
Fair and reasonable

An assessment of the Financial Ombudsman Service

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Ken Webb and Elizabeth Taylor provided practical support at all stages during the assessment. They did this efficiently and with a sense of humour, which ensured that the assessment ran very smoothly to a tight timetable. We owe them a big debt.

While the facts have been checked, the views expressed in this report are our own.

1 Introduction

The government first announced its intention to set up a single statutory financial services ombudsman scheme in 1997. Anticipating the legislation, in April 2000, a number of former ombudsman and complaint-handling schemes were merged and operated voluntarily by the Financial Ombudsman Service until the new body attained its powers under the Financial Services and Markets Act 2000 on 1 December 2001. It is managed by an independent Board.

The function of the Financial Ombudsman Service is to resolve individual disputes between consumers and financial services firms fairly, reasonably, quickly and informally. It covers all retail financial firms that are regulated by the Financial Services Authority (FSA). Other firms that are not statutorily regulated have agreed voluntarily to be covered by the ombudsman scheme.

The Financial Ombudsman Service deals with all complaints about activities that are regulated by the FSA, including accepting deposits, providing insurance policies and providing or advising on investment products. It also handles complaints about some activities that are not currently regulated by the FSA, such as mortgages, loans and credit cards where these are provided by firms regulated by the FSA. Decisions are binding on firms and the maximum award that can be made to a complainant is £100,000. From October 2004, mortgage lending and related sales and administration will become regulated activities, as will the sale and administration of general insurance from January 2005. These activities will then be covered on a statutory basis by the Financial Ombudsman Service.

Since its inception in April 2000, the workload of the Service has grown at a phenomenal rate. In 2000-01 it dealt with 28,400 complaints and employed 340 staff on a budget of £21 million. Three years later, in 2003-04, it received 97,900 complaints, (resolving 76,700 of them), with a staff of 725, at the end of the year and at a total cost of £36.5 million. Much of the recent growth can be attributed to a massive increase in complaints about mortgage

Former ombudsman schemes

- Office of the Banking Ombudsman
- Office of the Building Societies Ombudsman
- Insurance Ombudsman Bureau
- Personal Investment Authority Ombudsman Bureau
- Office of the Investment Ombudsman
- Personal Insurance Arbitration Service
- Securities and Futures Authority Complaints Bureau

endowments, to the point where they now represent about half of all the complaints received.

The expansion required to manage this growth has undoubtedly placed strains on the organisation. There is a limit to the number of new staff that any organisation can absorb: too many new recruits can create instability and can lower standards; too few recruits can produce an increase in backlogs, unacceptable workload pressures on existing staff and, once again, a lowering of standards.

The Financial Ombudsman Service has, we believe, managed this period of rapid growth successfully. It has undergone a programme of substantial recruitment, although the number of staff has grown at a slower rate than the growth in the number of complaints. To keep up with the volume of demand, the Service has taken various steps to improve its productivity and has shown dramatic gains in efficiency over the period. In the four years to 2003-04, the unit cost of the cases has fallen from £730 to £473¹.

The ombudsman service is wholly funded by a system of levies and case fees, paid for by financial firms. The service is free to consumers.

All firms covered by the Financial Ombudsman Service have to pay an annual general levy. The amount of the levy is determined by the size of the firm, and can range from less than £100 a year for a small firm of financial advisers to £300,000 for a high street bank or large insurance company.

In addition, firms have to pay an individual case fee when the ombudsman service handles a complaint about the firm and the case becomes 'chargeable'. The current case fee is £360. Firms are not charged, however, for the first two complaints referred to the ombudsman service each year, nor are they charged for complaints that are resolved at a very early stage.

Independent assessment of the Financial Ombudsman Service

As part of its commitment to the delivery of a high quality service, in December 2003 the Board of the Financial Ombudsman Service commissioned the Personal Finance Research Centre to carry out an independent assessment of the work of the organisation. The overall aim was to evaluate the work of the ombudsman service, principally looking at its outputs in terms of customer and firm interaction. Four

¹ The unit cost is calculated by dividing total costs of the Service by the number of cases resolved by adjudication or ombudsman decision. It is only these cases that are charged to firms. However, a large number of complaints are resolved at a very early stage without the need for adjudication or ombudsman decision and firms are not charged a fee. If all these complaints are also taken into account, the unit cost in 2003-04 was £220.

themes underpinned the assessment: quality, consistency, process and value.

The assessment comprised several linked stages, including interviews with senior staff; interviews and focus groups with operational staff; observation of the complaint-handling process; and a detailed audit of 72 closed cases drawn from 19 different teams, with a minimum of three cases selected from each team of adjudicators. In all, we talked to 102 of the 725 staff.

This report

This report forms one of the key outputs of the independent assessment. Its aim is to provide an analytical description of the Financial Ombudsman Service, in order to raise awareness and understanding of the organisation's work among its stakeholders, including firms and their trade bodies, consumers and consumer organisations.

The next chapter outlines the structure of the Financial Ombudsman Service followed, in Chapter 3, by a detailed account of the case-handling process. Chapter 4 gives an overview of the quality of service provided by the Financial Ombudsman Service and assesses the systems and procedures in place to check and assure quality. Our conclusions and recommendations are set out in Chapter 5.

2 Organisational structure

The Financial Ombudsman Service initially comprised around 340 staff from the former ombudsman schemes. Since then, staff numbers have grown rapidly and, as we have seen, by April 2004 the organisation had 725 staff, 87 per cent of whom deal directly with complaints.

Strategic leadership is provided by a board of non-executive directors, whose role is to ensure that the service is properly resourced and able to carry out its work effectively and independently. Day-to-day management of the organisation is carried out by an Executive Team, led by the Chief Ombudsman. The structure of the Financial Ombudsman Service is shown in figure 1.

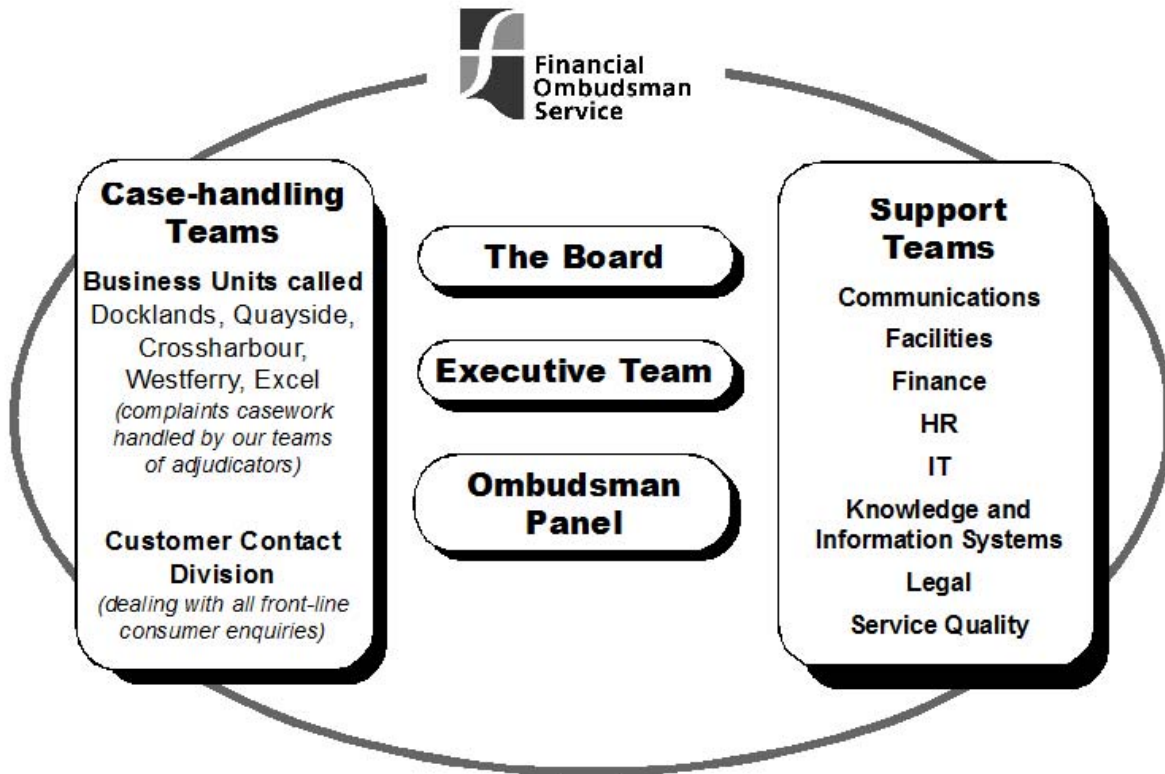
The Customer Contact Division deals with all frontline consumer enquiries. The primary function of the Financial Ombudsman Service – the resolution of disputes between consumers and financial firms – is carried out by the adjudicators who work in the organisation's five Business Units and by a panel of ombudsmen who work across the Business Units. The Financial Ombudsman Service also aims to minimise the number of complaints that it receives, through continuing liaison with financial firms, their trade bodies and consumer organisations. This is carried out by the External Liaison and Technical Advice Desk.

The work of the organisation is supported by an extensive infrastructure, including a Communications Team which comprises a press and parliamentary liaison team and a team dealing with publications, website management and accessibility. There are also departments dealing with Knowledge Management and Information; Human Resources, which includes responsibility for training; Information Technology; Finance; Legal; Facilities, and a Service Quality Team which, among other things, deals with complaints against the Financial Ombudsman Service itself.

Customer Contact Division

The job of consumer consultants in the Customer Contact Division is to provide general advice and guidance for consumers on what to do if they have a complaint about a financial product or service. They also act as a 'gateway' to the teams of specialist adjudicators who assess

Figure 1 The organisational structure of the Financial Ombudsman Service



and investigate cases that fall within the jurisdiction of the Financial Ombudsman Service.

Initially, the Customer Contact Division consisted of eight teams of consumer consultants, each headed by a team leader. In order to improve efficiency, this was reduced to four larger teams of consumer consultants, each overseen by a team manager. There are around 15 consultants per team, including either one or two senior consultants who supervise and provide support to their team members and regularly check the quality of work that is carried out. A quality assurance consultant was appointed in March 2004 to co-ordinate and develop the current system of quality checking. The division also has a dedicated training co-ordinator and a resource planning manager. Clerical and secretarial support is provided by an administrative team of 12 people.

Business Units

At the core of the Financial Ombudsman Service are five Business Units, where adjudicators and ombudsmen assess and investigate cases passed to them by the Customer Contact Division.

The Business Units have undergone considerable restructuring since the Financial Ombudsman Service was first set up. Initially, there were three case-handling units dealing with banking, insurance and investment, each managed by a principal ombudsman.

In 2002, these were restructured into Business Units covering a mix of products, with each Business Unit comprising several specialist teams of adjudicators (Table 1, below). The aim of this reorganisation was to facilitate the integration of the previous ombudsmen schemes into one service and to promote a more consistent corporate approach across the organisation. It was also intended to provide greater flexibility.

At the same time, the management of the Business Units underwent significant change. Instead of being managed by the principal ombudsmen, each Business Unit is now run by a service manager. This allows the principal ombudsmen more time to spend on policy formulation and the resolution of cases. For similar reasons, adjudicators now come under the control of service managers, rather than ombudsmen.

There are around 20 ombudsmen in total, with between three and five ombudsmen based in each Business Unit. While some ombudsmen work closely with a particular team of adjudicators, others work across several teams.

Table 1 The Business Units

Docklands	2 Banking assessment teams 1 Investment assessment team 1 Insurance assessment team
Quayside	2 Investment investigation teams 1 Investment and Equitable Life investigation team 1 Banking investigation team 1 Insurance investigation team
Crossharbour	1 Portfolio management investigation team 1 Insurance investigation team 1 Split capital investment trust investigation team
Westferry	1 Insurance investigation team 2 Pensions investigation teams
Excel	2 Mortgage endowment assessment and investigation teams dealing with large firms 1 Mortgage endowment investigation team dealing with building societies and small firms 1 Mortgage endowment investigation team dealing with independent financial advisers and small firms

In order to manage the continuing increase in complaints more effectively, from 2003 one of the Business Units (Docklands) began to specialise in the initial assessment of cases and the resolution of those that are straightforward. More complex cases are now directed to one of the other three Business Units for investigation (see Chapter 3). In April 2004, a fifth Business Unit (Excel) was established to process the growing number of mortgage endowment complaints that had been received, particularly since the end of 2002. As well as teams of adjudicators and ombudsmen, both the Docklands and Excel Business Units have sizeable administrative teams that provide administrative and clerical support. The remaining three Business Units have one or two unit administrators, along with small teams of administrators attached to each team of adjudicators.

Complaints about the Financial Ombudsman Service or queries that arise from customers and firms once a case has been closed are dealt with by a separate division – the Service Quality Team.

The case-handling process, from the receipt of an initial enquiry through to case closure, and the work of the Service Quality Team are described in detail in Chapter 3.

External Liaison

The main purpose of the External Liaison and Technical Advice Desk is to minimise the number of complaints that require resolution by the Financial Ombudsman Service. By providing information, guidance and advice to financial services firms, trade bodies and consumer organisations, it is hoped that many complaints can be resolved without the need for intervention by the Financial Ombudsman Service.

The External Liaison and Technical Advice Desk forms part of the Communications Team and comprises an external liaison manager, an industry liaison manager, eight external liaison co-ordinators and an events and travel co-ordinator. Several of the external liaison co-ordinators are currently on secondment from other parts of the organisation.

External liaison co-ordinators divide their time between staffing the Technical Advice Desk and liaising with firms, trade bodies, regulatory bodies and consumer organisations. Firms (including intermediaries such as loss adjustors) are the biggest users of the Technical Advice Desk. While advice desk staff can give advice and guidance based on general principles, such as the principles underlying the calculation of compensation, they cannot discuss cases that have already been submitted to the Financial Ombudsman Service. Nor do they deal with enquiries from the general public.

The external liaison activities carried out by the co-ordinators are varied and wide-ranging. They include visits to and by individual firms to promote familiarity with the Financial Ombudsman Service; the provision of training to firms; roadshows for financial intermediaries; and a continuous programme of conferences. In order to promote more strategic contact with firms, the external liaison team has been piloting a project to provide statistical complaints data to firms, including key statistics and qualitative information about complaints received by the Financial Ombudsman Service, on an anonymised comparative basis.

The team also works to raise the profile of the Financial Ombudsman Service among the public, mainly through gateway organisations such as advice agencies and trading standards departments. The external liaison co-ordinators provide training and attend conferences; visit locally-based organisations and agencies; and arrange events. There is also a move towards having more direct contact with consumers, for example by exhibiting at the BBC Good Homes exhibition and county fairs.

In addition, the Service has recently introduced a formal system for identifying and dealing with policy and administrative issues that have

been raised by external stakeholders. The issues are identified in many different ways - through contacts with stakeholders; media coverage; calls to the Technical Advice Desk, and by the Service itself. They are considered by the Executive Team who decide on the actions required to address the issue and how to communicate the outcomes to the stakeholders concerned.

Support services

An extensive support infrastructure is required to run the Financial Ombudsman Service. The departments that make up this infrastructure include: Human Resources, Finance, Information Technology, Knowledge Management, Legal, and Facilities.

In addition to the External Liaison and Technical Advice Desk described above, the Communications Team deals with press and parliamentary liaison, publications (including the monthly *Ombudsman News*), and manages the Financial Ombudsman Service website. The Team is also responsible for ensuring that the ombudsman service is easily accessible to everyone, for example by arranging alternative formats for publications and other documents. The main consumer leaflet is available in 15 different languages and the team provide a translation and interpretation service for complainants whose first language is not English: in 2003-04 they provided this service in 23 languages.

The Knowledge Management Team has been instrumental in developing a knowledge management system to provide adjudicators with the guidance they need to make decisions in a consistent manner. Market research forms another important strand of the Team's work: they carry out regular satisfaction surveys of customers, firms and staff. Both these areas of work are discussed in more detail in Chapter 4.

The Human Resources Department handles all recruitment and personnel issues. It also has overall responsibility for training. The high levels of recruitment have tended to focus attention on induction training. The emphasis is now shifting towards the enhancement of case-handling skills with the launch of a modular system of training; again, this is discussed in more detail in Chapter 4.

The Legal Team provides legal and actuarial advice to casehandlers and all other staff, including the Board, advises on corporate legal matters and defends the Financial Ombudsman Service in court proceedings.

The Finance Department is responsible for the production of statutory and management accounts, the collection of case fees, the preparation

of the annual budget, the payment of suppliers, tax and VAT issues and the payroll.

The Information Technology Team manages all aspects of the IT infrastructure, including the provision of computer and telephone equipment and services. It is also responsible for the development of all IT systems, including Croesus, the case management system.

The Facilities Team ensures that satisfactory and safe working conditions are maintained and it provides mail, security, archive, catering (including the staff café) and reception services.

3 Case-handling process

In 2003-04 the Financial Ombudsman Service received 548,000 enquiries from people wishing to make a complaint. They are dealt with first by the Customer Contact Division where they can discuss the matter and be advised whether or not their complaint falls within the jurisdiction of the Financial Ombudsman Service.

If the complaint is within jurisdiction and remains unresolved, the case is passed to the Business Units for assessment and investigation. In 2003-04 97,900 cases were passed on in this way. Over half of the complaints were about mortgage endowments. A detailed breakdown of complaints is shown in Table 2 below.

Overall, 38 per cent of cases involved complaints about life insurers, 27 per cent about advisers and brokers, 13 per cent about banks and building societies, 13 per cent about general insurers and 9 per cent about fund managers.

During 2003-04 a total of 76,704 cases were resolved: the great majority (92 per cent) of them by adjudicators in the Business Units. Overall, 42 per cent of cases were resolved by mediation and conciliation, 50 per cent after investigation by an adjudicator and the remainder (eight per cent) by the final decision of an ombudsman.

A significant proportion (47 per cent) of the cases dealt with by the Financial Ombudsman Service in 2003-04 were resolved within three months; all but 9 per cent were resolved within nine months of their transfer to adjudicators for investigation or assessment. The flow of complaints through the Financial Ombudsman Service is shown in Figure 2 below.

Receiving complaints

All consumer enquiries to the Financial Ombudsman Service are initially received by the Customer Contact Division, mostly through its dedicated telephone helpline. The consumer consultants identify those complaints that fall outside the jurisdiction of the Service and, if appropriate, advise complainants about alternative sources of help.

In 2003-04 Customer Contact Division received:

- 292,000 telephone enquiries
- 256,000 written enquiries

A total of 548,000 enquiries

If the complaint comes within the Service's jurisdiction, but the complainant has not taken the matter up with the firm, they are advised to do so. Consumer consultants will pass the complaint to the firm on the consumer's behalf if they wish. The firm is given eight weeks to issue a final response letter, which sets out their position in relation to the complaint, including any offer they have made to settle the complaint. Complaints are often resolved between

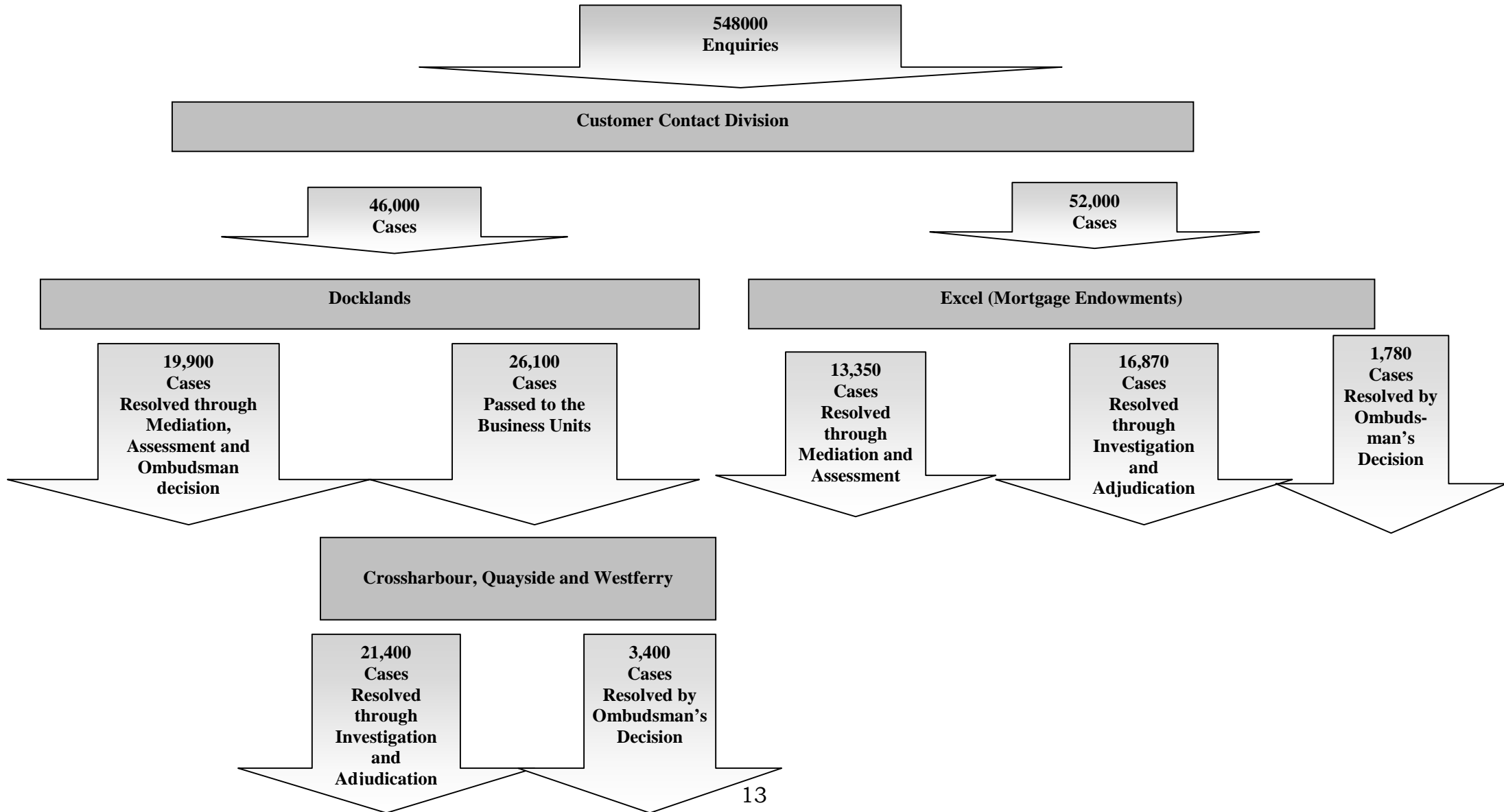
the complainant and the firm at this stage without any further involvement by the Financial Ombudsman Service.

If the complainant is not happy with the final response they receive from the firm, or they do not get a response within the eight weeks that normally apply, they can ask the Financial Ombudsman Service to intervene. To do this, they fill in a complaint form, which is available from the Service's website. Alternatively, they can telephone the Customer Contact Division, and a consumer consultant will collect as much information as possible from them and generate a complaint form, which is sent to the complainant to check and complete. People complaining about a mortgage endowment policy are asked to complete a separate mortgage endowment questionnaire as well. In order to provide continuity of service for the complainant, subsequent telephone calls or correspondence are directed to that consumer consultant and the complainant is given the consumer consultant's direct telephone number and email address.

Once the complaint form is returned, the consumer consultant may be able to resolve the complaint straightaway, for example if there has been an administrative error or misunderstanding. It may also become clear that the complaint falls outside the Service's jurisdiction, in which case the complainant will be directed to help and advice elsewhere.

Otherwise, the complaint is passed to a team of adjudicators for resolution. At this point, it becomes a chargeable case, which means that the firm will be charged a case fee when the case is closed. The consumer consultant dealing with the case requests all relevant information from the firm, such as policy documents and correspondence. Each case is also given a 'product code', depending on the type of financial product involved. This code determines which Business Unit and, within the Unit, which team, the case is sent to. Most are routed to Docklands Business Unit, where adjudicators undertake an initial appraisal of cases and retain those that can be resolved fairly easily. They then distribute the more complex cases to teams of adjudicators in other Business Units for formal investigation.

Figure 2 The flow of complaints



Some cases, however, go direct from the Customer Contact Division to Business Units that have specialist teams to deal with them. All mortgage endowment cases, for example, go to Excel, the new unit set up specifically to deal with mortgage endowment complaints. Similarly, any complaints about split capital investment trusts are sent to a team in the Crossharbour Business Unit.

Handling cases

The approach taken by adjudicators and ombudsmen when looking at cases is to decide what is fair and reasonable in the circumstances of each particular case. This includes taking into account relevant law, codes of practice, and regulatory rules and guidance. If the evidence is contradictory, or the two sides of the story do not tally, they make decisions on the basis of what they believe is most likely to have happened on the balance of probability. Although the ombudsman service is not bound by legal precedent, adjudicators and ombudsmen aim to be consistent in the approach they take to particular types of complaints.

If the Service upholds a complaint it can require the firm at fault to make appropriate redress to the complainant. The aim is to put complainants back into the financial position that they would have been in, had the situation giving rise to the complaint not occurred. It is not always possible to specify the precise amount and firms are required to carry out the calculation. In 2003-04 the redress varied from a bunch of flowers to £100,000, the maximum allowed under the rules of the Service. The majority of amounts involved are less than £10,000.

Adjudicators and ombudsmen generally work in a collegiate way. Adjudicators are encouraged to discuss difficult cases with colleagues who are known to have appropriate expertise, with their casework managers, or with an ombudsman. Some ombudsmen hold regular meetings or surgeries with adjudicators, where cases can be considered. A series of guidance notes has also been developed as part of the knowledge management system, to aid consistent decision-making. The knowledge management system is discussed in more detail in Chapter 4.

Table 2 Complaints referred to the adjudicators 2003-04

Mortgage endowments	51,917
Insurance <ul style="list-style-type: none"> ▪ Whole-of-life policies and non-mortgage endowments ▪ Motor insurance ▪ Buildings insurance ▪ Travel insurance ▪ Contents insurance ▪ Permanent health insurance ▪ Other types of general insurance ▪ Loan protection insurance ▪ Critical illness insurance ▪ Extended warranty insurance ▪ Private medical insurance ▪ Legal expenses insurance ▪ Personal accident insurance ▪ Total insurance complaints 	5,442 2,727 1,549 1,453 1,154 872 868 802 582 328 294 271 129 16,471
Investment <ul style="list-style-type: none"> ▪ Investment products: PEPs, ISAs, 'precipice bonds' and unit trusts ▪ Personal pension plans ▪ 'Splits' and 'zeros' ▪ Portfolio and fund management ▪ Free-standing additional voluntary contribution schemes ▪ Stock-broking ▪ Derivatives ▪ Total investment complaints 	10,627 5,303 1,673 921 704 432 55 19,715
Banking <ul style="list-style-type: none"> ▪ Mortgage loans ▪ Current accounts ▪ Credit cards ▪ Loans other than mortgages ▪ Other banking services ▪ Savings and deposit accounts ▪ Total banking complaints 	3,220 2,106 1,444 1,116 1,106 806 9,798
Total complaints referred to adjudicators in 2003-04	97,901

Assessment in Docklands Business Unit

Cases where early resolution seems feasible are put into the Docklands Business Unit's 'gateways' - intermediate or holding stores - from which cases are assigned to the adjudication teams by the

administrative staff. In general, the 'taxi-rank' principle applies, so adjudicators are not able to select the cases that look easy to deal with. Rather, they are allocated a random batch of cases by their team's casework manager. That said, casework managers can route certain cases to particular adjudicators if their knowledge and experience may help to resolve the case more efficiently. Once a case has been allocated to a particular adjudicator, they retain ownership of it until the case is closed. During this time they are the named contact for both the firm and the complainant.

When the adjudicator receives a batch of cases, their first task is to decide exactly what the complaint is about, using the evidence provided by the complaint form and by the firm. They then determine what additional information (if any) they need from the firm or the complainant and write to request it. They also contact the complainant to introduce themselves and explain how the case will proceed.

Once all the necessary information has been received, the adjudicator assesses the case. A small number of cases are dismissed at this stage in Docklands, without the merits of the case being considered. There are various grounds for dismissal, such as: the complaint is about the legitimate exercise of a firm's commercial judgement; it is about investment performance; it is more appropriate for the complaint to be dealt with by a court; or the complaint has no reasonable prospect of success.

In all other instances, the adjudicator considers the facts and merits of the case, and determines how best to proceed. In many cases, they will attempt to mediate between the two parties, seeking to resolve the case informally by mutual agreement.

Where this is not appropriate or possible, they issue an assessment letter (also known as a view). This sets out the adjudicator's understanding of the nature of the complaint and describes the circumstances and the events that led up to it. It then states whether the adjudicator is minded to uphold or reject the complaint, giving the reasons that underlie this decision. If the complaint is upheld, the assessment will also indicate the scale of compensation that the adjudicator thinks is appropriate.

This assessment is then sent to the 'losing' party. If a complaint is upheld, it goes to the firm; if the complaint is rejected, the view goes to the complainant. The recipient has two weeks in which to accept or reject the decision. If the adjudicator is minded to reject the complaint and the complainant accepts this assessment, they sign an acceptance form which is passed to the firm. If the adjudicator is minded to uphold the complaint and this is accepted by the firm, they

notify the adjudicator who conveys the acceptance decision to the complainant.

If, however, the 'losing' party rejects the assessment, the adjudicator has to re-consider the case. Assessments may be rejected on various grounds. The firm or complainant may feel, for example, that insufficient weight has been given to a particular aspect of the case. Or they may claim that there is material evidence that has not been considered, in which case they are asked to supply that evidence.

Further information or a review of the case may lead the adjudicator to reach a different view entirely, and this would be conveyed to the new 'losing' party. Alternatively, the adjudicator may consider that nothing in the additional evidence or the review of the case justifies a change of opinion. They then have three courses of action open to them. First, they can write to the complainant or the firm to say that their opinion remains unchanged and to ask them to reconsider, offering them the right of referral to an ombudsman.

Secondly, the adjudicator can refer the case to their casework manager who will review the file. If the casework manager agrees with the adjudicator, they will issue a dismissal letter, again giving the right of referral to an ombudsman. If they do not agree with the assessment, they will ask the adjudicator to look at the case afresh.

The third option is for the adjudicator to pass the file to an ombudsman for consideration.

Investigation in other mixed Business Units

The case-handling process is broadly similar in the three other mixed Business Units (Crossharbour, Quayside and Westferry). Because of the sifting process carried out in Docklands, however, these Business Units generally receive cases that are less straightforward to resolve and therefore require more detailed investigation.

When cases are received from Docklands Business Unit, they are distributed to the casework managers who hold them in their team's gateway. From there, they are allocated to the adjudicators. The process followed by the adjudicators is very similar to that adopted by their colleagues in Docklands. They review the cases, asking for more information from either party if necessary. They then reach a conclusion and issue either an assessment or an adjudication. An adjudication tends to be more formal than an assessment and is sent to both parties rather than just the losing one. It is most often used when it seems unlikely that a reasonable settlement can be agreed by both parties.

Like an assessment, an adjudication sets out the nature of the complaint and describes the background and the events that led up to it. It gives the adjudicator's decision to uphold or reject the complaint and the reasons for this. If the complaint is upheld, the adjudication also indicates the scale of compensation that the adjudicator thinks is appropriate. If either party disagrees with the adjudication, they can ask for the case to be referred to an ombudsman.

Mortgage endowment cases

As mentioned in Chapter 2, the Excel Business Unit was established in April 2004 to deal with the immense volume of complaints about mortgage endowment policies that the Financial Ombudsman Service continues to receive. The Business Unit comprises five ombudsmen and four teams of adjudicators. Two of these teams deal with complaints against large firms, one specialising in the assessment of straightforward cases, the other in the investigation of more complex cases. The third team handles cases concerning building societies and small firms; and the fourth deals with complaints involving independent financial advisers and small firms. A fifth team of staff provide administrative and clerical support. In order to manage the large numbers of cases involved, a new system of working was developed which differs significantly from the other Business Units.

Rather than being sifted by adjudicators in Docklands Business Unit, cases come into Excel directly from the Customer Contact Division. At this stage, they consist of a complaint form. The Customer Contact Division will have asked the firm to supply their records of the case. The complainant will also have been sent a mortgage endowment questionnaire to complete. Once these two additional pieces of information are received, they are brought together with the complaint form by the team administrators.

Two teams deal with cases against large firms. The basic details of the cases that involve one of these large firms are entered onto a spreadsheet by the administrators – one spreadsheet for each of the firms. The managers of the teams make an initial appraisal of each case. The cases that do not appear to be straightforward are passed to adjudicators who investigate each case in the normal way.

The cases that are considered to be fairly straightforward, however, are dealt with by other adjudicators who consider each case in turn and record their assessment on the spreadsheet, along with codes for the reasons underlying the assessment. These adjudicators handle large numbers of cases. The challenge for them is, therefore, to look at each case afresh and to assess it on its individual merits.

The spreadsheets are then sent to the firms which indicate the decisions they are prepared to accept and those they reject. The spreadsheet is returned to the team and complainants are informed of the outcome. If a firm does not accept a decision to uphold a complaint, the case is passed to an adjudicator who will investigate it in more detail.

The cases concerning small firms, building societies and independent financial advisers are dealt with by other teams in the unit. These are cases that need more information, more investigation or a more detailed response. They also deal with any disputed spreadsheet assessments. As in other Business Units, adjudicators issue views and adjudications.

Lead cases

When a large number of cases are received about the same financial product, they can sometimes be grouped together and one or more apparently typical cases identified as 'lead cases'. The aim of this is to avoid duplication of work and so speed up the decision-making process. The other cases are 'parked' while the outcome of the lead case (or cases) is decided.

This approach was first taken to deal with TESSAs. It has also been used to handle complaints about dual variable rate mortgages, split capital investment trusts and complaints against Equitable Life.

Because of their significance, lead cases are prepared with particular rigour and a great deal of involvement by ombudsmen. They are selected to include cases where the facts are clear-cut and where the cases turn on wider issues, rather than on the particular circumstances of individuals.

Once a decision has been reached on a lead case, it is anonymised and copied or summarised to the parties in all the other cases where the circumstances are considered to be similar. The parties are asked how (if at all) their circumstances differ materially from the lead case. In the light of their response, the Service decides whether the outcome of each of these 'follow-on' cases should follow the lead case, or whether there are circumstances that require separate investigation. There is a recognised danger that when adjudicators deal with follow-on cases they may be inclined to look at the evidence from the perspective of the lead case, rather than approaching the case on its individual merits. Staff are on their guard against this.

Ombudsman decisions

Complainants or firms can ask for their case to be referred to an ombudsman if they are dissatisfied with the assessment or adjudication issued by an adjudicator. Disputed cases may also be referred directly to an ombudsman by an adjudicator. In the 12 months to the end of March 2004, eight per cent of cases were resolved by the final decision of an ombudsman.

Once a case is referred to an ombudsman for decision, the adjudicator invites comments and representations from both parties, reviews all the evidence again and usually writes a draft decision. This is sent to an ombudsman along with the file. As with the adjudicators, the taxi-rank principle applies for allocating cases where more than one ombudsman works in a product area.

The decision-making process

When an ombudsman receives a case file, they begin by reading the original complaint form, along with any supporting documentation, for example the questionnaire that complainants complete in mortgage endowment cases. This gives them a general idea of the complaint and, in cases involving investment products, some indication of the complainant's approach to risk.

Most then turn to the assessment issued by the adjudicator, any subsequent correspondence that has been received and the decision that has been drafted by the adjudicator. Together, these provide an overview of the case and the information that informed the assessment or adjudication. The ombudsman also considers any new facts or material evidence submitted after the decision was drafted and whether or not this would be likely to change the decision.

Having done this, they work their way through the case file chronologically, to verify the facts summarised in the draft decision produced by the adjudicator and to ensure that nothing has been overlooked. Some ombudsmen work their way through the case file *before* they look at the assessment or adjudication and the draft decision. This seems to be a matter of preference and does not affect the independence of their decision in any way. In larger case files, adjudicators flag the key documents and correspondence for the ombudsmen.

In the majority of cases, the file contains sufficient evidence for the ombudsman to reach a decision. They may, however, decide that further information is required from either the complainant or the firm. In these circumstances, the case file may be returned to the adjudicator to request the information, or the ombudsman may

telephone personally, especially if they simply want to clarify something.

Although rare, an ombudsman may also call a hearing. Unlike a court hearing, this is an informal procedure attended by both parties. There is no sworn evidence or cross-examination; rather it is an opportunity for the ombudsman to put questions to the parties. This usually occurs when there is a dispute of material fact, and hearings are most common for complaints about investment products. Either party can also request a hearing, which may or may not be granted at the ombudsman's discretion.

Meetings with just one of the parties are also very rare, to preserve the impartiality of the process. They are, however, occasionally held with firms when there are a number of similar cases. If a case has wider implications, the principal ombudsman may set up a meeting with a firm.

Having considered the complaint, the ombudsman generally issues a decision to both parties, which sets out all the salient facts about the case, indicates whether the complaint is upheld or rejected (a complaint may also be partly upheld), and outlines the reasoning underlying the decision. In most cases, this will be a final decision. In reaching this decision, ombudsmen may consult their colleagues or the principal ombudsman for advice. Particularly difficult cases may be discussed by all the ombudsmen working within a particular sector at one of their regular meetings, with the outcomes being communicated to any adjudicators who might handle similar cases in future.

In some circumstances, however, the ombudsman issues a provisional decision. One reason for this would be if the ombudsman is ready to make a final decision on one aspect of a case (such as liability), but not on another (such as redress). Another reason would be to give the parties a final opportunity to comment, because the decision is significantly different from the outcome of the earlier assessment. This may occur when the ombudsman does not share the view that the adjudicator has reached or when new evidence comes to light after the case has been passed to the ombudsman. A final decision is issued after any further submissions have been considered.

There are some circumstances when an ombudsman may not issue a fresh decision. In such cases, the complaint is dismissed by the ombudsman who sends a letter saying that the adjudicator's assessment or dismissal is upheld. This happens most often with more straightforward banking cases handled in the Docklands Business Unit where one of the parties (usually the complainant) objects to the assessment or dismissal notice issued by the

adjudicator, but there is no evidence to lead the ombudsman to a different conclusion.

In issuing a decision, an ombudsman may use the draft decision drawn up by the adjudicator, amended as necessary, or they may write their own decision letter.

When the draft decision is changed, the ombudsman provides feedback to the adjudicator. This may include cases where the wording of the decision needs re-drafting to make the underlying reasoning clearer; those where new evidence has come to light which has caused the ombudsman to change the adjudicator's decision; and cases where the ombudsman disagrees with the decision reached by the adjudicator. Many of the complaints are complex, and the decisions finely balanced - ombudsmen sometimes, but not often, come to a substantially different decision from an adjudicator, based on the evidence available at the time.

A final decision by an ombudsman is the end of the complaints-handling process. Neither the firm nor the consumer can appeal against an ombudsman's decision by asking for their case to be referred to another ombudsman. If the complainant accepts an ombudsman's decision within the specified time limit, both the complainant and the firm are bound by the decision. Otherwise, the firm is not bound. The complainant can, however, still take court action against the firm.

If a firm or a complainant complains that their case has not been handled properly by the Financial Ombudsman Service, their complaint is dealt with by the Service Quality Team (see below). In a very small number of cases, one of the parties to the dispute (usually the firm) can choose to take the case to judicial review. Such reviews do not re-examine the decision, rather they focus on whether or not the matter has been handled with due process, has applied the law correctly, has taken the right things into account and has acted rationally.

Case management system

The same casework management system – Croesus – is used throughout the organisation. All information relevant to a case is recorded on Croesus, including all correspondence and a note of all phone calls. It produces standard letters to be sent to complainants and firms. It also generates task lists for consumer consultants and adjudicators, to ensure that cases are progressed through the system in a timely manner and that complainants are kept informed about what is happening with their case.

In addition, Croesus forms an integral part of the quality checking system (see Chapter 4). It identifies a random sample of cases from each adjudicator for the casework managers to review. When they review these cases, casework managers check that the information recorded on Croesus is complete and correct and that the allotted tasks have been carried out. The results of these regular reviews are entered onto the system as well.

Time taken to deal with cases

The Financial Ombudsman Services aims to resolve all cases within 12 months. Most are resolved within six months from the time they are referred to the service, after the firm has issued its final response letter. As we noted earlier, in 2003-04 47 per cent were resolved within three months, 79 per cent within six months and 91 per cent within nine months. The average time taken to resolve cases by mediation was four months, whereas the average time taken with cases that require investigation and final decision by an ombudsman was nine months.

It is not always possible to deal with cases quickly. Due to the continued increase in the number of complaints received, there are some backlogs within the Service. Delays may also occur for reasons beyond the control of the Service: complainants and firms may, for example, be slow to supply required information, or matters may be put on hold pending a regulatory decision by the FSA. In all cases the adjudicators are required to keep complainants informed about progress (and the Croesus case management system prompts them to do this). There may, however, be scope for managing complainants' expectations more effectively by providing estimates of the length of any anticipated delays.

Timeliness is also a key element on the quality checking process (see Chapter 4). Casework managers look for any avoidable delays when reviewing cases. All cases taking longer than 12 months are reported to the Board.

In order to ensure that cases are dealt with in a timely manner, and to manage the increasing volume of complaints, all complaints and case-handling staff (with the exception of ombudsmen) have targets to achieve. In particular, within the Customer Contact Division consumer consultants have a series of targets that relate to the amount of post they process every week; the time they spend on the telephone helpline; and the quality of their written and telephony work. Adjudicators have targets for the number of cases they close each week. The actual targets vary according to the type of work done and the experience of the adjudicator and are agreed between the

adjudicators and their managers. The achievement of these targets forms the basis of the current incentive payment scheme.

The use of targets and incentives has been the subject of debate both within and outside the Financial Ombudsman Service. In particular, there are concerns that fostering a target-driven environment, linked to additional payments, may have an adverse impact on the quality of the service. We found no evidence of any systematic impact of this kind. The matter is, however, discussed in greater detail in Chapter 4.

Service Quality Team

The Service Quality Team handles any complaints that are made by the complainant or the firm once a case has been closed. The team receives around 70 to 100 complaints per month, or about one per cent of all the cases handled by the Service. These complaints concern issues such as the procedures followed by the case-handlers; the interpretation of policy guidance; or the fact that a firm has been slow in making a settlement.

All complaints made to the team are investigated. If they consider that redress is required, they can issue an apology or make a compensation payment. The case may also be transferred to another case-handler for review. If the complainant remains dissatisfied, they can contact the Independent Assessor.

Other work carried out by the team includes dealing with letters from MPs; resolving complaints from staff; handling enquiries from firms about case fees; and liaising with the Independent Assessor.

Overall assessment of the case-handling process

Having investigated the case-handling process in detail, we conclude that it is both robust and fit for purpose. It complies with principles of due and fair process, and ensures that cases are considered on their merits.

We found no evidence that the collegiate approach between adjudicators and ombudsmen compromises independent judgment. Quite the reverse – by consulting an ombudsman about difficult cases, the skills of adjudicators are enhanced and they are able to resolve the majority of cases that come to them. If a case is passed to an ombudsman for decision, it may well be a different ombudsman to the one that the adjudicator originally consulted. Moreover, the process by which an ombudsman reaches their final decision is a rigorous one, with each case considered on its merits.

The use of lead cases and the introduction of streamlined procedures in the Excel Business Unit for mortgage endowment cases both carry a potential risk to cases being considered on their individual merit. However, both management and individual members of staff are fully aware of this risk and have put procedures in place to avoid it. We found no evidence to suggest that these procedures are not working effectively.

While we were undertaking our assessment, a batch of cases that failed to meet the required standard of quality were identified through the Service's internal review procedures. The matter was dealt with quickly and efficiently and steps were taken to avoid the situation arising again.

The case-handling process is also efficient and offers value for money. It has proved flexible and capable of adaptation to changes in the numbers and nature of complaints received. Significantly, these adaptations have enabled the Financial Ombudsman Service to increase productivity by 50 per cent in three years.

Cases generally pass through four pairs of hands at most – a consumer consultant in the Customer Contact Division; a casework manager in one of the Business Units; an adjudicator; and (in a minority of cases) an ombudsman. Throughout this process the complainant and firm always have a named contact: first the consumer consultant and then an adjudicator.

Cases are, on the whole, dealt with in a timely manner. Some delays, as we have seen, are caused by factors outside the control of the Financial Ombudsman Service, most notably waiting for the complainant or firm to supply information. Others occur because, despite large increases in the number of staff, there are still too few to deal with the volume of complaints without 'cutting corners' and compromising quality. As a result, backlogs build up. In our audit of cases we identified delays that were attributable to these backlogs in about a third of the cases that we reviewed. There does not seem to be any obvious scope for further streamlining of the case-handling process to solve this problem. Consequently, we believe the recruitment of additional staff should continue. The need for more ombudsmen is particularly acute.

The effort expended on cases seems proportionate and the current unit cost of £473 reasonable given the nature of the work of the organisation. The unit cost has fallen steadily from £753 in 2001 as a result of increases in productivity. The unit cost has fallen partly because of efficiency gains and partly because the fixed overheads are spread over more cases: it follows, therefore, that unit costs may rise if and when the number of cases falls. For the present, however, we see little scope for further reduction. The current case fee is £360, with

no fee being charged for first two complaints in each year or for cases resolved at a very early stage – these are included in the annual levy. This is very reasonable for an independent dispute resolution service and it is hard to see how it can be reduced further without compromising the nature of the service offered.

There have been proposals from people outside the Financial Ombudsman Service for a tiered case-fee structure. These proposals include lower fees being charged for cases that involve only a small detriment to the complainant; cases where only limited investigation is required, or cases against small firms. Attractive though these ideas sound, it is hard to see how they would work in practice.

Linking the fee to the level of detriment is difficult. It is often not possible to ascertain the extent of detriment without full investigation. Complainants do not always indicate, or even know, the level of detriment involved in their complaint. This is only calculated in cases where the complaint is upheld. Even then, an actual figure is not always specified, as firms may be required to calculate the level of redress. Moreover, with investment products in particular, the actual detriment may not be evident until some time in the future. Finally, to be equitable, the size of the detriment should be related to the complainant's income and assets. Any such calculation would be difficult and open to challenge.

Linking charges to the actual amount of time spent on a case would mean detailed time recording and billing, which would add to the overall costs of the Service. An alternative approach would be to have a scale of charges linked to the stage at which the case was closed – assessment, investigation or ombudsman decision. This is not as easy as it sounds. The different stages are not legally defined nor, in practice, are they entirely distinct. It would be difficult to implement this approach without making the Service less flexible.

Any approach that linked charges to time spent on a case would impact unfairly on firms unless judgements were made about whether the extra work on a case had been generated by the firm or by the complainant – and this would be very difficult, leaving the Service open to challenge. Firms would also be justified in objecting to higher fees where a complainant has refused to accept a fair and reasonable outcome from an adjudicator and requested reconsideration by an ombudsman.

Charging lower fees to smaller firms is probably ruled out on the grounds that there cannot be any deliberate cross-subsidy between firms. There would need to be clear evidence to show that cases brought against smaller firms cost less to process. The case audit found no such evidence, indeed, the complaints against small firms often required the most effort to resolve.

4 Assuring quality

In an organisation like the Financial Ombudsman Service there is an inevitable tension between quality and quantity. Each case needs to be dealt with individually and on its own merits. This takes time and, when there is pressure to keep up with a growing influx of cases, there is a danger that the quality of the work will suffer. There was, therefore, a concern within the organisation that the recent massive growth in the number of complaints may have compromised quality and a key part of our task was to explore whether or not this was so.

We need to begin by asking what we mean by quality in the context of the Financial Ombudsman Service. Overall, we believe that it is the extent to which the service provided adheres to the organisation's core values. We found that these core values were well understood by staff at all levels and that they were adhered to consistently.

In terms of individual cases, quality is determined by a number of factors. First, and perhaps most important, is the actual outcome of the complaint:

- Was the outcome fair and reasonable?
- Was it consistent with outcomes in like cases?
- Was the decision and the reasons underlying it clearly explained?

The core values of the Financial Ombudsman Service

- Independent, balanced, competent
- Trusted by consumers and companies as a responsible 'honest broker'
- Operates with integrity and efficiency
- Learns through stakeholder engagement
- Responsive to stakeholders
- Transparent
- Inclusive

Much also depends upon the way the case was investigated:

- Was all the relevant information gathered and used?
- Was the correct level of investigation carried out?
- Was the complaint correctly and fully identified?
- Were any additional points made by the parties dealt with?
- Were all the issues raised by all the parties addressed?

Handling cases involves considerable interaction with complainants and firms. The effectiveness of communication, therefore, is an important determinant of quality:

- Were the most appropriate methods of communication used?

- Were written communications accurate, complete, clear, concise and free of jargon?
- Was the communication with the complainant pitched at the correct level?
- Were all the facts in the communications accurate?

Timeliness is also important:

- Were there any avoidable delays during the handling of the case?
- Were all parties aware of how the case was progressing and the timescales within which they could expect to be contacted?

Together, these factors form the framework within which the Financial Ombudsman Service attempts to assure quality. They also formed the criteria that we used when assessing the quality of the Service.

Overall levels of quality and satisfaction

Our assessment was based on interviews and focus groups with over 100 staff; on a study of the systems and processes used in the organisation, and on an audit of a sample of closed cases. We concluded that the systems in use are robust, flexible and capable of delivering high-quality outcomes; the staff are of a high calibre and are committed to the organisation's core values and to delivering a high-quality service; overall the quality of case-handling is high, although there are some variations in the work of individuals; delays occur at the stages where cases are allocated to adjudicators and ombudsmen, and finally, that there is scope to improve the arrangements for checking and assuring quality.

There are at present no organisation-wide measures of the quality of case-handling in the Financial Ombudsman Service. Management information tends to concentrate on flows of work rather than on levels of quality. (This deficiency is, however, currently being addressed – see below). It is therefore not possible to provide a precise measure of the level of quality, nor is it possible to say whether the level has changed in recent years.

We did, however, find a strong emphasis on quality at all levels within the organisation. There was a clear consensus about the characteristics of a good quality service and, just as important, about what determines poor quality.

There is also considerable evidence from the regular customer, firm and staff satisfaction surveys that the Financial Ombudsman Service carries out, which we have included in our assessment.

The impact of targets and incentives

As we noted in Chapter 3, consumer consultants and adjudicators have targets for the amount of work they are expected to achieve. There is an incentive payment scheme that is linked to these targets. There is a concern that this system of targets and incentives might have an adverse impact on the quality of work undertaken within the Service.

While there is undoubtedly a tension between quantity and quality, we found no evidence to suggest that quality was suffering as a result of staff pursuing their targets.

One possible problem is that, as consumer consultants and adjudicators approach the end of an accounting period, they might speed up their work, cutting corners in order to meet their targets. We were told, however, that the targets were constructed so that they required a high level of achievement throughout the accounting period. As a result, little was gained by last minute surges in activity. To confirm this, the monthly customer satisfaction surveys (see below) have been monitored to see if there is any change towards the end of the accounting period – no such change has been observed.

The managers of consumer consultants and adjudicators are very aware of the deleterious effect that the targets and incentives might have on quality. Their view is that this is not, in fact, a significant problem. Indeed, they commented that many of the staff who regularly exceeded their quantitative targets were the ones who also produced the highest quality work.

The impact of external factors

The audit of cases that we undertook showed that quality of the service provided by the Financial Ombudsman Service can be affected by factors outside their control.

Some cases are held up because the complainant or, more often, the firm is slow to respond to requests for information. Other cases can be delayed because one of the parties insists on introducing extraneous arguments that are not pertinent to the matter under consideration. Both situations can greatly extend the length of time taken to resolve complaints.

Complaints involving the alleged mis-selling of investment products or endowment mortgages often hinge on the complainants' attitude towards the risk associated with the products. Providers of financial services are required to make an assessment of their client's attitude to risk and to sell products that are commensurate with that attitude.

Such assessments are inevitably subjective. Further, some firms assess attitude to risk on a simple three-point scale – low, medium and high – while others use a greater degree of precision and base their assessments on a five, seven or ten-point scale.

Even though clients may have signed documents to confirm that they agree with the assessment of their attitude to risk, it is apparent that many may not have fully understood the importance of what they were signing. In some of the cases we audited, for example, complainants had been assessed by firms as having a ‘balanced’ or ‘medium’ attitude to risk but the substance of their complaint was that they were not prepared to accept any risk that their capital might be eroded in value. These included people living on low, fixed incomes with small amounts of capital. In such circumstances, adjudicators and ombudsmen have to make very fine judgements about what is ‘fair and reasonable’ with a potential risk of inconsistency.

Assuring quality

Quality assurance involves the systems and procedures that support high quality working and that reduce the likelihood of error. It also involves mechanisms for checking outputs to ensure that the level of quality is monitored effectively.

The Financial Ombudsman Service has put in place various procedures, practices and systems that support the work of the consumer consultants, adjudicators and ombudsmen. These include a supportive set of working practices, training and knowledge management.

Quality is essential to the success of business. To make a difference, good quality practice must be embraced by senior management and instilled within an organisation's culture. Quality is not just about implementing a system or working towards a set standard. It is an attitude, a way of working, which not only improves businesses but the way people work and live.

Institute for Quality Assurance

There is a corresponding set of procedures for checking the work involved in dealing with cases and for monitoring the levels of satisfaction among customers, firms and the staff. Currently, however, there is no effective system for collating data about quality across the organisation.

Working practices

The Financial Ombudsman Service has evolved a comprehensive set of standardised procedures to support the handling of cases. A key component is the Croesus case management system (see Chapter 3). The system provides a highly effective mechanism for managing the work of the consumer consultants, the adjudicators and the ombudsmen. It sets out the stages that must be followed when

handling individual cases and prompts staff to issue reminders and other communications to keep the work on track. The system also enables managers to monitor the work of members of their staff.

While Croesus provides the basic mechanism for managing work, it is complemented by an open and supportive management style within which the work takes place. There is an overall collegiate approach in which staff are actively encouraged to consult their managers and the ombudsmen when dealing with cases. Staff at all levels also benefit from a high level of peer support, helping each other out and sharing expertise.

The consumer consultants in the Customer Contact Division and the adjudicators in the Business Units should also receive regular feedback from their managers at monthly one-to-one meetings, although it appeared that some managers are more assiduous than others when it comes to holding these meetings.

Training

Clearly, training is a key component in any quality assurance scheme. The recent rapid growth in the number of its staff has presented the Financial Ombudsman Service with a substantial training requirement. Although this put the provision of training under considerable strain for a period, the last six months have seen both consolidation and improvement.

The induction training appears to be quite effective. It is certainly good at inculcating an understanding of the Service's core values and for developing a strong identification with the ethos of the organisation. Some recently-appointed staff did, however, feel that they had been required to start casework too soon after taking up their new job, albeit under close supervision and with the help of a mentor,

A system of mentoring has been designed to support newly-appointed staff during their first few months in the organisation. Consumer consultants and adjudicators are assigned mentors by their managers, while new ombudsmen are mentored by an experienced ombudsman. The mentors provide day-to-day support, particularly in matters of procedure and approach. This seems to be greatly appreciated by the new staff although, clearly, it does tend to place a burden on their more experienced colleagues. And much depends on the quality of the mentor.

Continuing training is organised by the Human Resources Department and by the training coordinator in the Customer Contact Division. The provision used to be somewhat *ad hoc* but it has begun

to move towards a modular system of training to cover the skills required by consultants and adjudicators. All adjudicators have now been through the first of the modules – on decision-making procedures – and it has been well-received.

Within the Customer Contact Division, consumer consultants are encouraged to develop their understanding of the full range of products covered by the Service. Initially they are trained in one of the three main product areas: banking, investment or insurance. They are then encouraged to undertake cross-training in one or both of the other areas. Most consultants complete this cross-training within a year of starting with the Financial Ombudsman Service.

This form of cross-training has made less impact among the adjudicators in the Business Units. This is almost certainly because the depth of product knowledge required is much greater and adjudicators seem to perceive there to be more value in extending their expertise in a specific product area.

There is a continuing need for consultants and adjudicators to develop their knowledge of products and to be kept up-to-date with changes and developments as they occur.

Knowledge management

The Financial Ombudsman Service has, in the last year or so, invested quite heavily in the development of a knowledge management system. The aim is to provide staff at all levels with the information that they need to work effectively.

A major component is the Knowledge Information Toolkit. This consists of a series of guidance notes that are accessible through the intranet. The notes are written, in the main, by ombudsmen and are checked by an editorial panel led by one of the principal ombudsmen. They aim to provide adjudicators and others with all the information they need to deal with cases in different product areas. The guidance notes are very detailed and are set out in a standard format. They effectively encapsulate the knowledge and experience of the ombudsmen, making it accessible to all. The Toolkit has been very well received and its value to the organisation will increase as the range of topics covered grows.

The Knowledge Management Team also organise briefings at which external speakers make presentations to open meetings of the staff; manage the library and information service; and provide an e-mail alerting service, delivered through the intranet.

Checking the quality of work

All these mechanisms support staff in their work and provide them with the resources they need to deliver high quality. These are supplemented by a range of systems for checking the actual quality of the work as it progresses through the organisation. The basic principle is that work is checked by managers on a sample basis and the results are fed back to consumer consultants and adjudicators through regular meetings. The actual system has been subject to significant review in recent months and new arrangements are currently being implemented.

Checking within the Customer Contact Division

Within the Customer Contact Division, managers make regular monthly checks on a sample of work carried out by each consultant. They check three case conversions, three non-standard letters and recordings of four telephone calls. The consultants must achieve a pre-determined standard of quality across these items of work in order to achieve their targets for that month. The results of the checking process are fed back through monthly one-to-one meetings between consultants and their managers.

A quality assurance consultant has recently been appointed to the Division and she has begun to undertake more of the checking, thus ensuring a greater degree of consistency across the teams.

Checking within the Business Units

The work of the adjudicators in the Business Units is checked by their casework managers. The work of new staff is checked extensively for the first few months until the new adjudicator is sufficiently able and confident to work without close direction.

The work of all the other adjudicators is checked on a sample basis. Each month the case work managers (or their assistants) are required to check up to four cases that have been handled by each of the adjudicators in their team. They review the cases, making sure that the procedures have been followed correctly and that the outcome is appropriate. They then feed back the results of this checking to each individual adjudicator either informally or through

Criteria for checking casework

- Have the correct processes and procedures been used since case conversion?
- Was an appropriate investigation carried out?
- Was the outcome reasonable?
- Were all communications accurate and appropriate?
- Were there any delays in the case-handling process?
- Were all parties kept up-dated during the investigation?

regular one-to-one meetings. Some do this more assiduously than others.

The Financial Ombudsman Service has been reviewing its quality assurance system and has recently introduced some new arrangements for checking casework. The main feature of the new system is that adjudicators are now required to assess the sample of their own work that is also checked by their casework managers. It is believed that this process of self-assessment provides a sounder basis for discussion between adjudicator and manager. The casework manager is also required to give each case that they check an overall service quality rating in one of four categories: not acceptable, acceptable, good or exceptional.

The new checking regime is supported by clearer guidelines and definitions of assessment criteria in order to ensure greater consistency of checking and to enable service managers to monitor the work. It is too soon to say what the impact of the new arrangements will be. Our audit of completed cases, however, suggests that further refinement may be required if the quality checks are to be used to generate management information as well as feedback to adjudicators.

Most casework managers also check all the cases that are referred to an ombudsman for final decision before they actually go to the ombudsmen. This is to make sure that everything is in order and that the paper file and Croesus record are complete. The ombudsmen themselves are not involved in the formal quality checking process (although this is currently under review). They do, however, generally provide detailed feedback to the adjudicators on the cases that are passed to them for final decision.

A deficiency in the quality checking procedure, as it has operated until now, is that there is no mechanism for collating the results to provide an overall view of quality. Information is fed down through the system from casework manager to adjudicator but no attempt is made to compare levels of quality between teams, products or Business Units. Nor has it been possible to monitor levels of quality across the whole organisation. This is now being addressed. In future, the results of the quality checking system will be captured and reported as an element within the Service's management information reporting system. This will add an important dimension to the quality assurance system.

Satisfaction surveys

Regular satisfaction surveys provide another view of the quality of the service offered by the Financial Ombudsman Service. A customer, or complainant, satisfaction survey is carried out monthly. This

monitors the socio-demographic characteristics of the Service's users and measures their views on issues such as the timeliness with which their complaint was handled, the extent to which they were kept informed of progress, the politeness of staff and the clarity of process and outcome.

Overall levels of satisfaction are high and have improved, rising from 76 per cent in 2002-03 to 80 per cent in 2003-04. Nearly nine out of ten complainants felt that they had been kept well-informed, three-quarters felt that their complaint had been dealt with in a timely manner and that the outcome had been clear. Almost all (95 per cent) thought that the staff had been polite, but only 60 per cent thought the decision had been reasonable – perhaps a reflection of the fact that more complaints are rejected than are upheld.

The people who contact the Customer Contact Division are surveyed in a slightly less formal way, using a reply-paid postcard. Given the often brief nature of their contact with the organisation, it was felt to be inappropriate to subject them to a full satisfaction survey questionnaire.

The results of the surveys are reported regularly to the Board and the Executive Team and are posted on staff notice boards throughout the building. Detailed results are sent to the appropriate service managers who are expected to discuss them with their teams. The results are also published in the Service's annual report.

There is also an annual survey to measure the level of satisfaction among the firms that have been the subject of complaints, the results of which are published in the annual report. This shows that three-quarters of firms thought that the Service upheld a reasonable proportion of complaints against firms, 70 per cent thought that the decisions were generally fair and 90 per cent thought that the Financial Ombudsman Service provided a better alternative than going to court.

Finally, there is an annual staff satisfaction survey. This provides a valuable insight into the attitudes and concerns of the staff. About three-quarters, for example, feel that the Financial Ombudsman Service provides an appropriate level of service to both complainants and to firms; 85 per cent feel that their line manager is supportive, and over 90 per cent are happy to tell people that they work for the Financial Ombudsman Service. While not measuring quality directly, the survey results suggest that staff are generally positive about the work they do and the environment within which they work, both of which are generally regarded as characteristics of a workforce that produces high quality outputs.

Improving quality

We found no evidence to suggest that the Financial Ombudsman Service produces work of poor quality. The audit of cases, however, did identify a continuing problem with timeliness. Just over a third of the cases we reviewed had suffered delays of three months or more that were not caused by either the complainant or the firm. Most of these delays occurred when the cases were awaiting allocation to an adjudicator or to an ombudsman. Once allocated, there were very few delays. This suggests that the underlying problem is one of inadequate staff resources.

There were instances when quality standards slipped but they were isolated and were by no means indicative of generally low standards. In a small number of the cases that we audited, adjudicators had failed to keep complainants adequately informed about the progress of their complaint. In a similar number, adjudicators had failed to communicate the reasons for their decisions clearly enough.

This overall picture of quality tends to be confirmed by the results of the customer and firm satisfaction surveys. It is notable that quality standards do not appear to have slipped despite the very substantial increases in workload that have been experienced in the last four years.

This is almost certainly due to the fact that, at all levels of staff, there appears to be a commitment to the Service's core values and a shared understanding of what constitutes good and poor quality. Members of staff take pride in their work and strive to deliver a high-quality service.

There is, therefore, a shared responsibility for quality – which is a considerable strength. But, at the same time, nobody 'owns' quality within the organisation. No-one has specific responsibility for managing and developing the quality assurance system, for monitoring overall levels of quality or for taking action if standards start to fall. In one respect, of course, overall responsibility for quality ultimately rests with the Chief Ombudsman. We feel, however, that much would be gained from assigning specific responsibility for quality management to one of the executive members of staff.

In addition to this, we have identified four areas where further improvements could be made: by developing the provision of training; by extending the coverage of the Knowledge Information Toolkit; by strengthening the procedures for checking the quality of casework; and by developing a system for collating and reporting information on the levels of quality attained by consumer consultants, adjudicators and ombudsmen.

Training

It is often easy to see the provision of more and better training as a solution to many of the problems that organisations face. We feel, however, that in a skill-based organisation like the Financial Ombudsman Service, it is very important to enhance the skills and knowledge of staff through sustained training.

At present, it appears that training provision has developed in a somewhat *ad hoc* manner, usually in response to pressing needs, many of which were the consequence of rapid growth. We are aware that significant improvements have been made in the last year and that certain developments that have taken place, notably the introduction of the modular training, offer great potential for the future.

The training should concentrate on skills and understanding. New and existing staff should have access to a suite of training programmes that they can use to develop their skills in areas like writing, decision-making, negotiation and time management. They should also be able to deepen their understanding of specific product areas while having the opportunity to broaden their knowledge-base to cover a wider range of areas.

The Knowledge Information Toolkit

The Knowledge Information Toolkit is highly regarded and has clearly made a real impact in a short time. Even so, the range of topics that it covers needs to be extended. This will require a continuing investment of the time of ombudsmen and some casework managers, which will not be easily achieved in the face of the high volumes of casework. But it will be, we believe, an investment well worth making. The managers of the Toolkit, and the contributors to the guidance notes will also need to keep the content up-to-date. The Toolkit seems certain to play a growing role in ensuring the quality and consistency of casework and resources should be committed accordingly.

Casework checking

The systems for checking casework are currently undergoing significant change, with the introduction of self-assessment and a more refined system for recording the outcomes. The impact of these changes should be monitored carefully and reviewed in due course.

The system for quality checking might usefully be extended to include the ombudsmen. They already check the cases that come to them for

final decision. They might also check a sample of the cases that have been reviewed by the casework managers, or at least contribute to the casework checking undertaken by the casework managers. In addition, there may be merit in establishing a system for checking, or peer reviewing, the cases handled by the ombudsmen themselves.

The general arrangements could be further improved by taking steps to ensure that checking is carried out to a consistent standard across the casework teams and Business Units. It is also essential to ensure that the results of the checking process are always communicated to the consumer consultants, adjudicators and ombudsmen who have dealt with the cases under review.

Management information

Systems are currently being developed to collate results of the casework checking in order to produce an overall picture of the quality of work carried out by the Financial Ombudsman Service. The current provision of management information is impressive and it should be possible to integrate this additional information on quality. This will provide important information about changes over time.

Conclusion

Our overall conclusion is that the level of quality in the Financial Ombudsman Service is high. There may be occasional lapses, but these are probably inevitable in an organisation of this size and should not be seen as indicative of a general deterioration in levels of quality. Indeed, if customer satisfaction surveys are a guide, it would seem that the level of quality has risen over the last year.

While we were undertaking our assessment, the Service identified through its own procedures a batch of cases that failed to come up to their normal standards of quality. The matter was dealt with expeditiously and steps were taken to avoid its recurrence.

Steps are being taken to improve the mechanisms for assuring quality, specifically through improvements to the provision of training; the Knowledge Information Toolkit; quality checking; and developing management information about quality. These are to be welcomed. Further development would, we feel, be enhanced if one person was given overall responsibility for managing quality across the organisation.

5 Conclusions and recommendations

We were asked by the Board of the Financial Ombudsman Service to evaluate the work of the Service, looking principally at its outputs in terms of its interactions with customers and firms. We were asked to look at four themes: quality, consistency, process and value.

To do this we interviewed senior staff; conducted interviews and focus groups with operational staff; observed and analysed the complaint-handling process; and undertook an audit of closed cases. In all, we have talked to over 100 of the 725 staff.

Conclusions

Our overall view is that the Financial Ombudsman Service is a thoughtful, well-managed organisation that is doing a good job under difficult circumstances.

The Service has been able to attract very high calibre recruits, with the result that the staff throughout the organisation are both committed and professional. They subscribe to the Service's core values and are determined to deliver a high quality service. They take great pride in their work and in the Financial Ombudsman Service itself. They support each other, sharing their expertise. They are the Service's greatest asset.

Quality

The quality of case-handling is generally high. There is some inevitable variation in the work of individuals but there are no structural or pervasive factors that could cause general lapses in quality. In the instance of the batch of poor quality cases that were identified by the Service during the course of our assessment, the matter was dealt with expeditiously and steps were taken to avoid its recurrence. In particular, we found no evidence to suggest that the system of targets and incentives leads to any deterioration in the quality of people's work.

The arrangements for quality assurance are good. They are kept under review and are currently being improved. There is an effective framework of systems and services that have been designed to support

the work of the consumer consultants, the adjudicators and the ombudsmen. These include the Croesus case management system; the provision of training, particularly the modular training in case handling; the knowledge management system, and the Knowledge Information Toolkit, in particular. These operate within a management system that is open and supportive.

There are systems to check continuously the work of the consumer consultants and the adjudicators and for feeding the results back to the staff concerned. These have been strengthened in recent months and now seem to be fit for purpose. A deficiency that has existed until now has been the lack of a mechanism for capturing the results of this casework checking across the organisation as a whole. This is being rectified and data on quality will soon form part of the regular provision of management information.

A further check on quality is provided by regular customer, firm and staff satisfaction surveys.

Consistency

Consistency of approach and outcome is important. Complainants and firms need to be assured that like complaints will be dealt with in like ways, producing like outcomes. The Financial Ombudsman Service is, however, required to deal with each case on its individual merits and to arrive at outcomes that are fair and reasonable, taking all circumstances into account. This makes it difficult to achieve consistency.

We found no evidence to suggest that lack of consistency was a significant problem within the organisation. Put another way, like cases are dealt with in like fashion.

There may be some inconsistency of approach between individual consultants and adjudicators. Indeed, it would be surprising if there were not, given the rapid growth in staff numbers. However, the overall system for handling cases (discussed in Chapter 3) and the systems to assure quality (discussed in Chapter 4) serve to minimise the degree of inconsistency between staff. As the aggregate level of experience increases, the already low level of inconsistency in approach to casework should reduce still further.

We found no evidence to suggest that there was significant inconsistency in the outcomes of cases. In some circumstances, particularly in cases where fine judgements were involved, the apparent inconsistencies could be explained by reference to the different circumstances of the complainant. Where there were inconsistencies, they were often in the way that the outcomes were

communicated. Again, this is an unavoidable consequence of having individual consultants, adjudicators and ombudsmen exercising their independent judgement.

Consistency will continue to be an issue and will need to be monitored carefully. The new arrangements for collating the results of the casework checking across the organisation will provide the basis for this.

Process

The overall case-handling process is robust and fit for purpose. It complies with the principles of due and fair process. In particular, it serves to deal with cases in a timely fashion while providing opportunities for dissatisfied complainants and firms to ask for more detailed consideration, up to the point where the case is decided by an ombudsman. The process has proved to be flexible and responsive to very large shifts in the pattern of complaints. It has also been possible to adapt the basic process to accommodate the very different requirements of complaints about products such as mortgage endowments and split capital investment trusts.

A measure of the robust nature of the process is the fact that it has enabled the Financial Ombudsman Service to increase productivity by 50 per cent in the space of three years. We could find no obvious ways in which processes could be streamlined further.

One notable strength of the process is the fact that both complainant and firm have named contacts throughout the process. They are told who is dealing with the initial enquiry and the only change is when the case is transferred to an adjudicator in one of the Business Units. In all cases they are given the contact's name, direct line telephone number and e-mail address.

Value

The case-handling process is efficient and offers good value for money. The unit cost is low and has fallen significantly in the last three years. It is difficult to see how the unit cost could be reduced further without jeopardising quality. We believe it compares very favourably with the cost of other dispute-resolution methods.

The case-handling fee charged to firms, and the principle of not charging for the first two cases in any one year, seem very reasonable.

We found no support for the suggestion that lower fees should be charged for cases that involve only a small detriment to the

complainant; cases where only limited investigation is required, or cases involving small firms. Attractive though these ideas appear, it is hard to see how they could work in practice.

Recommendations

Timeliness

Inadequate staff resources mean that there are delays in allocating cases to adjudicators and ombudsmen. We, therefore, recommend that additional ombudsmen and adjudicators should be recruited at a rate that is commensurate with the organisation's capacity to train and support new members of staff and so ensure the maintenance of high standards of quality.

There is a need to manage complainants' expectations more effectively, by providing estimates of any anticipated delays.

Quality

Specific responsibility for the management of quality should be assigned to a member of the executive team.

A system for collating and reporting information about the levels of quality attained by all case-handling staff should be developed. The information should then be incorporated into the management information system.

Procedures for checking the quality of casework should be strengthened.

Training and support

The training of case-handling staff should continue to be developed in two main areas: skills, including writing, decision-making, negotiation and time management, and understanding of specific product areas.

The coverage of the Knowledge and Information Toolkit should be extended to enable staff to develop their knowledge of products and to keep up-to-date with changes.