

# 06/2 *newsletter*



This newsletter provides a summary of DP06/2. Please see 'Who should read this paper?' below to see if DP06/2 is relevant to you.

Financial Services Authority and  
Financial Ombudsman Service

## Financial Ombudsman Service compulsory jurisdiction: funding review

### Why are we issuing this discussion paper?

The Financial Services Authority (FSA) and the Financial Ombudsman Service (ombudsman service) are publishing a paper to stimulate discussion about how the cost of funding the ombudsman service's compulsory jurisdiction should be shared out in future.

### Who should read this paper?

We expect the paper to be read mainly by regulated firms – who fund the ombudsman service's compulsory jurisdiction through annual fees and case fees – and by trade associations. But there is also a wider public interest in the issues discussed.

### What is the background to this?

The ombudsman service exists to resolve individual disputes between consumers and financial services firms, as an informal alternative to the courts, and it is part of the statutory arrangements designed to underpin consumer confidence in financial services.

Under the Financial Services and Markets Act 2000 (FSMA) the ombudsman service's compulsory jurisdiction is funded by FSA-regulated retail firms – through a combination of annual fees and case fees. FSMA does not allow the ombudsman service to charge complainants a complaint fee or deposit.

Plans for a review of funding were announced in the ombudsman service's Corporate Plan and Budget 2006/07 published in January 2006<sup>1</sup>, and were welcomed by the industry. The discussion paper considers how the costs of the compulsory jurisdiction should be divided amongst regulated firms in future. The review is not about how much the total costs should be. The ombudsman service consults about those costs each year when it publishes its budget.

A review is timely for several reasons. The ombudsman service now has access to a range of data about the spread of complaints that was not available when the existing arrangements were set up. The number of firms covered by the compulsory jurisdiction has increased from about 8,000 to about 26,000, with most of the increase being amongst smaller mortgage and general insurance firms. And various issues have been raised by firms and others about the existing arrangements. This review is proceeding in parallel with the FSA's review of Financial Services Compensation Scheme (FSCS) funding<sup>2</sup>.

The ombudsman service also has a voluntary jurisdiction and, under the Consumer Credit Act 2006, will have a new consumer credit jurisdiction. In both these cases, it is the ombudsman service which sets the annual fees as well as the case fees (subject to FSA approval). The funding of these other jurisdictions raises distinct issues which are not dealt with here. The other jurisdictions will not necessarily follow the same model as the compulsory jurisdiction.

## How is the paper set out?

The full paper is set out as follows:

- Chapter 2 describes the existing funding arrangements.
- Chapter 3 explains the current distribution of cases and funding amongst firms.
- Chapter 4 sets out the main issues that arise in relation to the existing arrangements – as background to a range of options that follow.
- Chapter 5 sets out a range of options for the future:
  - continuing the existing arrangements unchanged or modifying them by fixing the proportions between case fees and annual fees at 80:20;
  - raising all the funding by annual fees only (with no case fees) or by case fees only (with no annual fees); or
  - adopting a more radical approach, with a small flat-rate annual fee and a case fee (for any cases in excess of 5, 10 or 24 per firm per year) broadly equivalent to the actual cost-per-case.

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1 [www.financial-ombudsman.org.uk/publications/pb06/index.html](http://www.financial-ombudsman.org.uk/publications/pb06/index.html)

2 DP06/1 – FSCS *funding review*: [www.fsa.gov.uk/pubs/discussion/dp06\\_01.pdf](http://www.fsa.gov.uk/pubs/discussion/dp06_01.pdf)

- Chapter 6 raises some subsidiary issues for discussion: whether there is scope for larger-user firms to pre-buy blocks of case fees; the special position of some non-profit non-commercial organisations such as credit unions, cash plan health providers and some friendly societies; and whether each member of a network should be treated for funding purposes as if it were a regulated firm.
- Chapter 7 summarises the questions raised in the previous chapters.
- Annexes A to K contain tables for each of the options described in Chapter 5 – showing the effect on all the firms in each of the current fee blocks and also on some typical real firms. And Annex L shows how the distribution of funding under each of these options compares with the current distribution, previously described in Chapter 3.

## What are the next steps?

We are asking for your comments on the issues raised in the discussion paper. Please send them to us by 31 July 2006. We will publish a consultation paper in the Autumn of 2006 and a policy statement before the end of the financial year.

The Financial Services Authority (FSA) and the Financial Ombudsman Service invite comments on this Discussion Paper. Please send us your comments to reach us by 31 July 2006.

Where possible, we would appreciate responses by e-mail sent to both [adrian.dally@financial-ombudsman.org.uk](mailto:adrian.dally@financial-ombudsman.org.uk) and [dp06\\_02@fsa.gov.uk](mailto:dp06_02@fsa.gov.uk).

Alternatively, please send comments in writing to:

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London E14 9SR

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**Copies of all responses will be made available to both the FSA and the Financial Ombudsman Service. We will make all responses available for public inspection unless the respondent requests otherwise in writing. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure.**

## How can I get the full paper?

You can download the full Discussion Paper from:

[www.fsa.gov.uk/pages/Library/Policy/DP/2006/06\\_02.shtml](http://www.fsa.gov.uk/pages/Library/Policy/DP/2006/06_02.shtml)

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