



Financial
Ombudsman
Service

Rt Hon Nicky Morgan MP
Chair of the Treasury Committee
House of Commons
Committee Office
London
SW1A 0AA

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

write to **Financial Ombudsman Service**
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Sent by email

25 September 2018

Dear Ms Morgan,

Thank you for your letter of 4 September about Richard Lloyd's independent review of the Financial Ombudsman Service and the case review recommendation which asked us to *"check an appropriate sample of casework, to make sure that decisions made during the early stages of the reorganisation were handled in accordance with the controls and standards put in place at the time"*.

Since our earlier exchanges, we have continued to give careful thought to the arrangements for this review, agreeing that the approach we take, and its demonstrable independence, will be central to our building consumer confidence in the service. We have now finalised our plans, which will involve a two-stage review, carried out by two separate independent parties.

The first stage will comprise the sample review exercise to check cases against the relevant controls and standards, which we have asked our independent internal auditors, Deloitte, to undertake alongside validating the proposed approach and methodology. The second stage will comprise a further review of any case found not to have been handled in accordance with our controls and standards to examine the outcome and whether there has been any consumer detriment as a consequence. We have asked Carol Brady MBE, a former legal ombudsman, author of the Brady report for the Ministry of Justice on the future regulation of CMCs and a current Advisory Member of the Commission for the Local Government and Social Care Ombudsman, to undertake this second stage. The test will mirror that applied to Judicial Review claims – where a

judge will determine whether a decision is unreasonable because “no reasonable person acting reasonably could have made it”.

As requested, please find enclosed a schedule setting out the terms of this review and further detail on the scale of the exercise. In brief, you’ll see the exercise anticipates a sample size of around 1,000 cases, taken from the 8,000 or so cases resolved during the relevant period. This sample size is in line with best practice and provides a 95% degree of confidence that the results returned will be representative of the entire population.

You have also asked us to indicate the percentage of cases that will be more complex in nature. The cases in the sample will come from the full range of product areas – so from banking, mortgages, insurance, investments and pensions. Though as we touched on in the committee proceedings in July, complexity goes wider than product type – and is just as likely to be determined by the specifics of an individual case, for example, the consumer’s background and personal and financial circumstances or the amount at stake and/or impact the issue is having on their life. While it’s not possible to give a percentage when viewing ‘complexity’ in this way, therefore, I hope that the committee can be assured that the methodology I’ve described will ensure statistical validity across the sample, and take further comfort in knowing that this methodology will be assessed by Deloitte in the first instance.

In closing, just to confirm that we expect to be in a position to publish the results of this work by the end of 2018, as part of our progress report on the independent review recommendations as a whole. Of course, if the timing needs to change, for example, in the light of the number of cases put forward for review at the second stage, we shall keep the committee updated. In the meantime, I hope that this is helpful, but, as ever, if there are any areas where we can provide further assistance or clarification, please let me know.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'CW', followed by a horizontal line.

Caroline Wayman
chief executive & chief ombudsman