve PPI. I am also pleased that we continued to improve our accessibility to people of all backgrounds and needs across the UK.

### ***our people and stakeholders***

The achievements I have mentioned would not have been possible without the talent and commitment of our people. I am fortunate in having inherited an exceptionally strong executive team, led by Natalie Ceeney. But at all levels, and wherever I go in the organisation, I am impressed by people's determination to give the best possible service to our customers. I would like to thank everyone in the organisation for their passion and dedication.

In addition to Chris Kelly's retirement as Chairman, there have been other changes to our non-executive board of directors. Following Alan Cook's departure from the board, Gwyn Burr was appointed as a non-executive director from 1 October 2011. And following ten years on the board, Kate Lampard came to the end of her term of office in February 2012. I am very grateful to Chris, Alan and Kate, for their commitment and valuable contributions over many years.

Outside the organisation, we have strong links with the financial community, with whom we have a shared interest in securing the best outcomes for consumers. I look forward to reinforcing those links over the next 12 months.

### ***good governance***

The Ombudsman Service Board has a critical role in ensuring that the service is managed effectively and transparently. We make quasi-judicial decisions that affect the lives of consumers, and the finances and reputations of businesses. So it is in the interests of all our stakeholders for us to be able to provide assurance that we are run well.

The role of the board of directors is to support and provide constructive guidance to the executive team as it manages the organisation's work. I am fortunate in having inherited from Chris Kelly a committed and talented board. I look forward to working with them in the coming year to help realise our aspirations.

During the year, we have made further improvements to our internal governance arrangements. We have revised the roles of our senior decision-making and oversight structures. Our major change programmes are guided by programme boards with director and executive team involvement. And we have built capability in finance, procurement and project management.

When the Ombudsman Service was established, our board committed to inviting external review every three years. The third such review was conducted by the National Audit office in late 2011. Published in January 2012, the review highlighted that one of the major efficiency challenges we were facing was the volatility of demand, and the way in which financial services firms themselves were dealing with complaints. It concluded that our change programme was being managed well. And it put forward a number of helpful recommendations on how we could become even more efficient, which we are taking forward.

### ***outlook***

As the National Audit Office pointed out, the nature of our work makes demand very difficult to forecast. The wider economic environment is already affecting our workload. Not only are complaints involving financial hardship increasing, but disputes are becoming harder fought. We expect this trend to continue over the coming year. And with PPI complaints arriving at a rate of over 1,000 a day, it is hard to envisage any scenario in which PPI does not dominate our workload in the near future.

The financial services landscape – and the way people interact with it – is changing fast and becoming ever more complex. So we will keep changing too – to ensure we remain relevant to our customers and able to meet their needs. A number of changes are already planned. For example, we have recently consulted on a new charging structure for businesses, and considerations for how we could publish ombudsman decisions openly and transparently.

One of my priorities in the coming year is to ensure we continue to embrace change – reflecting on our approach, our processes and our offering to ensure we remain as valuable to society in a decade's time as we are today. Whatever challenges arise over the coming year, I feel confident that we will rise to them. There is a strong commitment here to offering the best possible service to all our customers, and to meeting their needs in an ever changing world.

Sir Nicholas Montagu KCB

July 2012

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## chief executive's report

It's now two years since I joined the Ombudsman Service – and I am pleased to report another successful, exceptionally busy year. Our ambition is to provide a truly first-rate service compared with customer-service standards in *any* sector. So as well as dealing with record numbers of individual complaints over the past year, I'm pleased that we have made significant progress in developing the service we offer to all of our customers.

At the start of the financial year, we set out five priorities. These provide a useful framework for reporting on the work we have done this year – and plan to do more of in the year ahead.

### **delivering a trusted, fair and easy to use service – for everyone**

Trust is central to the services we provide. By the time a consumer reaches us, they have already raised a complaint directly with a financial services business – and have had that complaint rejected. So it's crucial that consumers trust us to be fair and impartial in the way we handle and resolve their dispute. We monitor our customers' perceptions of trust through our research.

Over the past year – while trust in many national institutions has been in decline – we have maintained the general level of trust that people have in the service, with seven out of ten people saying they would trust us if they had a complaint. I'm especially pleased that consumers who have actually used our service trust us even more – with 63% of these people now saying they trust us *completely*, up from 50% in the previous year. The proportion of people who say they would recommend our service to friends and family has increased over the year as well – from 74% to 77%.

During the year we have increased our accessibility. Given the current tough economic times – and the extent of financial hardship now affecting all kinds of people – it's more important than ever that our service should be available and accessible to everyone. As a result of this work, we have seen the demographic profile of our customers shift – with many more consumers from "DE" (unskilled) backgrounds using our service than ever before.

Of course, it's also essential that the financial businesses we work with trust our decisions – and the way we arrive at them. So we have developed a new framework for measuring quality, and developed a new training approach that includes a one to three-month

“academy” for all newly-recruited case-handlers. We have also introduced an externally accredited training programme for our case-handling staff to support them as they progress from case-handler through to ombudsman. We have also significantly increased the number of ombudsmen.

The impact of harder times – with family finances and job security coming under more pressure than ever – means it’s likely that the need for our service will only increase. This is why continuing to build trust in what we do is – and to widen and deepen awareness and use of our service across all sections of the community – are priorities for the coming year.

### **sharing our insight and experience – to help prevent future problems**

Our work in resolving disputes has more impact if the lessons learned can be fed back to prevent future problems. So during the year we have continued our work to make the activities and decisions of the Service even more open and transparent.

We became subject to the *Freedom of Information Act* in November 2011. And there is legislation on its way that will require us to publish ombudsman decisions – with information about consumers kept confidential – in 2013. We welcome this, and have consulted with stakeholders on our proposals to make it happen. Publishing ombudsman decisions builds on our existing commitment to openness and transparency.

We have invested a lot of time in helping financial businesses learn from what we see. Bearing in mind that just ten financial services groups account for three quarters of the complaints we receive, we have focused our effort in these areas to achieve the biggest impact. However, we also support smaller businesses and advice agencies in learning from what we do – through events and outreach, information and publications and our technical advice desk. This will remain an important activity for us over the coming year.

Our relationship with the regulators is, of course, vital. We continue to have close dialogue with the Financial Services Authority (FSA) and the Office of Fair Trading (OFT) through the formal joint “co-ordination committee”. We also offer the insight gained from the cases we see on specific issues – when that is useful to the regulator.

Over the coming year, we will be working hard to develop a similarly close and effective working relationship with the proposed new Financial Conduct Authority (FCA).



## **putting knowledge and expertise at the heart of everything we do**

We take professionalism seriously at the service. When our people have the right knowledge and expertise to do their work to the highest standards, everyone benefits.

To promote and encourage professionalism across the service, we have introduced a range of measures to make sure our values are central to everything we do. Our values are at the core of our approach to recruiting, training and developing our people. During the year we launched our new professional career structure, strengthened our arrangements for continuing professional development, and reinforced our commitment to professional leadership by our ombudsmen.

The substantial investment we have made in increasing the number of our ombudsmen is crucial to the success of this work – ensuring that our ombudsmen are actively involved in the development of our people and our case handling. This has enabled us to introduce a new professional leadership model across the organisation which is ombudsman led. By doing this, we will continue to ensure that quality and consistency remain at the heart of our work as we face the challenges of a caseload that continues to grow and change significantly.

We were especially pleased to be accredited in the *Best Companies* survey in January 2012. Given the scale of the ombudsman service – and the changes we are going through – high levels of staff engagement, coupled with a commitment to growing and developing our knowledge, are essential to our future success.

## **being flexible, reliable and effective**

We aim to provide service standards that would be seen as excellent in *any* sector. This is a particular challenge given the increasing volatility of demand, the rising volumes of PPI complaints, and the increasing complexity of the disputes referred to us.

To help cut the time it takes us to resolve cases, we have carried out “lean” process improvement of our case-handling systems – and we will be taking this work further in 2012/2013. Our recruitment of more ombudsmen during the year has already reduced the waiting time at the final decision stage of our process. We expect this to continue as we continue to recruit additional ombudsmen.

We have also reviewed our costs and “operating model” – to become more efficient and better able to cope with volatile demand. The National Audit Office (NAO) recently carried out a six-month assessment of our efficiency. It concluded that the volatility of our workload, and the behaviour of businesses and consumers in the complaints process, were the biggest challenges for us. The NAO also concluded that our “change programme” – introduced in 2010 to modernise operational processes and IT – has already begun to realise benefits and is being managed well.

During the year we expanded our PPI complaints-handling capacity in response to the volumes of current and anticipated new cases. Our plan is to double the number of our case-handling staff by the autumn of 2012. This will help us manage the variations in our workload more effectively in 2012/2013 and beyond – as well as helping us deal with the rising volumes of PPI complaints now heading our way.

Our ability to settle a complaint quickly depends on a number of factors. These include the range of the factual issues that are in dispute, the complexity of the technical questions, the strength of the legal arguments, and the willingness of the parties involved to co-operate.

As times get tougher, we are seeing more disputes involving hard-fought arguments and deeply entrenched attitudes – with consumers becoming more demanding and businesses becoming less willing to concede. This makes the complaints more difficult to resolve – which in turn affects our efficiency and productivity.

### **operating a “lean” and efficient infrastructure**

The ombudsman service is not funded by the taxpayer, but by the financial businesses that consumers complain about. We are as mindful as any business of the importance of controlling costs and providing good value for money – and even more so at a time when everyone is feeling the pinch.

During 2011/2012 we reduced our underlying costs by 10%. And we built up capability in our finance and procurement functions to enable us to continue scrutinising and controlling our costs. At the same time, we have invested in a “continuous improvement” programme, so that we can always identify ways of making our service better for our customers using the insight and expertise of our own people.

These programmes and initiatives –together with the decision taken by many financial services firms to “settle” their backlog of PPI cases immediately following the judicial review - have resulted in our ending the financial year 2011/2012 with an operating surplus of approximately £20m\* This is in spite of the considerable pressures of a substantially increased workload For the third year running, we have also been able to freeze our levy and case fees for 2012/2013 other than a new fee specifically to cover the costs of scaling-up our service to deal with the rising volumes of PPI complaints This fee will be paid only by those businesses involved in these cases

\* operating surplus before taking account of the exceptional supplementary levy

### **our people**

I'd like to thank Sir Christopher Kelly, our Chairman for the last seven years, who stepped down in February 2012 He has given endless support to me personally and provided the organisation with strong and committed leadership He has challenged and supported us in equal measure – and deserves much of the credit for our success I am delighted that Sir Nicholas Montagu has joined us as our new Chairman, bringing with him a real passion for excellence in service delivery I look forward to working closely with Nick over the coming years to continue to develop the organisation

As my final thought, I'd like to return to our most important “asset” at the service – our staff The board, the executive and I rely not only on the professionalism and expertise of all our people here – but also on their hard work, enthusiasm and commitment It's the teamwork, solidarity and shared sense of purpose that help make this such a remarkable place to work

**Natalie Ceeney CBE**

chief ombudsman and chief executive

## our workload over the last decade

	<i>number of</i> new cases	<i>number of</i> resolved cases
2002	43,330	39,194
2003	62,170	56,459
2004	97,901	76,704
2005	110,963	90,908
2006	112,923	119,432
2007	94,392	111,673
2008	123,089	99,699
2009	127,471	113,949
2010	163,012	166,321
2011	206,121	164,899
2012	264,375	222,333

*year ended 31 March*

# the directors

## our board of non-executive directors

### **Sir Nicholas Montagu KCB (*chairman*)**

Nick Montagu was appointed Chairman of the board on 1 February 2012 and is also chairman of the nomination & remuneration committee

Before his appointment, Nick was chairman of the Aviva UK Life With-Profits Committee and a director of the Pension Corporation, as well as a former chairman of the Board of Inland Revenue. Nick is Chairman of the Council, Queen Mary, University of London and Chair of the Committee of University Chairs.

Nick's term of office is currently due to expire on 31 January 2015.

### **Gwyn Burr**

Gwyn Burr was appointed to the board on 1 October 2011 and is a member of the nomination & remuneration committee.

Gwyn is a member of the Operating Board at J Sainsbury plc where she is the Customer Service and Colleague Director. This includes responsibility for Human Resources, Customer Service, Corporate Responsibility and Corporate Communications, as well as sponsorship schemes including the Paralympic Games Programme. She is also a non-executive director of Sainsbury's Finance and has recently been appointed non-executive director of Wembley National Stadium Limited.

She has over 25 years' business experience, including five with Nestle Rowntree and over 13 with Asda Wal-Mart where she held various board level positions. Before joining Sainsbury's, Gwyn founded her own marketing consultancy. She is currently Chair of Business in the Community's Cause-related Marketing Leadership Team.

Gwyn's term of office is currently due to expire on 30 September 2014.

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### **Dame Janet Gaymer DBE QC (Hon)**

Janet Gaymer was appointed to the board on 23 February 2011 and is a member of the nomination & remuneration and the audit committees (having been appointed to the latter on 22 February 2012)

Janet currently acts as a Governor of the London School of Economics and a Member of the Council of Justice. She is an independent member of the Speaker's Committee for the Independent Parliamentary Standards Authority, and serves on the Board of International Women of Excellence. She is also life Vice-President of the UK Employment Lawyers' Association and Honorary Chairman of the European Employment Lawyers Association. During her career, Janet has been Commissioner for Public Appointments in England and Wales and a Civil Service Commissioner. She was also a Senior Partner of Simmons & Simmons.

Janet's term of office is currently due to expire on 22 February 2014.

### **Alan Jenkins**

Alan Jenkins was appointed to the board on 23 February 2011. He is a member of the audit committee and was appointed chairman of the quality committee from 22 February 2012.

Alan is a non-executive director of UK Trade & Investment, the Crown Prosecution Service, Gross Hill Properties Ltd, Sydney and London Properties Ltd, Northcourt Ltd and GPS Malta Ltd. He is also an independent non-executive at PKF (UK) LLP.

Alan currently also acts as Vice-Chairman of the International Institute for Environment & Development, Chairman of the Board of Trustees of Mencap Trust Company Ltd and Latitude Global Volunteering, and Head of the Advisory Board at Page Group Ltd. He is also an adviser to Fulbrook Management LLC.

During his career, he has been Chairman of Eversheds LLP and managing partner of Frere Cholmeley Bischoff. Until 30 April 2011, he was a Partner and Chairman of Global Markets at Eversheds LLP.

Alan's term of office is currently due to expire on 22 February 2014.

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### **Professor Elaine Kempson CBE**

Elaine Kempson was appointed to the board on 23 February 2008 and is a member of the quality committee

Elaine is an Emeritus Professor at the University of Bristol, she also works as a consultant for the World Bank and is a member of the Social Security Advisory Committee

Previously, Elaine has been a member of both the Financial Inclusion Taskforce and the Treasury Policy Action Team on Access to Financial Services. She has been an adviser to the Thoresen Review of Generic Financial Advice and was a non-executive director of the Department for Work and Pensions' Pensions Client Board

Elaine's term of office is currently due to expire on 22 February 2013

### **Julian Lee**

Julian Lee was appointed to the board on 23 February 2005. He became chairman of the audit committee on 22 February 2012. He is also a member of the nomination & remuneration committee

Julian is currently Chairman of the Brighton & Sussex University Hospitals Trust and a Commissioner of the Legal Services Commission. He runs a Strategy & Risk consultancy and is also a Justice of the Peace on the Northern Sussex Branch

Julian has been a non-executive director of the Maritime and Coastguard Agency, Chairman of NHS Surrey and of NHS Brighton & Hove and a non-executive director of South East Coast Ambulance Service. During his career he was Chairman of Allied Carpets plc, Chief Executive of Bricom Group plc, Managing Director of British & Commonwealth Holdings plc, International Chief Operating Officer of Phibro-Solomon Inc and a Partner in Arthur Andersen & Co

Julian's term of office is currently due to expire on 22 February 2014

### **Roger Sanders OBE**

Roger Sanders was appointed to the board on 23 February 2005 and is a member of the audit and quality committees

Roger is Managing Director of LighthouseGEB, the Employee Benefits Division of Lighthouse Group plc. He is Chairman of the Financial Services Committee of the Insurance Institute of London, as well as acting as a Council Member and Vice-President of the Institute. He is also a trustee of the English National Opera benevolent fund

During his career, Roger has acted as Deputy Chairman of the Association of Independent Financial Advisers and Deputy Chairman and Head of Employee Benefits of Helm Godfrey Partners Ltd. He has also been a Director of the Personal Investment Authority Ombudsman Bureau, a board member of the Personal Investment Authority, joint chairman of the FSA's Smaller Businesses Practitioner Panel and a member of the statutory Financial Services Practitioner Panel

Roger's term of office is currently due to expire on 22 February 2014

### **Baroness Maeve Sherlock OBE**

Maeve Sherlock was appointed to the board on 23 February 2008. She is a member of the quality committee and was appointed as Senior Independent Director from 19 October 2011

Maeve is a member of the House of Lords and is currently undertaking research for a doctorate at Durham University. She is also Chair of Chapel St, a charitable enterprise

She has been Chief Executive of the Refugee Council and One Parent Families, a Commissioner at the Equality and Human Rights Commission and a non-executive director of the Child Maintenance and Enforcement Commission. She worked as a Member of the Council of Economic Advisers in HM Treasury for three years

Maeve's term of office is currently due to expire on 22 February 2014



## **Pat Stafford**

Pat Stafford was appointed to the board on 22 February 2011 and is a member of the nomination and remuneration and quality committees

Pat is currently a mentor for New Leaf Organisation and a business adviser to the Young Enterprise Company Programme

Pat has been a non-executive director of HMRC and a Regional Board Member of the Prince's Trust. She has also acted as Group Marketing Director at BUPA, a governor at the University of Bedfordshire and managing director of corporate positioning services and head of brands management at British Airways

Pat's term of office is currently due to expire on 22 February 2014

## **company secretary**

The company secretary, with the help of the board secretary, supports the board, its committees and the executive team and ensures all relevant procedures are followed. The company secretary is available to provide independent advice to directors on issues relating to their responsibilities

Following the departure of Barbara Cheney in 2011, the finance and performance director, Julia Cavanagh, also took on the role of Company Secretary

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# directors' report

## business review

**This business review has been prepared in accordance with the Companies Act 2006 and should be read in conjunction with the Chairman's Statement and the Chief Executive's Report.**

The Financial Ombudsman Service was set up under the Financial Services and Markets Act 2000 – as the independent dispute-resolution service for consumers with complaints about financial businesses. The Service carries out its statutory functions on a not-for-profit basis.

## complaints we received

During 2011/2012 we have continued to see a significant increase in demand for our services. This year we handled 1,268,798 frontline enquiries and complaints from consumers – around 5,000 every working day. Around 1 in 5 of these enquiries went on to become a formal dispute requiring the involvement of our case-handlers and ombudsmen. This was a record 264,375 cases, up 28% on the previous year.

60% of these cases (157,716 disputes) involved payment protection insurance (PPI) – the highest number we have ever received in a year about a single financial product. In 2010/11 we saw a 113% increase in the volume of PPI complaints referred to us with a further 51% increase in the 2011/12 financial year. These complaints rose sharply in volume after the judicial review brought by the banks found in our favour in April 2011. The judicial review resulted in banks accepting our approach to deciding PPI cases and the Financial Service Authority's guidance on case handling.

Over half of the total number of cases we dealt with related to four financial services groups – while 4,048 businesses accounted for just 5% of our caseload.

There is more information about the complaints we dealt with – and what and who they involved – in our *annual review*, which we publish separately and which is available on our website.

## **complaints we resolved**

We continued to settle cases at record levels – resolving a total of 222,333 cases in the financial year 2011/2012. This is 35% higher than the 164,899 cases we resolved in the previous year – and the highest number in any year since the service was set up in 2000.

Our preference is to resolve complaints informally – getting both sides to agree at an early stage to the views or informal settlements that our case-handlers may suggest. But more complex or sensitive disputes may require detailed investigations and lengthy reviews, including an appeal to one of our panel of ombudsmen for a final decision.

The number of cases requiring the direct involvement of an ombudsman and a formal ombudsman decision increased to 20,540 cases – a rise of 18% on last year. In 2011/12, 9% of all cases we settled during the year required an ombudsman to make a final decision. The proportion of cases appealed to an ombudsman has been slowly rising over recent years from 6% in 2006/07 to the current figure of 9%.

In total we upheld 64% of the complaints we settled during the year, compared with 51% of cases in the previous year. There is more information about the complaints we resolved in our *annual review* - which we publish separately and which is available on our website.

## **working with the FSA**

To carry out our functions effectively, we need to co-operate and communicate constructively with a number of organisations and official bodies, including the regulator, the Financial Services Authority (FSA), and the Office of Fair Trading (OFT).

Under the Financial Services and Markets Act 2000 the FSA has a number of specific responsibilities in relation to the ombudsman service, including the approval of our annual budget and the appointment of non-executive directors to our board. There is a formal Memorandum of Understanding between the FSA and the service (which is available on our website at [www.financial-ombudsman.org.uk/about/other\\_bodies.html](http://www.financial-ombudsman.org.uk/about/other_bodies.html)).

There is ongoing contact between the ombudsman service and the FSA at an operational and strategic level. At the strategic level, the chief executives of the two organisations – and now, the chief executive of the service and the chief executive of the shadow FCA – have regular meetings, and the chairmen also meet regularly. Our chief executive and/or chairman

also attended two FSA board meetings during the year to discuss our proposed budget and plans for the next financial year, and to outline our performance for the year just ended

In addition, there is a formal co-ordination committee which meets regularly to discuss matters of joint interest, including case trends and themes

## our financial performance

### **funding**

The Financial Ombudsman Service is funded by an annual levy paid by the financial businesses we cover – and by case fees that we charge businesses for settling disputes referred to us about them. Around 80% of our normal funding comes from case fees and 20% from levies (excluding the one-off supplementary levy we received, which is discussed later on in this report)

The levy covering the “compulsory jurisdiction” is allocated on the basis of anticipated workload – and we consult on our expectations publicly in the January and February prior to the new financial year

During 2011/2012, we did not charge businesses case fees for the *first three* disputes involving them. Businesses were charged case fees only for the *fourth* (and any subsequent) dispute during the year. The case fee was set at £500 – the same as in previous years

### **budget process**

We consult publicly each year in January and February on our proposed plan and budget for the next financial year. Having taken account of comments and feedback from stakeholders (which we publish on our website), our board sets and approves a final budget – which is submitted to the board of the FSA for final approval at its meeting in March each year

As a not-for-profit organisation, the Financial Ombudsman Service aims to break even financially and at an operating level. However due to the significant volatility in our workload, and risks associated with either a dramatic increase or decrease in work as a result of legal activity over PPI complaints, the board decided that the service needed a larger reserve base. Therefore, an additional levy of £25 million was raised

## income

	2011/12	2011/12	2010/11
	<i>actual</i>	<i>budget</i>	<i>actual</i>
	£m	£m	£m
case fees	102.8	82.2	77.1
levy	23.6	20.5	20.9
special levy	25.0	-	-
other	0.5	0.2	0.4
<b>total</b>	<b>151.9</b>	<b>102.9</b>	<b>98.4</b>

The outcome of the judicial review, together with the decision by the British Bankers Association not to appeal, resulted in a period of significant activity during the summer months as firms and the service sought to resolve the backlog of cases created during the judicial review process. The impact of these closures was to increase case fee income above the budget, as many firms made offers to settle these cases without requiring us to formally adjudicate on each case. Following this period, the volume of complaints has continued to increase – and we have been addressing this by increasing our staffing levels to ensure that we are able to review each case individually, and to keep waiting times for consumers as low as possible. The number of PPI complaints resolved in 2011/12 was 117,806 – 64% above the planned and budgeted levels (72,000). PPI aside, the numbers of complaints resolved were 104,527 compared with planned and budgeted levels of 108,000. Cases about complex areas – such as pensions, continued to increase as a proportion of the total.

## expenditure

	2011/12 <i>actual</i> £m	2011/12 <i>budget</i> £m	2010/11 <i>actual</i> £m
administrative costs	107.0	102.9	106.8

We are aware of the need for strong cost management and financial efficiency, and take this as seriously as any business. Our budget for 2011/12 was set below the costs incurred during the previous year 2010/11 to reflect our ongoing review of our cost base and drive for increased efficiency with a target of a 10% cost saving, which has been achieved.

The move away from an entirely outsourced “managed operation” to in-house management of contingent staff has generated significant savings as well as improved operational performance from the contractor staff base. However, we have increased our costs as a result of the need to increase our staff base and operational infrastructure to respond to growing demand in PPI (which has led to one-off recruitment costs), as well as the recruitment and training costs associated with our higher than expected staff turnover rates immediately following the judicial review, when many banks headhunted ombudsman service staff to ramp up their own PPI complaint handling functions.

We have also invested far more than ever before in staff development and professional leadership, significantly increasing the size of our panel of ombudsmen and investing in more intensive training for our new case-handlers. Increasing the size of the service requires investment in the support infrastructure, and we have incurred over £1m of additional costs as a result of adding additional floor space in the South Quay Plaza estate.

## **unit cost**

	<b>2011/12</b>	<b>2011/12</b>	<b>2010/11</b>
	<i><b>actual</b></i>	<i><b>budget</b></i>	<i><b>actual</b></i>
cases resolved	<b>222,333</b>	<b>180,000</b>	164,899
unit cost	<b>£480</b>	<b>£571</b>	£644

Our unit cost is calculated by dividing our total costs (before financing charges, bad debt charges and exceptional items) by the number of cases we resolve. Overall unit cost has been significantly reduced this year because of the large number of PPI complaints that were resolved by financial services firms immediately after the judicial review – when many firms offered settlements to consumers without requiring us to individually examine every case.

## **external review**

We are committed to operating efficiently, cost effectively and openly. To meet this commitment, the board has agreed to rigorous, fully independent external reviews of the Service being carried out every three years. The latest review and report was carried out by the National Audit Office in 2011/2012 (available on our website at <http://www.financial-ombudsman.org.uk/news/updates/nao-report.htm>).

The NAO published its report in January 2012. It focused on our efficiency and change programme – and concluded that the volatility of demand, and the behaviour of the financial services firms in the way that they managed complaints, presented some major operational challenges, particularly in terms of efficiency. The report also concluded that the programme of changes introduced in 2010 to modernise our operational processes and IT was being managed well, and has already begun to realise benefits. The report made a number of recommendations around how we could further strengthen our change management – including more detailed work to assess how the current case-fee charging structure affects the service's cash flow and funding. We are following up on each of the recommendations – and are maintaining the relationship that was developed during the review.

## **significant contracts**

During the year, we reviewed our model of employing contingent (contractor) resources and took the decision to bring the management of contractors in-house. We served notice on the supplier of our outsourced operations (Deloitte) and carried out a formal tender process to award a new contract for the sourcing and supply of contingent workers (to work under our managers) and staff across much of our business. The contract was awarded to Randstad Financial & Professional. Following the successful phase-in period, the Deloitte managed service contract expired on 31 December 2011. Expenditure with Deloitte was £8.3 million during the year.

As PPI claims have continued to escalate, so too has our need to engage large numbers of high quality staff. Randstad is a critical partner in achieving this. The total cost of the contract with Randstad is estimated to be in the region of £20-£25m over its four-year term.

## **cash management**

Cash management remains an important focus for us, with balances reviewed daily. Cash requirements are reviewed as part of the quarterly re-forecast process and balances are placed on deposit, with terms ranging from overnight to three months. The service has a loan facility of £15m which was not called on during the year. We plan to review our banking arrangements during the next 12 months before the expiry of the current facility in January 2013.

## **Reserves**

In January 2011, in light of the increased volatility in demand, we considered whether our published reserves policy of 5% of expenditure was still adequate. We took the view that a level of 20-25% should be considered, and put this forward in our external consultation paper. We noted in the paper that while there had been previous instances of increased volatility in the volume and type of complaints we received, PPI was by far the most significant resulting from systemic failures in the financial services industry. And while the use of our banking facilities might be appropriate to deal with a temporary delay in income, it would not be appropriate when faced with the prospect of an absolute and irrecoverable reduction in income (without a corresponding reduction in costs, or with an absolute and irrecoverable increase in costs).



Following the consultation, and faced with the real possibility of scenarios resulting in an adverse movement of £30m in reserves, the board and the FSA approved a special levy of £25m. This was added to the base levy and applied to those firms in the compulsory jurisdiction. It was noted that there would be a system of governance to ensure that the additional reserves were only called upon to deal with volatility and not to deal with business as usual or decreased efficiency.

During the year, the board undertook a further review of the reserves policy and concluded that a level equating to approximately three months' costs would be appropriate, but that this would be reviewed annually.

We ended the year with reserves of £49m. Whilst this equates to approximately three months' budgeted costs for 2012/13, it also represents a prudent level of reserves as we move into a further year of uncertainty – with costs set to increase by around 80% on 2011/12 and a forecast budget deficit of £6.4m.

#### **creditors' payment terms**

The Financial Ombudsman Service has a policy to pay creditors within agreed terms. We have complied with this policy during the year.

#### **the role of the board**

The Companies Act 2006 requires directors to act in a way that they consider would be most likely to promote the success of their company. Directors are also expected to exercise reasonable care, skill and diligence.

The role of the board of the Financial Ombudsman Service is to

- ensure that the service is properly resourced and able to carry out its work effectively and independently,
- appoint the panel of ombudsmen under paragraphs 4 and 5 of schedule 17 of the Financial Services and Markets Act 2000 (FSMA2000) (which the board has delegated to the chairman),
- appoint the independent assessor – who deals with complaints about the level of service we provide in our work resolving consumers' complaints,
- approve the draft budget each year for recommendation to the FSA,
- approve (with the FSA) appropriate rules in the *Dispute Resolution Complaints (DISP)* section of the *FSA Handbook*, and
- prepare and approve the *annual review* – an overview of consumer complaints handled by the ombudsman service

Non-executive directors on the board are appointed by the FSA. Statutory members of the executive team are appointed by the chief executive and are *not* directors. However, relevant members of the executive team are invited to attend board meetings, and the board operates by combining executive and non-executive insight in governing the service effectively.

The chairman and chief executive meet regularly to discuss the operation and development of the service. Their responsibilities are distinct and clearly defined. The chairman ensures the service has a clear strategy and direction – with effective management for its current and future needs. He also ensures the board remains effective in the way it operates, its decision making and its support for the executive – and that effective line-management is provided to the chief ombudsman and chief executive. Looking externally, he has an important role as an ambassador in promoting the interests of the service to stakeholders.

The chief executive's responsibilities include leading the development of strategy within the organisation and overseeing its delivery, leading the executive in making and implementing operational decisions, and ensuring that the board has clear, timely and accurate information about performance and operations. She is also responsible for appointing members of the executive, overseeing key external relations, and managing risks.

## **appointment of directors**

Under the Memorandum of Association, the board must consist of a minimum of six directors but should not exceed fifteen. On 31 March 2012, the board consisted of nine directors all of whom were non-executive.

Under Schedule 17 of the FSMA 2000, "the chairman and other members of the board must be persons appointed, and liable to removal from office" by the FSA. In addition, the appointment of the chairman must be approved by HM Treasury.

Appointment of the chairman and board directors follows an open recruitment process, which includes advertising in the national press. The recruitment process for the chairman is overseen by the FSA, which carries out a recruitment exercise using an external recruitment company. This year, the appointment panel for Sir Christopher Kelly's successor consisted of two non-executive directors of the FSA Board, a non-executive director of the ombudsman service board and one of FSA's Managing Directors.

The recruitment process for non-executive directors to the service is overseen by its nomination & remuneration committee (see page 34 and 35) which also uses an external recruitment company. When recruiting directors the committee nominates suitable candidates to the FSA Board for approval.

On appointment by the FSA, each non-executive director receives a letter of appointment, which includes the terms and fees payable. Details of remuneration paid to non-executive directors are in the remuneration report on pages 52 to 54.

All non-executive directors go through a comprehensive induction and familiarisation programme. This includes meeting each member of the executive team, being guided through the "end-to-end" complaints process, and receiving a directors' handbook of information about the service. At the end of each board meeting the directors attend a session designed to keep them updated on matters impacting the service – an in-house continuing professional development programme.

## **changes to the board during the year**

There have been a number of changes to the board during the year. Sir Christopher Kelly came to the end of his term of office on 31 January 2012, having served as a non executive director for three years and as chairman for seven years. Sir Nicholas Montagu was appointed as his successor from 1 February 2012.

Alan Cook tendered his resignation with effect from 29 April 2011, following a new appointment in another organisation. After an open recruitment process involving both the FSA and the Service, including advertising in the national press, Gwyn Burr was appointed as a non-executive director with effect from 1 October 2011.

Kate Lampard came to the end of her term of office on 21 February 2012, having served 10 years on the board.

Following an external review of the board's effectiveness by the Institute of Company Secretaries and Administrators in 2011/12, the board decided to create the role of senior independent director – in line with best practice governance approaches. Following discussions with board members, Maeve Sherlock was appointed to this role, for an initial one-year period, which expires in October 2012.

Everyone at the Financial Ombudsman Service is grateful to Alan, Kate and Chris for their time on the board. Particular thanks goes to Kate and Chris, both of whom served the maximum term allowable and from whose expertise and wise counsel the Service has benefited for the last 10 years.

## **board meetings**

The board met 11 times during the financial year 2011/12 Attendance at board meetings is recorded below

	<i>board meetings</i>	<i>audit committee</i>	<i>nomination &amp; remuneration committee</i>	<i>quality committee</i>
Sir Nicholas Montagu, chairman	2/2	-	1/1	-
Sir Christopher Kelly former chairman	9/9	-	5/5	-
Gwyn Burr	6/6	-	3/3	-
Janet Gaymer	10/11	-	6/6	-
Alan Jenkins	9/11	3/4	-	2/2
Elaine Kempson	11/11	-	-	2/2
Kate Lampard	10/10	4/4	4/5	-
Julian Lee	10/11	4/4	4/6	2/2
Roger Sanders	11/11	4/4	-	2/2
Maeve Sherlock	10/11	-	-	1/2
Pat Stafford	9/11	-	-	2/2

The chairman leads the board and ensures that it meets its statutory and corporate responsibilities. Agendas are divided into two distinct parts – strategic issues and assurance issues – to reflect the board's roles and responsibilities. The chairman and the chief executive/chief ombudsman set agendas in advance. Meetings are structured to ensure there is adequate time for discussion of key issues.

Minutes of board meetings are available on our website (at [www.financial-ombudsman.org.uk/about/minutes.html](http://www.financial-ombudsman.org.uk/about/minutes.html))

Two meetings of the board were held "off-site" during the year. The first took place in June 2011. It focused on the results of a board evaluation exercise and considered organisational culture. The second event was held in September 2011 and focused on the challenges facing the organisation – and how they might be addressed.

### **independence of the board**

Independence and impartiality are fundamental principles for the service and are enshrined in the FSMA 2000.

The FSA appoints the non-executive directors to the board on terms that ensure that the directors are independent of the FSA. The chairman of the board is also appointed by the FSA, with the approval of HM Treasury.

The non-executive directors appointed by the FSA are members of the board of the "scheme operator" that "administers" the service. These non-executive directors are the only members of the company called the Financial Ombudsman Service Limited – which is limited by guarantee and has no share capital. The company has exercised its right under the Companies Act 2006 not to hold annual general meetings.

The non-executive directors are not involved in considering individual complaints. Their job is to take a strategic overview, ensuring that the service is properly resourced and able to carry out its work effectively and independently.

On average, the chairman spends two days each week on service business. The other non-executive directors work around two days a month for the service. The executive team is

grateful to the directors for volunteering additional time to support a range of projects and initiatives linked to the strategic development of the organisation

The senior independent director acts as an alternative point of contact to the chairman, and meets annually with directors to discuss the performance of the chairman

### **conflicts of interest**

Under the provisions of the Companies Act 2006, the board has the power to authorise any potential conflicts of interest that may arise – and impose whatever limits or conditions it considers appropriate. A register of conflicts is maintained and regularly reviewed to ensure all details are kept up to date. Appropriate authorisation has to be sought for any new potential conflicts of interest prior to any new director being appointed – or as and when they arise

### **tenure policy**

Directors are appointed for an initial period of no more than three years – or no more than five years in the case of the chairman. Unless a director resigns *before* the end of their term of office, their period of office finishes at the end of the term

A director may be re-appointed by the FSA. In the case of the chairman, the re-appointment has to be approved by HM Treasury. Any director can be re-appointed, but they cannot serve for more than a total of 10 years. In the case of the chairman, this 10-year period includes any time during which they acted as a director

A director who wants to resign *before* his term of office would otherwise be due to end must give at least three months' notice in writing to both the Service and to the FSA

### **performance evaluation**

The board carries out a formal evaluation each year of its own performance, and that of its committees and individual directors. As part of this evaluation, the chairman holds meetings with each non-executive director to discuss various aspects of the board's role and responsibilities, as well as to discuss individual performance

During these meetings the directors review the appointment process, how the board defines and manages risk, and the security of the organisation in terms of appropriate continuity plans. These meetings provide an opportunity to assess achievements made during the year – and to highlight areas for future development, both for individual directors and for the board as a whole.

The chairman confirms that during 2011/12, the performance of each director was effective, each director committed sufficient time and resource to their roles. The board considers there is a good balance of skills, experience and length of service to ensure it operates effectively.

Additionally, the chairman must ensure that the effectiveness of the board is evaluated annually, with an external evaluation every three years. In 2011/12, an external review of the board's effectiveness was carried out by the Institute of Company Secretaries and Administrators. The report classified board effectiveness as "good", with a note that "a good result demonstrates the board is performing well". We have addressed the majority of the recommendations made in the report, including the appointment of a senior independent director, the introduction of "CPD" training for all board members, a review of the delegated authorities matrix and revised the meeting structure.

#### **indemnity of directors**

To the extent permitted by law and by the company's Articles of Association, the company indemnifies each director in relation to liabilities which may attach to them in their capacity as directors.

Directors' and Officers' liability insurance cover is in place for the directors. Subject to the provisions of UK legislation, the company's Articles of Association provide an indemnity for directors in relation to costs that they may incur in defending any proceedings brought against them, arising out of their positions as directors – where they are acquitted or where the court gives judgment in their favour.

#### **corporate governance**

As the Financial Ombudsman Service is a company limited by guarantee, it is not obliged to comply with the UK Corporate Governance Code. However, as an organisation that aims to meet best practice and the highest standards of corporate governance, the board is committed to complying with this Code as far as possible.



However as the company does not have any shareholders – and does not hold an annual general meeting – directors are not submitted for re-election, and are not able to maintain dialogue with shareholders

We do engage actively with a wide range of stakeholders and those who have an interest in our work – including financial businesses and trade bodies, consumer groups, claims-management companies, the media and parliamentarians, and regulators and government

There are more details in our *annual review* about the full range of outreach and external-liaison activities we carry out – aimed at sharing our experience and insight with the outside world

### **appointment of ombudsmen**

A matter reserved for the board is the appointment of ombudsmen on terms that guarantee their independence. As at March 2012, the ombudsman panel is led by Natalie Ceeney as chief ombudsman – supported by two principal ombudsmen, three lead ombudsmen, seven managing ombudsmen and 104 other ombudsmen. Each member of the panel is appointed by the board under paragraphs 4 and 5 to schedule 17 of FSMA 2000.

The professional, academic and technical qualifications held by our ombudsmen cover all areas relevant to our work. They are each experts in their own field – which includes the law and professional services, banking and credit, mortgages, insurance, and investment and pensions.

There is more information about our panel of ombudsman on our website (at [www.financial-ombudsman.org.uk/about/panel-ombudsmen.html](http://www.financial-ombudsman.org.uk/about/panel-ombudsmen.html))

## board committees

### the audit committee

The audit committee met on four occasions during the year. Members of the audit committee were

- Kate Lampard *chair* (to 21 February 2012)
- Julian Lee *chair* (from 22 February 2012)
- Roger Sanders
- Alan Jenkins
- Janet Gaymer (from 21 March 2012)

The audit committee's main terms of reference are

- *financial reporting*  
To review and challenge accounting policies adopted and accounting practices used for unusual or significant transactions, and to assess whether appropriate standards have been followed
- *internal controls and risk management systems*  
To keep under review the adequacy and effectiveness of internal financial control, and internal control systems and risk management systems
- *compliance, whistleblowing and fraud*  
To review the adequacy of arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters
- *internal audit*  
To monitor and review the effectiveness of the internal audit function in the context of the overall risk management system, and to approve the appointment and removal of the internal auditor

- *external audit*

To consider and make recommendations to the board about the appointment, re-appointment and removal of the company's external auditor, and to oversee the relationship with the external auditor

The director of finance and performance, chief executive and head of strategic analysis are invited to attend all audit committee meetings. However, the committee meets at least once a year without the executive being present.

The committee's full terms of reference are on our website (at [www.financial-ombudsman.org.uk/about/audit\\_committee.pdf](http://www.financial-ombudsman.org.uk/about/audit_committee.pdf))

### **the nomination & remuneration committee**

The nomination & remuneration committee met on six occasions during the year. Members of the nomination & remuneration committee were

- Sir Christopher Kelly *chair* (to 31 January 2012)
- Sir Nicholas Montagu *chair* (from 1 February 2012)
- Gwyn Burr (from 19 October 2011)
- Alan Cook (to 28 April 2011)
- Kate Lampard (to 21 February 2012)
- Julian Lee
- Janet Gaymer
- Pat Stafford (from 21 March 2012)

The nomination & remuneration committee's main terms of reference are

- *remuneration strategy*

To oversee the remuneration strategy for executive and other senior posts, and to consider and agree proposals from the chief executive/chief ombudsman about the remuneration of senior executive staff and ombudsmen, levels of remuneration for all employees, and major changes to employee reward structures

- *board structure*

To review on a regular basis the structure, size and composition of the board – including the required skills, knowledge and experience of the non-executive directors, and to make recommendations to the FSA about appointments and re-appointments of board members

- *succession planning*

To make recommendations to the board about the appointment of the chief executive/chief ombudsman and to ensure succession planning for the post, to review on a six-monthly basis – with the chief executive/chief ombudsman – the overall performance and potential of the ombudsman service's senior team, and the succession and recruitment risks for critical senior posts, to ensure succession planning for non-executive directors on the board, to assess the skills and experience required to fill the post – taking into account existing skills and experience already represented on the board

The chief executive and director of Human Resources & Organisational Development are invited to attend all committee meetings. However, the committee meets at least once a year without the executive being present.

The committee's full terms of reference are on our website (at [www.financial-ombudsman.org.uk/about/remuneration\\_committee.pdf](http://www.financial-ombudsman.org.uk/about/remuneration_committee.pdf))

### **the quality committee**

The quality committee met on two occasions during the year. Members of the quality committee were

- Julian Lee *chair* (to 21 February 2012)
- Alan Jenkins *chair* (from 22 February 2012)
- Alan Cook (to 28 April 2011)
- Elaine Kempson
- Roger Sanders
- Maeve Sherlock
- Pat Stafford

The quality committee's main terms of reference are

- *quality assurance*  
To review quality assurance procedures and systems
- *quality assessment*  
To review reports on quality-assessment findings, customer-satisfaction surveys, complaints about the service, and the executive's strategy for maintaining and improving quality
- *the independent assessor*  
To consider regular reports from the independent assessor
- *internal audit*  
In conjunction with the audit committee, to commission and/or review internal audit reports about quality-related issues

The legal director and director of communications and customer insight are invited to attend all committee meetings, with other senior executives attending on the request of the committee. The independent assessor is also invited to attend as required.

The committee's full terms of reference are on our website (at [www.financial-ombudsman.org.uk/about/quality\\_committee.pdf](http://www.financial-ombudsman.org.uk/about/quality_committee.pdf))

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## the executive

The board is supported by the executive team which is responsible for the day-to-day management of the Financial Ombudsman Service. The following people served on the executive team during the year:

- Natalie Ceeney CBE  
*chief executive and chief ombudsman*
- Tony Boorman  
*decisions director and principal ombudsman*
- Julia Cavanagh  
*finance and performance director/company secretary*
- David Cresswell  
*communications and customer insight director*
- Chris McDermott (*appointed February 2012*)  
*operations director*
- Caroline Wayman  
*legal director and principal ombudsman*
- Jacquie Wiggett  
*HR and organisational development director*
- David Thomas (*retired from the executive on 1 September 2011*)  
*corporate director and principal ombudsman*
- Simon Rouse (*left November 2011*)  
*operations director*

Led by Natalie Ceeney, the chief executive/chief ombudsman, the executive team

- proposes the budget, manages within it and approves major expenditure,
- plans, prioritises and oversees the delivery of plans,
- ensure the organisation is running effectively and efficiently, and
- manages the risk framework

## internal audit

PricewaterhouseCoopers UK LLP were appointed as internal auditors, taking over from KPMG LLP from October 2011. The audit committee agrees the scope of work that is to be carried out on the organisation's financial systems. The internal auditors attend the audit committee meetings to report on their findings. The chairman of the audit committee is available to discuss any relevant matters with PricewaterhouseCoopers UK LLP at any time.

During the year, the audit committee agreed a programme of work to ensure that assurance was provided in relation to material risks. This programme included audits undertaken by the internal auditors and in-house reviews of key risks. There were no matters of significance brought to the attention of the committee.

## internal control

During the year, there has been continued focus on the service's control environment. We have further developed our organisational scorecard, which focuses on four areas – operations, customer and quality, finance, and people – and cascaded it more deeply into the operational teams. Scorecards are produced weekly at case-handler and casework team level and monthly for the service as a whole. The service scorecard, along with supporting information, is reviewed in depth by the executive team before being submitted to the board. Performance against the scorecard is subject to an in-depth review by the board on a quarterly basis. A monthly financial update and detailed quarterly reporting to the board has also been introduced.

We have reviewed the internal governance arrangements for the organisation at executive and major project level to ensure that risks are well managed, and that major projects are governed effectively. This review has led to clearer terms of reference for all executive-sponsored groups and major projects, a review of membership to ensure appropriate levels

of challenge and debate, and a clear reporting structure to ensure communication with stakeholders about decisions and actions required. Major change programmes are overseen by a steering group, chaired by a relevant member of the executive team, and receive input from board members as required.

Key risks identified across the service are recorded on a risk register, which is discussed by the executive team on a monthly basis and by the board on a quarterly basis. The risk register is also considered by the audit committee as part of its approval of the internal audit programme for the year. Key risks are identified for a “deep dive” review by the committee. Major change-programmes also have risk registers.

The key organisational risks can be grouped into the following areas:

<b><i>risk category</i></b>	<b><i>risk description</i></b>	<b><i>Mitigation</i></b>
regulatory	The risk around changes in the regulatory environment which could affect our independence, and therefore our ability to perform our role effectively	Continued discussions with regulatory/industry bodies. Legislation is to be discussed in the house of lords during the summer of 2012.
operations	Our ability to manage the organisation effectively and provide a good service in relation to factors such as <ul style="list-style-type: none"> <li>▪ staffing</li> <li>▪ health and safety</li> <li>▪ business continuity</li> <li>▪ data protection</li> <li>▪ volatility</li> <li>▪ customer needs</li> </ul>	The risk owner (an executive team member) has responsibility for ensuring an appropriate risk-mitigation plan, which is regularly reviewed and challenged.
financial	Our ability to remain solvent given the current volatility and uncertainty in relation to the number and type of new cases	Regular operational reviews together with monthly financial analysis. A supplementary case fee has been introduced to mitigate the additional costs associated with PPI cases and volumes.



## the independent assessor

The independent assessor is appointed by the board and has her own official terms of reference. She can consider complaints from consumers and businesses about the service provided by the Financial Ombudsman Service. More information can be found at [www.independent-assessor.org.uk](http://www.independent-assessor.org.uk)

The independent assessor's remit does not cover disagreements about the merits of individual cases – i.e. whether the Service was right to uphold or reject a dispute between a business and a consumer.

The quality committee meets regularly with the independent assessor to discuss her findings and reports. The independent assessor also meets with members of the executive team on a quarterly basis to discuss her feedback and recommendations for service improvements, any underlying themes in the complaints she receives – and the action being taken to address them.

The independent assessor produces an annual report for the board – setting out findings and recommendations made over the year. This year's report is attached as an annex on pages 79 to 84. The board has accepted the independent assessor's report and its recommendations in full and would like to thank the independent assessor for her contribution to improving the customer experience for those using the ombudsman service.

## environmental policy

The Financial Ombudsman Service recognises the importance of appropriate environmental policies and their relationship with good corporate governance practice.

As a responsible organisation, we are committed to helping minimise the impact we have on the environment. We buy "green" electricity, which is generated from renewable energy sources. We also turn off lighting and air conditioning systems outside core hours to conserve energy and reduce carbon emissions. Our recently refurbished floors are operated by PIR (passive infra-red) – which means lights are triggered by movement, so we also save energy during the day. Energy-saving devices are installed in printers and copiers to save energy if they remain inactive for a period of time.

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We operate a “bin the bin” policy to encourage staff to recycle. We provide separate bins for non-recycling, mixed recyclable and food composting. Confidential waste and case files that have been closed for more than three years are shredded, pulped and recycled.

When we source new suppliers to work with, environmental considerations form an important part of the evaluation process. We expect suppliers to hold an environmental accreditation or to have an environmental management system as part of their working processes.

We purchase stationery, paper, toners and consumables through one supplier – which has reduced the number of deliveries we receive. We have purchased over 10,000 items of environmentally friendly stationery from this new supplier.

We use photocopier paper produced from pulp manufactured from managed and sustainable forests in accordance with ISO14001 environmental-management systems and Forest Stewardship programmes.

During the year we also introduced consolidated billing for a number of the largest firms, reducing the volume of paper and postage costs. We are in discussion with a number of firms regarding the increased use of e-communications and have invested in an e-filing system to reduce the volume of paper used. We plan to introduce a number of changes in this area over the next year.

We continue to use Fair Trade products in our café – to support better deals for disadvantaged producers in the developing world. Tap water rather than bottled mineral water is provided at meetings.

## equality and diversity

As a public service provider, a statutory body and an employer, we are committed to the fair and equal treatment of everyone we deal with. We see diversity as an asset that helps deliver our vision of a service that meets the needs of all our customers and stakeholders – irrespective of gender, age, disability, sexual orientation, race, religion, belief or socio-economic background.

We work towards an “equality and diversity standard” in the way we provide our service – to help us identify and overcome any real or perceived barriers. Our strategy on diversity and equality – published on our website – is set and monitored by our board and executive team. On the ground, our work in this area is co-ordinated and championed by our customer service taskforce which brings together senior staff from all areas of the organisation.

During the year our strategic and practical approach to diversity was independently assessed over an eight-week period – and we were awarded “gold standard” accreditation as a “diversity assured” organisation.

We have continued to work with a range of external partners specialising in this area. These included:

- The Employers’ Network for Equality and Inclusion – providing us with ongoing strategic and practical advice in the role of a “critical friend”,
- The Institute of Equality & Diversity Practitioners – with whom we have hosted joint events on equality and inclusion in financial services,
- Disability, mental health and wellbeing charities – including the Samaritans, British Dyslexia Association and Alzheimer’s Society – who provide training and guidance for our staff on disability issues.

Our in-house customer service group – made up predominantly of casework staff from across the ombudsman service – also helps keep us focused on the fact that each customer may have individual needs that should be taken into account. The customer service group has contributed to a number of equality analyses (formerly known as “impact assessments”) that we carried out during the year, covering areas including

- our “e-enablement” project – which includes the scanning of incoming post,
- how we record and manage requests for information made to us under the Freedom of Information Act,
- proposals to publish ombudsman decisions and the possible impact this could have on consumers, particularly those who are more vulnerable

We have also worked with disability and healthcare charities as part of our “ombuds-ambassador” activities. Our “ombuds-ambassadors” are employees who are interested – *outside work* – in helping to raise awareness of the ombudsman in their own local communities. As our front-line “ambassadors” they help promote the ombudsman locally where levels of awareness or usage of our service are lower. This includes community work with

- younger people – where our “ombuds-ambassadors” work in schools and youth groups,
- the gay and lesbian community – with our LGBT support-group taking part in London’s *Pride* weekend,
- disabled people – involving support for a number of disability charities,
- different ethnic communities – where our “ombuds-ambassadors” volunteer across the African-Caribbean, Mauritian, Chinese and Polish communities

### **equality of the workforce**

43% of people working at the service at the end of the year were aged between 25 and 35 – with 6% of our workforce older than 55. The age of our employees ranged from 19 to 73 years. Across our workforce, 51% are male and 49% are female (2011 - 54% and 46% respectively). At the end of the year, women accounted for 55% of our board, 57% of our executive team and 47% of our panel of ombudsmen. 21% of our employees are from non-white ethnic backgrounds. In our voluntary survey 2% of our staff described themselves as disabled.

Throughout our recruitment process we make every effort to ensure candidates with disabilities are accommodated. In the event of an employee becoming disabled, we work to ensure that their employment continues and we provide specialised training where this is appropriate.

## learning and development

The skills and knowledge of our staff are essential to ensuring quality and consistency in our work. We dedicate significant resources to training and CPD at all levels. Our training team has delivered over 700 courses over the last year, which involved over 99,000 hours of training. Topics ranged from technical product training to leadership development. On average our staff each attended 9.1 days of training last year.

### training

Our newly-recruited case-handlers receive intensive training as part of their induction. We use an “academy”-style approach – to develop new recruits over a period of 4-12 weeks. This involves a mixture of classroom training and intensive mentoring.

New case-handlers are trained in the core skills of being an case-handler. Our values – and our commitment to quality and customer service – are fundamental to how we deliver our training.

As they progress through their training, new recruits take on a “live” caseload – which is fully supervised. Their work is quality assessed, a sample of their phone calls is monitored, and their knowledge is tested – before they are then placed into teams.

As part of our commitment to developing talent, we offer opportunities to employees who we identify as having the potential to become an case-handler, but who work in areas *other* than casework. These include six-month secondments with intensive training opportunities and regular assessments.

Based on the success of a job shadowing scheme last year, we have revised the standard induction process to include spending time with different areas of the business. Existing employees continue to shadow colleagues in different areas – to develop their understanding of how the organisation works but also for their personal development. Last year this

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included four case-handlers spending time shadowing one of our lead ombudsmen at a number of external industry events

In August 2011 we launched the pilot of an accredited training programme in partnership with Queen Margaret University. This bespoke course is designed to develop the skills of case-handling and is both academic and practical. It is set at Masters level and following a successful pilot, the first stage of the course is now being rolled out to all case-handling staff. An advanced stage for the course is being developed and will be piloted during the coming year.

### **sharing knowledge and information**

One of our priorities is to put knowledge and expertise at the heart of everything we do. We rely on the skills, expertise and professionalism of our staff to resolve the complaints referred to us – to arrive at the right outcome in each case. To help our staff keep their knowledge current – and to ensure that our approach is consistent – we share up-to-date casework news and information across the organisation. This is supplemented by regular in-house clinics, mentoring sessions, briefings and seminars – which help us share knowledge, learn and improve. During the year, use of our online forum and “wiki” on the intranet has increased significantly and staff share comments, questions and views about casework issues.

We are also committed to continuing to share our knowledge with the outside world. Making more information available about our approach to particular types of cases, informed by the results of cases we have previously resolved, should make it easier for consumers and financial businesses to resolve more complaints themselves – without needing to refer them to us. So we have increased the number of online technical resource notes on our website, and continued to add information on both the volume and types of complaints we see. Our focus for the coming year is to publish even more.

### **professional leadership**

We are committed to ensuring the service has visible professional leadership. As our most senior and experienced decision makers, the ombudsmen play a key role in guiding and supporting the development of front line case-handlers. They help deliver technical training, act as coaches and mentors for our case-handlers and managers, and provide

expert advice on case-handling topics. To drive this focus we have recruited a large number of additional ombudsmen during the year – doubling the size of the panel.

We have also made changes to the organisational structure to give groups of ombudsmen formal responsibility for coaching and leading the professional development of teams of case-handlers. These ombudsmen and case-handlers now sit together, but we have been careful to ensure that our ombudsmen retain their decision-making independence as the appeal mechanism for cases handled by case-handlers.

We take the professional development of our ombudsmen seriously. To ensure they are ready to take on the responsibilities of the role, our new ombudsmen go through an induction programme with an experienced ombudsman as their mentor. We also expect our ombudsmen to continually refresh and update their knowledge and skills.

We are committed to investing in those managers and employees whom we have identified as “leaders” – to enable them to support and lead our organisational change programme. We provide one-to-one mentoring and coaching as well as individually tailored training. We have also completed a tender process and are working with our training partner, Criterion Partnership, to deliver leadership development programme for our middle managers.

## employee engagement

We believe that strong employee engagement is vital – and results in a motivated and productive workforce. We are committed to open communication and dialogue with employees – and we do this in a number of different ways.

These include our employee newsletter, *connect*, our “ask the executive” question times, online forums, bulletin boards and chat-rooms on our staff intranet, the chief executive’s weekly *blog* – with comments and postings from staff, “60-second interviews” on the intranet, to introduce new staff and projects more informally, and our online “rumour mill”, to encourage staff to raise any concerns or worries openly.

We employ an employee engagement manager to help co-ordinate and promote these activities – and to encourage staff, especially managers, to engage effectively with their own teams and colleagues.

Our Information and Consultation Committee (ICC) is our more formal mechanism for exchanging information and consulting with employee representatives. A regular programme of meetings has been set up with the ICC, to consult on a wide range of topics. These include organisational plans and performance, potential organisational changes, working conditions, and staffing and training issues.

For the second year running we participated in the Sunday Times Top 100 Employers staff engagement survey. We plan to continue to do this annually to help us benchmark results and measure improvements. Our results in 2011/12 were a significant improvement on the previous year, and although we didn't reach the 'Top 100', we were accredited by Best Companies as "one to watch".

## health and safety

We are committed to ensuring the health, safety and welfare of our employees, contractors and visitors. Our managers are responsible for complying with our health and safety policy on all our premises and have attended master classes to ensure they fully understand their responsibilities. Attendance at a master class is included as part of the induction for new managers.

During the year we commissioned an external review of our health and safety processes and have adopted recommendations made including the creation of a health and safety working party and production and publication of a revised procedures manual. We are committed to regular external audits to ensure we remain fully compliant with the relevant legislation.

Health and safety considerations are paramount in planning and supervising our day-to-day operation to ensure that accidents and "near misses" are kept to a minimum.



During the year, the following health and safety matters were reported by our employees

<b><i>Incident</i></b>	<b><i>Number</i></b>
slips, trips and falls	6
ill health requiring attendance by a first aider	41
lift incidents	A significant number which are logged and reported to the property manager – and subsequently followed up as part of regular meetings with the property management company and landlords

To ensure our employees remain safe, we have the following in place

First aiders	34
Fire marshals	54

## corporate social responsibility

Our annual employee survey continues to show that our staff believe strongly in the importance of “giving something back” to the community. The nature of our work and our status as a not-for-profit organisation means that corporate social responsibility is central to what we do.

Many of our employees make an active choice to work here because of our values – and because of the positive impact we can have on the world around us – through resolving people’s complaints and through helping to prevent problems in the first place. We ensure that the organisation does as much as it can to maximise this impact, for example, through our outreach programme, we provide front-line complaints training to hundreds of community and advice workers across the UK each year – empowering them to sort out problems in their role of “trusted intermediaries” in their local communities.

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At a local level, we recognise our responsibilities as citizens in our own neighbourhood. Our employees support various local voluntary groups and charities in East London, including The Richard House Children's Hospice. We have also engaged with local faith groups, and employees take part in reading and maths schemes with local schools.

We encourage our employees to play an active part in their own communities too. We support staff – and give them time off – to carry out unpaid roles ranging from school governors to members of local police authorities. Our employees also participate generously in our payroll-giving programme.

### **donations**

We made no political or charitable donations during the year.

### **information security and business continuity**

We take our responsibilities in relation to data protection and information security seriously. We regularly monitor our security policies and standards. Our induction programme for new employees includes information on information security. Full pre-employment checks are carried out on employees and relevant contractors.

We formally record and investigate any information security incidents. In the financial year 2011/2012 no protected personal data incidents have required formal reporting to the Information Commissioner's Office.

We have arrangements in place for off-site office space, in the event of full or partial disruption to our main offices. We are reviewing our business continuity plan – and making contingency plans – for the impact of the Olympics and Paralympics taking place in London in 2012. We have had our Olympic plans audited as part of the 2012/13 internal audit programme, and the board has received assurance that the plan is well considered and robust.

## Litigation

Our public law and legal team provides a full in-house litigation function and works with external counsel in preparing the cases for court and attending court hearings. The team actively monitors and mitigates legal risk, and provides regular reports and updates on litigation issues to the ombudsman panel, the executive team and the board. The team is proactive in the pre-action stage of a claim, successfully dealing with a number of challenges in their early stages.

As reported in the 2010/11 Annual Report and Accounts, we faced a major legal challenge with the judicial review by the British Bankers Association (BBA) on behalf of a number of high street banks. The challenge related to guidance published by the FSA on the handling of PPI complaints and to information on our own website about our approach to PPI cases. Launched in October 2010, judgement was handed down by the High Court at the end of April 2011 – rejecting the banks' legal challenge and endorsing previous court rulings on the role of the Ombudsman in deciding cases. As reported earlier, the decision by the BBA not to appeal the ruling led to a significant volume of PPI cases during the summer as the banks sought to clear their backlogs.

There have also been a number of other significant judgements including

- a High Court decision that an ombudsman was entitled to find that a volcanic ash cloud constituted "poor weather conditions" in relation to a claim on an insurance policy,
- a judgement by the European Court of Human Rights that the service had not infringed the rights of an independent financial advisor (IFA) under the European Convention on Human Rights. The IFA subsequently filed a further claim in the European Court focussing on publication of the ombudsman's decision. This claim continues.

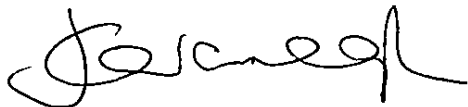
Other applications for judicial review included allegations of procedural unfairness, errors of law and infringements of Article 6 of the European Convention on Human Rights. Civil claims are typically brought against us by consumers whose complaints we have not upheld, and who allege negligence and/or maladministration on the part of our staff.

## freedom of information

We became subject to the Freedom of Information Act 2000 in November 2011. Since then, we have received more than 130 requests for information. These requests cover three broad areas: specific cases, corporate information, and more detailed information about complaints than we currently publish every six months on our website.

A discussion paper was published in September 2011 on publishing ombudsman decisions. This covered the practical issues and the next steps that need to be taken. A summary of responses to that paper was published in January 2012, and we are continuing to work on the details of implementation.

**by order of the board**

A handwritten signature in black ink, appearing to read 'Julia Cavanagh', with a stylized, flowing script.

Julia Cavanagh  
company secretary

25 July 2012

## remuneration report

The board consists entirely of non-executive directors, who do not participate in the reward, pension or benefit schemes run for employees of the service. The fees paid to directors are not specifically related to individual or collective performance. Directors are not entitled to compensation for loss of office.

Non-executive directors' fees are set annually by the Financial Services Authority (FSA) and adopted by the board. The nomination & remuneration committee considers and approves executive remuneration.

The board's fees were increased by 2% on 1 April 2011 – the first increase in fees since April 2008.

The chairman received an annual fee of £74,970. A fee of £21,420 was paid to each of the other non-executive directors. An additional fee of £4,845 was paid to those directors who chaired the audit committee and the quality committee. The senior independent director also received a fee equivalent to that paid to committee chairs.

	<i><b>fee paid from 1 April 2010</b></i>	<i><b>fee paid from 1 April 2011</b></i>
Chairman	£73,500	£74,970
committee chairs/ senior independent directors	£25,750	£26,265
non-executive	£21,000	£21,420

For 2012/13, the FSA has agreed to leave the chairman's fee unchanged but has approved an increase in the fees for the non executive directors to £24,500, and for the committee chairmen and the senior independent director to £29,500.

Total amounts paid to the non-executive directors during the 2011/2012 financial year are shown on the following chart

	<i>note</i>	<b><i>total fees for year ended 31/3/12</i></b>	<b><i>total fees for year ended 31/3/11</i></b>
		<b>£</b>	<b>£</b>
Sir Christopher Kelly	1	<b>62,475</b>	73,500
Sir Nicholas Montagu	2	<b>12,495</b>	-
Janet Gaymer		<b>21,420</b>	1,750
Alan Jenkins	3	<b>21,917</b>	1,750
Elaine Kempson		<b>21,420</b>	21,000
Kate Lampard	4	<b>24,076</b>	25,750
Julian Lee	5	<b>26,265</b>	25,750
Roger Sanders		<b>21,420</b>	21,000
Maeve Sherlock	6	<b>23,439</b>	21,000
Pat Stafford		<b>21,420</b>	1,750
Gwyn Burr	7	<b>10,710</b>	-
Alan Cook	8	<b>2,189</b>	25,750
John Howard	9	-	14,000
<b><i>total</i></b>		<b>269,246</b>	233,000

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*notes*

- 1 Sir Christopher Kelly left the board on 31 January 2012
- 2 Sir Nicholas Montagu joined the board on 1 February 2012
- 3 Alan Jenkin's fee includes an additional fee of £497 for chairing the quality committee from 23 February 2012
- 4 Kate Lampard's fee includes an additional fee for chairing the Audit Committee Kate Lampard left the board on 21 February 2012
- 5 Julian Lee's fee includes an additional fee for chairing the Quality Committee to 22 February 2012 and the Audit Committee from 23 February 2012
- 6 Maeve Sherlock's fee includes an additional fee following her appointment as the senior independent director on 19 October 2011
- 7 Gwyn Burr joined the board on 19 October 2011
- 8 Alan Cook left the board on 29 April 2011 His fee includes an additional fee for chairing the technology committee
- 9 John Howard left the board on 30 November 2010

During the year, the independent assessor received a salary of £75,804 for 3 days a week (2011 £56,408), pension contributions of £10,892 (2011 £5,266) and other benefits amounting to £2,035 (2011 £2,035) Linda Costelloe Baker was appointed on 27 May 2010 Her predecessor, Michael Barnes, was in post until 31 May 2010.

#### **expenses incurred by board members**

In accordance with the memorandum of association, the directors are entitled to be paid travel, hotel and other expenses, which are seen as reasonable and have been properly incurred The directors' expenses policy is on our website The expenses incurred by, or on behalf of, the directors during the 2011/2012 financial year are shown on the following chart

	<i>travel</i>	<i>accommodation</i>	<i>total</i>
	£	£	£
Sir Christopher Kelly	-	-	-
Sir Nicholas Montagu	-	-	-
Alan Cook	-	139	139
Elaine Kempson	823	502	1,325
Kate Lampard	1,159	-	1,159
Julian Lee	1,308	232	1,540
Roger Sanders	-	-	-
Maeve Sherlock	-	-	-
Janet Gaymer	-	-	-
Alan Jenkins	38	-	38
Pat Stafford	1,277	103	1,380
Gwyn Burr	-	-	-
<i>total</i>	<b>4,605</b>	<b>976</b>	<b>5,581</b>



## **executive remuneration**

Remuneration packages for members of the executive team comprise a base salary, a reward scheme, pension benefits and other benefits including a healthcare programme

### **base salary**

Salaries for members of the executive team are reviewed annually. Any increases reflect changes in responsibility, inflation, market movements and individual performance. Salaries for the chief executive and the principal ombudsmen are also reviewed annually with reference to movements in the judicial salary-scales.

### **reward scheme**

In line with the recommendations of the Hutton Review into Fair Pay in the Public Sector (March 2011), all members of the executive team have their remuneration structured so that an element of their base salary is at risk. 15% of their salary is held back until the end of the year – and is paid only if the service's performance is agreed by the board to be satisfactory. The level of payment is determined by the remuneration committee who can award up to an additional 5% of salary to individual executives for exceptional performance.

### **pension**

Members of the executive team are eligible to join the non-contributory defined-contribution pension scheme, which is open to all employees (except for non-executive directors). The ombudsman service makes a core contribution as a percentage of salary linked to age. In addition, the Service matches individual flexible contributions to the scheme by up to 3% of salary.

### **other benefits**

Members of the executive team are eligible to take part in the flexible benefit arrangements, which are open to all employees (except for non-executive directors). These arrangements provide life assurance (up to four times of salary), permanent health cover, personal accident insurance and a healthcare plan. Each executive also receives a cash benefit allowance of £600 a year they can spend on other benefits available under the flexible benefit plan.

## **executive employment contracts**

Members of the executive team are subject to a six-month notice period

## **remuneration and benefits for the executive team**

	<i>note</i>	<i>salary*</i>	<i>pension</i>	<i>other benefits*</i>	<i>total for year ended 31/3/12</i>	<i>total for year ended 31/3/11</i>
		£	£	£	£	£
Natalie Ceeney		205,811	25,322	5,311	236,444	224,596
Tony Boorman	<sup>1,2</sup>	190,988	19,749	51,766	262,503	214,697
Julia Cavanagh		163,000	21,188	8,102	192,290	30,546
David Cresswell		118,994	15,262	3,737	137,993	127,654
Chris McDermott	<sup>3</sup>	14,933	1,600	465	16,998	-
Caroline Wayman	<sup>4</sup>	141,816	17,466	3,948	163,230	-
Jacque Wiggett		118,994	15,262	3,880	138,136	119,662
David Thomas	<sup>1,5</sup>	59,666	7,458	2,387	69,511	179,877
Simon Rouse	<sup>6</sup>	89,603	13,652	2,336	105,591	106,284
Roy Hewlett	<sup>7</sup>	-	-	-	-	80,235
Jeremy Kean	<sup>7</sup>	-	-	-	-	36,183
Peter Stansfield	<sup>7</sup>	-	-	-	-	20,691
<i>total</i>		<b>1,103,805</b>	<b>136,959</b>	<b>81,932</b>	<b>1,322,696</b>	<b>1,140,425</b>

### *notes*

- 1 Pension contributions shown for Tony Boorman and David Thomas were paid as cash in lieu of participation in the pension scheme

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- 2 During the year the service leased a flat in London Docklands. This has been made available to Tony Boorman for the year. The cost of the benefit (including associated tax) amounted to £47,068 (included above in "other benefits")
  - 3 Chris McDermott joined the executive team on 1 March 2012 as operations director
  - 4 Caroline Wayman joined the executive team on 1 April 2011 as principal ombudsman and legal director
  - 5 David Thomas retired on 31 March 2012. Prior to his retirement he stood down from the executive team on 1 September 2011, and then worked for the service in a part time advisory capacity for the remainder of the year. He remains retained as an ombudsman, and still carries out some work for the service on an advisory basis
  - 6 Simon Rouse resigned on 11 November 2011
  - 7 Roy Hewlett, Jeremy Kean and Peter Stansfield left during the financial year 2010/2011

Certain ex-gratia payments made to certain executives who left are not included in this table, because they were covered by a confidential compromise agreement

- \* Other benefits are the cost of providing core benefits, other than pension, through the flexible benefits scheme. Benefits provided include personal accident insurance, life assurance, private medical insurance and income protection. In addition the cost of the flex allowance which can be used to acquire other voluntary benefits is also included under other benefits

**expenses incurred by, or on behalf of, members of the executive team**

	<i>note</i>	<i>travel</i>	<i>hotels</i>	<i>entertaining</i>	<i>prof subs</i>	<i>total for year ended 31/3/12</i>
		£	£	£	£	£
Natalie Ceeney		1,780	832	254	-	2,866
Tony Boorman	<sup>1</sup>	5,506	1,098	-	-	6,604
Julia Cavanagh		84	507	-	395	986
David Cresswell		19	320	-	-	339
Chris McDermott		64	179	-	-	243
Caroline Wayman		316	578	-	100	994
Jacque Wiggett		-	-	-	130	130
David Thomas	<sup>1</sup>	1,382	931	-	-	2,313
Simon Rouse		115	657	-	-	772
<i>total</i>		<b>9,266</b>	<b>5,102</b>	<b>254</b>	<b>625</b>	<b>15,247</b>

1 Includes accommodation and travel for attendance at INFO 2011 – Vancouver, Canada

## **salary bands**

The following chart shows the various salary bands in place at 31 March 2012

<i><b>job family</b></i>	<i><b>number of staff (FTE*)</b></i>	<i><b>range of salary earned</b></i>
Executive	7	£115,000 to £185,000
ombudsmen, lead ombudsmen and managing ombudsmen	75	£58,807 to £112,267
heads of department and senior managers	38	£55,000 to £107,100
Managers	128	£25,900 to £58,875
case-handlers	1048	£24,500 to £55,905
helpline staff	123	£18,200 to £33,708
casework administration staff	152	£16,400 to £52,178
support staff (including finance, IT, facilities, communications and HR)	110	£18,500 to £51,582

\*full time equivalents

## **pension scheme**

The service is a participating employer in the FSA pension plan – a voluntary, money purchase, non-contributory scheme. This pension scheme is open to employees (except for the non-executive directors)

The ombudsman service pays contributions on behalf of employees at the rates in the following table. In addition, employees may make extra contributions from their flexible benefit account – up to a maximum of 40% of their salary. For employees who choose to do this, the service makes a matched contribution up to 3% of pensionable salary.

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<b>Age</b>	<b><i>contribution rate</i></b>
16 to 24	6% of pensionable salary
25 to 29	8% of pensionable salary
30 to 34	10% of pensionable salary
35 and over	12% of pensionable salary

There are further details about the cost of the pension scheme in the notes to the accounts

## statement of directors' responsibility

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company, and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that

- are sufficient to show and explain the company's transactions,
- disclose with reasonable accuracy, at any time, the financial position of the company, and
- enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors have general responsibility for taking whatever steps are reasonably open to them, to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## statement of disclosure of information to auditor

Each director confirms that

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- they have taken all steps a director might reasonably be expected to have taken, to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation on other jurisdictions.

## **Independent auditor's report to the members of the Financial Ombudsman Service Limited**

We have audited the financial statements which comprise the Income and Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Reserves, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As more fully explained in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its surplus for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

*Baker Tilly UK Audit LLP*

CHARLES FRAY (Senior Statutory Auditor)  
For and on behalf of BAKER TILLY UK AUDIT LLP  
St Philips Point, Temple Row, Birmingham B2 5AF  
Date 25 July 2012



# corporate information

**name**

Financial Ombudsman Service Limited

**registered office**

South Quay Plaza 2  
183 Marsh Wall  
London  
E14 9SR

**bankers**

Lloyds TSB Bank plc  
1<sup>st</sup> Floor  
25 Gresham Street  
London  
EC2V 7HN

**auditors**

Baker Tilly UK Audit LLP  
Registered Auditor  
St Philips Point  
Temple Row  
Birmingham  
B2 5AF

**internal auditors (until September 2011)**

KPMG LLP  
15 Canada Square  
London  
E14 5GL

**internal auditors (from October 2011)**

PricewaterhouseCoopers UK LLP  
7 More London Riverside  
London  
SE1 2RT

**website**

[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

**registered no. 03725015**

England and Wales  
company limited by guarantee

**Income and expenditure account  
for the year ended 31 March 2012**

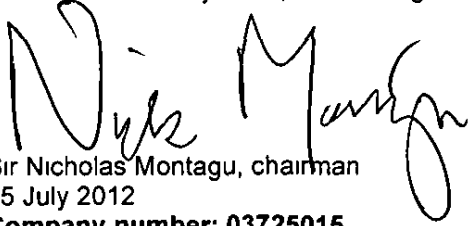
	Notes	2012 £'000	2011 £'000
<b>Continuing operations</b>			
Revenue	3	126,435	97,994
Exceptional item – special levy	3	25,000	0
		151,435	97,994
Administrative costs		(107,027)	(106,777)
		44,408	(8,783)
Other operating income	4	245	205
<b>Operating surplus / (deficit)</b>		44,653	(8,578)
Interest receivable and similar income	5	274	148
<b>Surplus / (deficit) on ordinary activities before taxation</b>	6	44,927	(8,430)
Tax (charge) on surplus / (deficit) on ordinary activities	7	(43)	(19)
<b>Surplus / (deficit) on ordinary activities after taxation</b>		44,884	(8,449)

**Balance sheet as at 31 March 2012**

	Notes	2012 £'000	2011* £'000
<b>Fixed assets</b>			
Tangible assets	11	7,817	4,281
<b>Current assets</b>			
Debtors	12	14,666	13,408
Cash at bank and in hand		50,524	7,066
		65,190	20,474
<b>Current liabilities</b>			
Creditors – amounts falling due within one year	13	(4,430)	(2,225)
<b>Net current assets</b>		60,760	18,249
<b>Total assets less current liabilities</b>		68,577	22,530
<b>Non-current liabilities</b>			
Provisions for liabilities	15	(2,971)	(778)
Net pension liability	21(d)	(4,266)	(1,813)
		(7,237)	(2,591)
<b>Accruals and deferred income</b>	16	(12,270)	(12,890)
<b>Net assets</b>		49,070	7,049
<b>Capital and reserves</b>	20	49,070	7,049

\* 2011 figures have been restated to reflect changed classification of current liabilities, non-current liabilities and accruals and deferred income

The financial statements on pages 65 to 78 were approved and authorised for issue by the board of directors on 25 July 2012, and are signed on behalf of the board of directors by

  
Sir Nicholas Montagu, chairman  
25 July 2012  
Company number: 03725015

**Statement of total recognised gains and losses  
for the year ended 31 March 2012**

	<b>Notes</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
<b>Surplus / (deficit) for the year</b>		<b>44,884</b>	<b>(8,449)</b>
Actuarial (losses) / gains on pension scheme	21 (i)	(2,863)	1,452
<b>Total recognised gains / (losses) for the year</b>		<b>42,021</b>	<b>(6,997)</b>

**Reconciliation of movements in reserves  
for the year ended 31 March 2012**

	<b>Notes</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
Total recognised gains / (losses) for the year		42,021	(6,997)
Accumulated surplus at 1 April		7,049	14,046
<b>Accumulated surplus at 31 March</b>		<b>49,070</b>	<b>7,049</b>

**Cash flow statement  
for the year ended 31 March 2012**

	Notes	2012 £'000	2011 £'000
<b>Net cash inflow / (outflow) from operating activities</b>	1	<b>49,482</b>	<b>(260)</b>
Returns on investments		137	35
Taxation (UK corporation tax paid)		(19)	(21)
Capital expenditure and financial investment (payments to acquire tangible fixed assets)	11	(6,142)	(1,277)
<b>Net cash inflow (outflow) before financing</b>		<b>43,458</b>	<b>(1,523)</b>
<i>Financing</i>			
Movement in long term borrowings	14	0	0
Increase / (decrease) in cash in the year		<b>43,458</b>	<b>(1,523)</b>
<b>Cash at 1 April</b>		<b>7,066</b>	<b>8,589</b>
<b>Cash at 31 March</b>		<b>50,524</b>	<b>7,066</b>

**Notes to the cash flow statement  
for the year ended 31 March 2012**

**(i) Reconciliation of operating surplus / (deficit) to net cash inflow / (outflow) from operating activities**

		2012 £'000	2011* £'000
Operating surplus / (deficit) for the year		<b>44,653</b>	<b>(8,578)</b>
Depreciation	11	<b>2,208</b>	<b>2,069</b>
Loss on disposal of fixed assets		398	0
(Increase) / decrease in debtors		(1,258)	3,925
Increase in creditors		2,181	569
Increase in provision for liabilities		2,193	441
(Decrease) / increase in accruals and deferred income		(620)	1,314
		<b>49,755</b>	<b>(260)</b>
<b>Defined benefit pension costs</b>			
Contributions			
Normal contributions		0	0
Deficit reduction contributions		(273)	0
<b>Net cash inflow / (outflow) from operating activities</b>		<b>49,482</b>	<b>(260)</b>

\* 2011 figures have been restated to reflect changed classification of current liabilities, non-current liabilities and accruals and deferred income

## Notes to the accounts – for the year ended 31 March 2012

### 1 Status of the company

Financial Ombudsman Service Limited is a company limited by guarantee and registered in England and Wales (company registration no 03725015). The liability of each of the members is limited to the amount of £1 guaranteed in the Memorandum of Association.

### 2. Principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom company law and accounting standards. A summary of the principal accounting policies is set out below.

#### Revenue

**Annual levy** - each business that comes within the jurisdiction of the Financial Ombudsman Service is required to pay an annual levy based on the permissions given to that firm by one of the Financial Services Authority (for the Compulsory Jurisdiction), the Financial Ombudsman Service (for the Voluntary Jurisdiction) or The Office of Fair Trading (for the Consumer Credit Jurisdiction). Businesses in the Compulsory and Voluntary jurisdictions pay an annual levy, whilst those in the Consumer Credit jurisdiction pay a levy every five years.

**Case fees** - each business that has a chargeable complaint referred for investigation to the Financial Ombudsman Service is required to pay a case fee upon closure of the fourth and subsequent complaint in any one financial year.

#### Recognition of income

- Levy Income

For both the Compulsory and Voluntary Jurisdictions, the levy income is recognised on invoicing for the period to which the invoices relate.

For the Consumer Credit jurisdiction, where firms pay for a five year licence, the income is based on the number of case closures in the financial year, so as to spread the payments received over five years in relation to the amount of work undertaken (see 'deferred income' accounting policy).

- Case fee income

Case fee income for all jurisdictions is recognised at the date when invoices are raised, this being the end of the month in which the case is closed.

### **Tangible fixed assets**

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight-line basis over the expected useful economic life of the asset concerned

Leasehold improvements	Over period of lease
Premises fees and stamp duty	Over five years
Computer hardware	Over three years
Computer software	Over five years
Computer systems development and fees	Over three to five years
Office furniture and equipment	Over three to five years
Fixtures and fittings	Over three to ten years
Motor vehicles	Over four years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable

### **Retirement benefits**

During the year the company operated a defined contribution (money purchase) scheme. As at 31 March 2012, 1,658 employees were active members of the defined contribution scheme. Previously the company also operated a defined benefit (final salary) scheme which was closed with effect from 1 April 2010. All employees who were building up defined benefits before this date became deferred members and were given the option to earn future benefits under the defined contribution scheme.

The costs of the contributions to the defined contribution scheme are charged to the income and expenditure account as incurred.

The defined benefit scheme is accounted for in accordance with FRS 17. A charge equal to the expected increase in the present value of the scheme liabilities (because the benefits are now closer to settlement) less a sum equal to the equivalent value of the long-term expected return on the defined benefit scheme's assets (based on the market value of those assets at the start of the year), are included in the income and expenditure account in "interest receivable". Gains and losses on curtailments/settlements are recognised when the curtailment/settlement occurs.

The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as a net liability on the balance sheet.

Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses, along with differences which arise from experience or assumption changes relating to liabilities.

### **Operating lease commitments**

The annual rentals of operating leases are charged to the income and expenditure account on a "straight line" basis over the lease term, after taking into account any rent free periods.

### **Deferred income**

Businesses in the Consumer Credit Jurisdiction buy a five year licence. In order to spread the income over the period of the licence, only part of the cash received is taken as income. This is based on the number of cases that are closed in the year. The balance of income not taken to the income & expenditure account is shown in the deferred income account.

Amounts billed and collected by the Financial Services Authority in advance for levy due the following year are treated as deferred income.

## Taxation

The tax charge represents the sum of tax currently payable on activities not directly related to the company's statutory obligations

### Provision for dilapidations

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the obligation

The company is required to perform dilapidation repairs on leased properties prior to the properties being vacated at the end of their lease term

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation

<b>3. Revenue</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Annual levy	23,595	20,876
Case fees	102,840	77,118
	<b>126,435</b>	<b>97,994</b>

An additional levy of £25m has been raised for 2011-12. This follows the consultation carried out in early 2011 and represents additional funds required to supplement our financial reserves in response to increased volatility in demand. This has been shown as an exceptional item at 31 March 2012

<b>4. Other operating income</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Publications	227	179
Conferences	15	22
Miscellaneous	3	4
	<b>245</b>	<b>205</b>

<b>5 Interest receivable and similar income</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest	137	35
Interest cost on pension plan liabilities	(1,019)	(1,078)
Expected return on pension plan assets	1,156	1,191
	<b>274</b>	<b>148</b>

<b>6. Surplus / (deficit) on ordinary activities before taxation</b>	<b>Notes</b>	<b>2012</b>	<b>2011</b>
		<b>£'000</b>	<b>£'000</b>
This is stated after charging			
Staff costs	8	65,375	54,599
Depreciation	11	2,208	2,069
Loss on disposal of fixed assets		398	0
Operating lease rentals premises		3,955	3,378
Operating lease rentals other		150	92
Bad debts written off		702	888
Auditor's remuneration	10	81	70

<b>7. Tax charge on surplus / (deficit) on ordinary activities</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
<i>Analysis of tax charge on ordinary activities</i>		
United Kingdom corporation tax at 20% (2011 21%) for the year	(44)	(20)
Adjustments in respect of prior years	1	1
<b>Current tax charge for the current year</b>	<b>(43)</b>	<b>(19)</b>

*Factors affecting tax charge for the current year*

The tax assessed for the year is lower than that resulting from applying the small profits rate of corporation tax in the UK 20% (2011 21%)

The differences are explained below

	<b>2012 £'000</b>	<b>2011 £'000</b>
Surplus / (deficit) on ordinary activities before taxation	44,927	(8,430)
Tax at 20% (2011 21%) thereon	(8,985)	1,770
Effects of		
Non taxable income and expenditure	8,941	(1,790)
Prior period adjustments	1	1
<b>Current tax charge for year</b>	<b>(43)</b>	<b>(19)</b>

Corporation tax is only payable on the surplus generated from the company's activities not directly related to its statutory obligations

<b>8 Staff costs</b>	<b>Notes</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
Salary costs		51,671	43,259
Social security costs		5,814	4,784
Employer's pension costs - money purchase scheme		5,143	4,273
Flexible benefit costs		2,747	2,283
	6	65,375	54,599
Employer's pension costs			
Included in interest receivable		(137)	(113)
Included in statement of total recognised gains & losses		2,863	(1,452)
<b>Total employment costs</b>		<b>68,101</b>	<b>53,034</b>

The average number of employees during the year in the United Kingdom was as follows

	<b>2012</b>	<b>2011</b>
Ombudsmen	64	50
Case-handlers	850	649
Other	524	479
	<b>1,438</b>	<b>1,178</b>



## 9. Directors' remuneration

Directors' remuneration payable during the year amounted to £269,246 (2011 £233,000). The chairman, who is also the highest paid director, was paid at a rate of £74,970 per annum (2011 £73,500), committee chairmen were paid at a rate of £26,265 per annum (2011 £25,750) and the other directors were paid at a rate of £21,420 per annum (2011 £21,000). Further details are provided in the remuneration report on pages 52 to 54.

No payments were made on behalf of any of the above directors in respect of pension scheme contributions and no directors are accruing any benefits within the pension scheme.

## 10. Auditor's remuneration

	2012 £'000	2011 £'000
Audit	66	60
Tax	15	10
	<b>81</b>	<b>70</b>

All fees payable to the auditor are stated inclusive of VAT, as VAT is not generally recoverable by the Financial Ombudsman Service.

## 11. Tangible assets

	Leasehold improvements and premises fees £'000	Computer equipment and software £'000	Furniture and equipment £'000	Motor Vehicle £'000	Total £'000
<b>Cost</b>					
At 1 April 2011	5,311	15,261	3,525	9	24,106
Additions	46	4,543	1,553	0	6,142
Disposals	(476)	(1,287)	(10)	0	(1,773)
<b>At 31 March 2012</b>	<b>4,881</b>	<b>18,517</b>	<b>5,068</b>	<b>9</b>	<b>28,475</b>
<b>Depreciation</b>					
At 1 April 2011	5,151	11,983	2,682	9	19,825
Charge for year	104	1,835	269	0	2,208
Disposals	(432)	(933)	(10)	0	(1,375)
<b>At 31 March 2012</b>	<b>4,823</b>	<b>12,885</b>	<b>2,941</b>	<b>9</b>	<b>20,658</b>
<b>Net book value at 31 March 2012</b>	<b>58</b>	<b>5,632</b>	<b>2,127</b>	<b>0</b>	<b>7,817</b>
At 31 March 2011	160	3,278	843	0	4,281

## 12. Debtors

	2012 £'000	2011 £'000
Trade debtors	10,579	9,548
Other debtors	694	1,876
Prepayments	3,393	1,984
	<b>14,666</b>	<b>13,408</b>

## 13. Creditors: amounts falling due within one year

	2012 £'000	2011* £'000
Trade creditors	2,523	903
UK corporation tax	43	19
Other taxes & social security	1,602	1,222
Other creditors	262	81
	<b>4,430</b>	<b>2,225</b>

\* 2011 figures have been restated to reflect changed classification of current liabilities, non-current liabilities and accruals and deferred income

#### 14. Bank loan

The company took out a revolving loan facility of £15m dated 24 January 2003 which will end in January 2013. There was no draw down of the account during 2011/12 or 2010/11. The interest rate payable is 0.15% per annum above London interbank offered rates. A commitment fee of 0.08% is charged on the outstanding sum on the revolving loan facility not yet drawn down. The Financial Services Authority originally guaranteed the loan facility but was released from this obligation in February 2008.

#### 15. Provision for liabilities

	2012 £'000	2011 £'000
Provision brought forward at 1 April 2011	778	336
Movement in the year	2,193	442
Provision carried forward at 31 March 2012	2,971	778

The provision for dilapidations made at 31 March 2011 for all the floors leased at South Quay Plaza 2 and 3 has been revised during the year ended 31 March 2012 following a property review undertaken by an external consultant. The provision at 31 March 2012 reflects the recommendations made.

#### 16. Accruals and deferred income

	2012 £'000	2011* £'000
CJ levy billed in advance	993	1,292
CCJ Levy	1,789	3,181
Accruals	9,488	8,417
	12,270	12,890

\* 2011 figures have been restated to reflect changed classification of current liabilities, non-current liabilities and accruals and deferred income

#### 17. Financial commitments

As at 31 March 2012, there were capital commitments contracted for but not provided totaling £897,630 (2011: Nil). This is in relation to a contract for work at Independent House and represents work contracted for but not carried out as at 31 March 2012.

#### 18. Operating lease commitments

As at March 2012, the company was committed to making the following payments during the next year, in respect of operating leases:

	Premises 2012 £'000	Other 2012 £'000	Premises 2011 £'000	Other 2011 £'000
Leases which expire				
Within 1 yr	0	0	0	0
Between 2 & 5 yrs	4,932	252	3,084	55
After 5 yrs	0	0	0	0

Details of the terms of the leases of the premises are as follows

Floor	Start of current lease	End of lease
<b>SQP 2</b>		
1 – 4	November 1999	November 2014
6	July 2001	November 2014
7	December 2008	November 2014
9	September 2008	November 2014
<b>SQP 3</b>		
8	December 2011	November 2014
12	March 2011	November 2014
13	March 2011	November 2014
14	July 2011	November 2014
<b>Independent House</b>		
	December 2011	February 2015

## 19 Related party transactions

The Financial Ombudsman Service, together with the Financial Services Authority, was created as part of the Government's legislation for the financial services market and derives its statutory authority from the Financial Services and Markets Act 2000. The Financial Services Authority has to ensure that the terms of appointment of the directors secure their operational independence from the Financial Services Authority. Accordingly, the Financial Ombudsman Service is not controlled by the Financial Services Authority but considers the Financial Services Authority a related party.

- The Financial Ombudsman Service entered into an agency agreement with the Financial Services Authority whereby, with effect from 1 April 2004, the Financial Services Authority collects tariff data, issues levy invoices and collects levy monies on behalf of the Financial Ombudsman Service, at a net cost of £87,600 for the year ended 31 March 2012 (2011: £67,900).
- The Financial Services Authority bill the Financial Ombudsman Service administration charges in respect of the pension scheme. The charge for the year ended 31 March 2012 is £85,875 (2011: £40,041).
- An amount of £118,968 was due from the Financial Services Authority at 31 March 2012 (2011: £1,419,615). This was the net balance due following the billing of levies to firms and is included in 'Other debtors' (see note 12).
- The Financial Services Authority is a party to the lease agreement for four floors at South Quay Plaza 2 as guarantor of performance of the lease in the sum of £1,089,798 per annum.

Other than disclosed above, there were no related party transactions during the year (2011: £Nil).

20. Accumulated surplus	2012	2011
	£'000	£'000
Accumulated surplus before net pension liability	53,336	8,862
Net pension liability	(4,266)	(1,813)
Accumulated surplus after net pension liability	49,070	7,049

## 21. Pension costs

The Financial Ombudsman Service is part of the Financial Services Authority's (FSA) HM Revenue & Customs-approved pension plan open to permanent employees. The pension plan was established on 1 April 1998 and has both a defined benefit (final salary) and defined contribution (money purchase) section. Since 1 April 2000, all employees joining the Financial Ombudsman Service have been eligible only for the defined contribution section of the plan. On 1 April 2010 the defined benefit section of the plan closed and those members who were previously earning final salary benefits had the option to earn future benefits under the defined contribution section.

### *Defined contribution scheme*

The Financial Ombudsman Service's core contributions (ranging from 6%-12% of the employee's pensionable salary) to the defined contribution section depend on the employee's age. The defined contribution section is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to the pension plan. The Financial Ombudsman Service will pay matching contributions up to a maximum of 3% of the employee's pensionable salary.

### *Defined benefit scheme*

The latest full actuarial valuation of the FSA pension plan was carried out as at 1 April 2010 by an independent actuary using the current unit method. Independent actuarial advice has been obtained in order to calculate the share of the assets and liabilities of the FSA scheme relating to those present and past employees of the Financial Ombudsman Service.

The figures below relate solely to the obligations of the Financial Ombudsman Service in respect of the defined benefit section of the FSA pension plan.

The principal assumptions agreed by the board and used by the independent qualified actuaries in updating this valuation for FRS 17 purposes are shown below together with additional information.

#### *(a) Main financial assumptions*

	31 March 2012	31 March 2011	31 March 2010
	% pa	% pa	% pa
RPI inflation	3.4	3.8	4.0
Rate of increase to pensions in payment	3.1	3.4	3.7
Discount rate for plan liabilities	4.8	5.6	5.6

**(b) Mortality assumptions**

**Life expectancy at age 60**

		31 March 2012	31 March 2011	31 March 2010
		years	years	years
Age 60, at the balance sheet date	Males	28.8	27.6	27.5
	Females	30.1	29.7	29.4
Age 60, 20 years after the balance sheet date	Males	30.7	29.6	29.6
	Females	32.2	31.5	31.4

**(c) Expected return on assets**

at 31 March 2012			at 31 March 2011		at 31 March 2010	
	Long-term rate of return expected % pa	Value £'000	Long-term rate of return expected % pa	Value £'000	Long-term rate of return expected % pa	Value £'000
Equities	7.6	7,967	8.4	8,286	8.5	9,479
Property	6.6	1,359	8.1	1,331	9.0	1,220
Corporate bonds	4.3	7,996	5.3	6,866	5.5	5,124
Other	1.0	178	0.8	127	0.6	269
Combined*	5.9	17,500	7.0	16,610	7.5	16,092

\* The overall expected rate of return on plan assets is a weighted average of the individual expected rates of return on each asset class

The Financial Ombudsman Service employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the plan at 31 March 2012.

**(d) Reconciliation of funded status to balance sheet**

	Value at 31 March 2012 £'000	Value at 31 March 2011 £'000	Value at 31 March 2010 £'000
Fair value of plan assets (see 21 (c))	17,500	16,610	16,092
Present value of funded defined benefit obligations (see 21 (f))	(21,766)	(18,423)	(19,470)
Liability recognised on the balance sheet	(4,266)	(1,813)	(3,378)
Related deferred tax	0	0	0
Net pension liability	(4,266)	(1,813)	(3,378)

**(e) Analysis of income and expenditure account charge**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Interest cost	<b>1,019</b>	1,078
Expected return on plan assets	<b>(1,156)</b>	(1,191)
(Charge) recognised in income and expenditure account	<b>(137)</b>	(113)

**(f) Changes to the present value of the defined benefit obligation during the year**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Opening defined benefit obligation	<b>18,423</b>	19,470
Interest cost	<b>1,019</b>	1,078
Actuarial losses / (gains) on plan liabilities*	<b>2,784</b>	(1,702)
Net benefits paid out	<b>(460)</b>	(423)
Closing defined benefit obligation	<b>21,766</b>	18,423

\* includes changes to the actuarial assumptions

**(g) Changes to the fair value of the plan assets during the year**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Opening fair value of plan assets	<b>16,610</b>	16,092
Expected return on plan assets	<b>1,156</b>	1,191
Actuarial (losses) on plan assets	<b>(79)</b>	(250)
Contributions by the employer	<b>273</b>	0
Net benefits paid out	<b>(460)</b>	(423)
Closing fair value of plan assets	<b>17,500</b>	16,610

**(h) Actual return on plan assets**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Expected return on plan assets	<b>1,156</b>	1,191
Actuarial (loss) on plan assets	<b>(79)</b>	(250)
Actual return on plan assets	<b>1,077</b>	941

**(i) Analysis of amount recognised in statement of total recognised gains and losses (STRGL)**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Total actuarial (losses) / gains	<b>(2,863)</b>	1,452	(694)	(4,460)	1,107
Cumulative amounts of losses recognised in STRGL	<b>(8,748)</b>	(5,885)	(7,337)	(6,643)	(2,183)

**(j) History of asset values, defined benefit obligation and surplus/deficit in the plan**

	<b>2012</b>	2011	2010	2009	2008
	<b>£'000</b>	£'000	£'000	£'000	£'000
Fair value of plan assets*	<b>17,500</b>	16,610	16,092	10,492	12,110
Defined benefit obligation	<b>(21,766)</b>	(18,423)	(19,470)	(15,704)	(13,344)
Deficit in plan	<b>(4,266)</b>	(1,813)	(3,378)	(5,212)	(1,234)

\* The asset values use the bid value of assets

	<b>2012</b>	2011	2010	2009	2008
	<b>£'000</b>	£'000	£'000	£'000	£'000
Experience (losses)/gains on plan assets	<b>(79)</b>	(250)	3,162	(3,316)	(1,729)
Experience (losses) / gains on plan liabilities**	<b>(397)</b>	137	635	(62)	121

\*\* This item consists of (losses) / gains in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used

**(k) Contributions**

*Defined benefit scheme*

With effect from 1 April 2010, the defined benefit scheme was closed resulting in a cessation of all future accrual and the associated regular contribution payments. Payments instead were made to the defined contribution scheme (detailed below). Regular payments were made during the year towards the administration costs of the plan.

With effect from 1 April 2011, the service has agreed to make annual contributions of £273,000 over the next ten years to fund the deficit. Amounts paid in the year to 31 March 2012 were £273,000 (2011 Nil).

*Defined contribution scheme*

The Financial Ombudsman Service made normal contributions totalling £5,143,470 (2011 £4,273,251) to the defined contribution scheme.

## **TO THE BOARD OF THE FINANCIAL OMBUDSMAN SERVICE**

### **THE INDEPENDENT ASSESSOR'S ANNUAL REPORT 2011 - 2012**

I am appointed by the board of the Financial Ombudsman Service and my role is to conduct the final review of complaints that the Ombudsman Service has provided a poor service. A complaint of poor service is separate from whether the Ombudsman Service should uphold a complaint about a financial business - service is about practical handling and service delivery rather than the outcome of an investigation.

#### **Complaints within my remit**

From 1 April 2011 to 31 March 2012 I received 304 (2010-11 = 263) complaints within the Independent Assessor's remit. Only 3% of service complaints were made by financial businesses (2010-11 = 8%) and there was a marked fall in the number of case fee disputes.

The 16% increase in service complaints to me needs to be viewed against a 35% increase in cases resolved by the Financial Ombudsman Service in the same period. I note that the increase in resolved cases was caused by complaints about payment protection insurance and very few of these have led to service complaints.

The Ombudsman Service recorded receiving 2,382 service complaints (2010-11 = 2,489). A third were settled by a Team Manager or equivalent. Over the year as a whole, half of the complainants who referred their service complaint to an Ombudsman Service senior manager as step 2 then asked me for an independent review. There has been a downward trend in recent months, from 60% to 40%, which may indicate that the Ombudsman Service has improved its own response to complaints of poor service.

By the time someone asks me to review the handling of their case they are at the end of what can be a long and tiring series of steps and I think that responding promptly is essential. On average, I reply to letters or emails of complaint within 2 days and I complete a full review and Opinion in around 3 weeks, apart from when I am on leave.

#### **1) complaints where the Ombudsman Service's investigation is underway**

62 service complaints (2010-11 = 101) were made whilst the Ombudsman Service's investigation into a complaint about a financial business was still underway. I normally review a complaint after the Ombudsman Service has concluded its work, so I search through the Ombudsman Service's case record to see if there are exceptional circumstances which mean I should require the investigation to be suspended. I use this power sparingly, typically when the complaint to me is that the Ombudsman Service has refused to provide a copy of material evidence before an Ombudsman's final decision. There can be a difference of opinion on what counts as material or what can and should be disclosed and an independent view is useful.



In 42 of these “midway” cases I found no failure of proper process, I provide a brief report to confirm that and explain that I will undertake a more detailed review after the Ombudsman Service’s investigation has been concluded. In most cases the main cause of complaint is disagreement with an Adjudicator’s assessment coupled with an associated service complaint. Adjudicators do explain that the complainant can refer their case to an Ombudsman for a final decision, but a significant number of people make a complaint about the Adjudicator instead. Although this continues to be a problem, I note that the Ombudsman Service now has a better understanding of the need to allow simple disagreement to proceed to an Ombudsman and not become tangled up in the service complaint system.

## 2) opinions

During the year I issued 268 formal Opinions (2010-11 = 185). In 54% (2010-11 = 60%) I upheld the complaint of poor service and I made recommendations in 35% of cases (5 year average = 45%). The significant fall in recommendations was caused by the Ombudsman Service offering more sensible amounts as compensation for distress and inconvenience, if I am satisfied that the amount already offered is in accord with the formal guidance on compensation there is no need for me to recommend a different amount. I class such cases as critical no recommendations.

In the cases I reviewed, the average time taken by the Ombudsman Service to investigate a complaint that goes to an Ombudsman for a final decision (17 months) and the proportion of investigations that took more than two years (15%) were similar to last year. The main cause of delay is lengthy queues for an Ombudsman when either the complainant and/or the financial business do not accept an Adjudicator’s provisional assessment. The Ombudsman Service accepted my recommendation to provide better explanations of what happens and when, especially the role of a case review Adjudicator who undertakes a routine quality check before the case goes to an Ombudsman. There have also been problems when routine update letters do not fit the circumstances of a case and the Ombudsman Service has accepted that it needs to use updates sensitively and sensibly.

The Ombudsman Service accepted all of my case related recommendations, most of which were for financial compensation for avoidable distress and inconvenience with sums ranging from £25 to £1,000 and an average of £227 (2010-11 = £215).

## Satisfactory service

In 46% of cases (40% last year) I found that the Ombudsman Service had followed its normal process and handled contact with the complainant with reasonable efficiency. I class these cases as **Satisfactory**. I have highlighted as good practice, allocating multiple complaints from one person to one Adjudicator in order to provide a consistent level of service and better understanding, being flexible with deadlines where appropriate, explaining who does what and when, adapting standard communication to meet special needs and circumstances.

### case study: satisfactory

Mrs Brun (not her real name) complained to me about how long the Ombudsman Service had taken to deal with a complaint about her father's household insurers. His house was unoccupied and suffered water damage caused by a leaking pipe. The insurance company had refused to meet the claim and in August 2010 Mrs Brun complained to the Ombudsman Service.

The Ombudsman Service, within 3 weeks, allocated the case to an Adjudicator who phoned to explain his role, pinpointing specific issues that needed to be clarified and then confirming the phone call in a clear and helpful letter. He asked the insurance company for further information. He checked if Mrs Brun had read the policy conditions. The Adjudicator issued an assessment in October explaining that the policy conditions were what mattered and damage from water leaks was not covered when a house is unoccupied.

Mrs Brun did not accept the assessment and the case went into what was a long queue for an Ombudsman. The Ombudsman Service sent routine updates and the Ombudsman issued the final decision in November 2011, the case taking 15 months start to finish. The Ombudsman Service had asked Mrs Brun if there were special circumstances that might mean the case could jump over others in the queue and after she drew attention to her father's poor health and the need to sell or let his house the case was fast-tracked. I agreed with her that the long queue for an Ombudsman is unacceptable but found that once Mrs Brun had explained her circumstances, the Ombudsman Service responded quickly and effectively.

Mrs Brun also complained that the Ombudsman Service had gone out of its way to be unhelpful. I did not agree and noted that the Adjudicator had been courteous and efficient. Mrs Brun did not want to be phoned because she was concerned at not having a record of the call. The Adjudicator explained that the Ombudsman Service would have a record and he willingly agreed to put things in writing. Right at the start he explained that the written insurance policy conditions were what mattered. He obtained information from Mrs Brun and the insurance company, ensuring that the Ombudsman had all that was needed for a final decision. I could not see anything to show unhelpfulness in the way the Ombudsman Service had handled the case, though Mrs Brun's view was obviously affected by the decision not to uphold the complaint.

### Adequate – not good enough

I classed 19% of cases as **Adequate** (similar to last year), meaning that the Ombudsman Service followed its normal process reasonably accurately though there were minor failings and maybe contact with the complainant had some problems, any failings had not seriously compromised a fair investigation.

I noted poor service complaints responses by Team Managers, failing to answer a simple query, an Adjudicator causing a bit of a muddle over whether an additional issue was a new case or could be included in the on-going investigation, using legal definitions without explanation and using words the complainant had not used and was not familiar with.

### Critical – poor service

I classed 36% of cases as **Critical** (down from 42% last year) meaning the Ombudsman Service failed to follow one or more of the key steps in its normal process and/or contact with the complainant had been seriously flawed. There were problems with badly managed handovers when staff changed, failing to read and act on correspondence, failing to acknowledge or respond to a request to fast-track a case, using irritatingly inappropriate standard letters and, at worst, a complete lack of attention to what is already on the case record.

### case study: critical

In August 2009, Mr Severn (not his real name) complained to the Ombudsman Service about insurance payments included in mobile phone contracts. He had changed the phone more than once but the insurance payments for each phone had continued and he had only just noticed. The Ombudsman Service told him that mobile phone contracts do not fall within the Ombudsman Service's jurisdiction. Mr Severn wanted to know who supervised the Ombudsman Service and he was then told that the policies were insurance products which may fall under the Ombudsman Service's remit. Mr Severn returned his papers to the Ombudsman Service, had a routine acknowledgement, but heard nothing more.

Mr Severn wrote again in December and had a routine acknowledgement that someone would reply, but no-one did and the case was marked as closed. He wrote again in May 2010 concerned by the lack of progress. The Ombudsman Service's Consumer Consultant said that he would discuss the case with his manager, but he closed it instead. In September the manager marked the discussion as having taken place – but took no further action. Mr Severn wrote in October and the Ombudsman Service replied in November to say that the complaint did not fall within its jurisdiction. After 17 months of getting nowhere, Mr Severn made a complaint of poor service. The Ombudsman Service apologised, but there was no sign of any investigation into what had happened – or not happened – and Mr Severn's letter was not recorded as a complaint about the Ombudsman Service.

The weary but still good natured Mr Severn contacted me. The Ombudsman Service failed to provide me with its normally frank response and claimed that it did not have a case file, despite having the bundle of correspondence from Mr Severn that I had passed on at his request.

The practical handling of this case was shamefully bad. Mr Severn had been treated with great discourtesy and ignored for over 15 months, his complaint should have been passed to an Adjudicator for the first step assessment on whether the insurance contracts were within the Ombudsman Service's jurisdiction. The Ombudsman Service's normally failsafe case recording system had allowed tasks to be ticked as done when they had not been done. There was an unusual absence of managerial oversight. The Ombudsman Service failed to record Mr Severn's complaint of poor service, failed to investigate the service complaint within its 20 working day service standard and failed to consider if financial compensation was appropriate.

The Ombudsman Service accepted my recommendation to pay compensation of £600 for causing Mr Severn wholly avoidable distress and inconvenience and undertook a detailed review to find out why things had gone so badly wrong. As an example of acting on lessons learnt in this and two very similar cases, the Ombudsman Service changed its case management system so that the Customer Contact Division cannot close a case if there is outstanding post waiting to be reviewed.

## Not within my remit.

I received 422 letters, emails and phone calls making complaints that were outwith the Independent Assessor's remit (2010-11= 290) More people are using the internet and I have my own webpage so information about my role is more readily available, though not everyone reads the guidance on what has to happen before I can become involved

- In 30% the complainant had not made a complaint of poor service to the Ombudsman Service. I explain that I can only become involved after the Ombudsman Service has had a reasonable chance to respond to a complaint of poor service and I provide contact details
- In 22% the complainant had made a complaint to the Ombudsman Service and in almost all cases a Team Manager had replied and sent a copy of the Ombudsman Service's factsheet on service complaints, now much improved in response to my recommendation to make it shorter and simpler. The factsheet has my contact details but does not include contact information for an Ombudsman Service senior manager as Step 2 unsurprisingly people write to me. I provide the name of the senior manager and normally get thanked for my help. There were also a few cases where someone had made a service complaint to the Ombudsman Service but it had been overlooked or ignored. I notify the Ombudsman Service which responds quickly and effectively
- In 28% the complaint to me is solely about the merits of a case including the use of judgement by an Adjudicator or Ombudsman on what evidence is needed, what weight should be placed on the evidence, what is included in the final decision and what redress is appropriate. The boundary between service and merits is not always clear and I generally need to explain where it lies in a specific complaint
- In 8% the complainant did not contact me within 3 months of a final service complaint response from the Ombudsman Service. For letters, I use the date of the postmark rather than the date of receipt but most miss the deadline by a substantial period. The main complaint is often about the Ombudsman's decision and would not have been within my remit even if it had been made in time. Nevertheless, I check the Ombudsman Service's case record and provide a summary of what I would have said in a full review of a service complaint

I received 385 letters and emails that I class as **general queries** in that they raise points to which I need to respond, for example how to make a complaint to the Independent Assessor, asking why an Ombudsman's decision is final and what they can do next, asking who appoints me, and why my Terms of Reference are restricted to service complaints

## Feedback

Six out of ten people write to me after I have completed a review and Opinion, 20% are complimentary and appreciative and 80% critical, mostly on the grounds that I have not covered their complaints about the merits of the complaint about the financial business. I try to manage expectations beforehand by confirming exactly which issues I will be covering, and noting the complaints that are about merits and not within my remit

From one week's postbag

Frankly speaking, I am very impressed I am also fairly surprised due to your impartial stance and approach in general because I was not expecting to receive any positive outcome based on my accounts due to my disappointing experiences [ ] with the Financial Ombudsman Service and the bank so far

Financial Ombudsman Service Independent Assessor is this the biggest none job in the "public sector"?

*Your report was excellent and you clearly spent some considerable time really looking into and understanding the points I made and how it affected both my case and myself personally.*

I cannot see any value whatsoever in your own position if you cannot intervene in previous decisions made by others - Adjudicators and Ombudsmen.

**and finally . . .**

Given the size of the Ombudsman Service, many people expect me to be an organisation, not a sole postholder appointed on a part time basis I now have a much appreciated full time administrative assistant but the year has been a very busy one and the board will need to consider the future model and resourcing for its Independent Assessor given the Ombudsman Service's forecast of a substantial increase in the number of complaints about financial businesses

Despite the ire of those who want the Independent Assessor's remit to be wider, the role does provide an authoritative end point to complaints about service delivery and practical case handling No organisation is perfect but an organisation that is the expert in investigating and determining complaints about financial businesses does need to demonstrate best practice in its own work - and having an independent eye is a key part of that The relationship between the Ombudsman Service and the Independent Assessor needs to be one of courteous co-operation without closeness and I am pleased to report that the balance feels right

The Ombudsman Service has accepted all my case related recommendations and on a monthly basis provides its Team Managers with a summary of the points I have made on good practice and poor practice for discussion with casework teams This is what complaint handling should achieve - putting things right and offering redress for the individual plus learning lessons and improving practice for the future



Linda M Costelloe Baker OBE MBA  
Independent Assessor  
April 2012