Dear Nicky,

Thank you for the opportunity to give my views on the progress being made by the Financial Ombudsman Service (FOS) in response to my independent review.

As set out in my report of July 2018, I found that more consumers should make use of the FOS, confident that it is not institutionally biased while being realistic about the limitations of its free and informal service. I recommended 22 actions, including measures to improve service quality, to address organisational issues and to create a clearer, more sustainable and impactful future strategy and funding. Having accepted all of my recommendations, the FOS reported publicly against these in December 2018. I have reviewed their report and the accompanying plans, and met with the CEO and key staff responsible for implementing my recommendations.

Overall, I am satisfied that the FOS has taken my review extremely seriously and carried out a wide range of actions in response. At the same time, I have seen an appropriate response to the extensions to FOS jurisdiction, which also take into account the lessons from my review.

There is a small proportion of highly dissatisfied service users who do not agree with decisions made by the FOS, and a number of these wrote to me, and no doubt continue to write to Members of the Committee, in genuine distress about the complaints about financial institutions that they hoped to have resolved in their favour. I understand that the FOS has offered to review such cases, and it is vitally important for public confidence that complaints against the FOS itself are better handled and learnt from.

That said, I urge the Committee to look at the organisation in the round and to recognise that customer satisfaction with the FOS, and now two independent reviews in 2018, suggest that overall it is performing at a level consistent with its publicly stated objectives.

Service quality

I have looked at the steps taken since my review to strengthen areas including knowledge support, staff training, casework quality assurance and to improve the complaints processes where consumers believe the FOS has got things wrong. I have found that my
recommendations in this area are being implemented in full and believe that this should improve the quality of casework. As I recommended, continuous improvement must be central to the short- and long-term plans of the FOS, and I am pleased to see this commitment repeated in their recent consultation document.

In the use of technology I have seen the potential for a transformation of the service and I very much hope to see new capabilities fully deployed in the coming weeks. It is essential that consumers are able to engage directly with the FOS through the new digital platform in development and for the organisation to be able to identify emerging problems in the financial services market through its new data analytics and insight tools. This will enable a shift towards the early identification and prevention of complaints in financial services that will benefit many consumers and firms, and assist regulators, government and Parliament in understanding the market.

Organisational issues

Committee Members asked me in oral evidence to what extent I had personally sifted through many thousands of full case files as part of my review. I hope I was clear that, as required by my terms of reference and the limited time available, I prioritised investigating the 14 specific issues, along with root causes such as management action, organisational, cultural or any other underlying factors. I did of course receive and read a large number of files that individuals sent to me, all of which I took into account for my review and asked FOS staff to address formally.

As you know, I also recommended that a sample of cases from a high risk period in the FOS reorganisation were formally assessed and in my view, that recommendation has been met in full. The findings reported by Carol Brady MBE confirm my own view that casework has typically been completed to a robust standard, although there are always areas for improvement, and in the small number of cases where casework quality has fallen short the FOS is also reviewing those cases. The evidence is of an organisation and its people trying to do the right thing by consumers, who would otherwise have no alternative but expensive action in the courts.

However, I am pleased that the board and senior executives at the FOS have recognised that the recent reorganisation was not implemented as effectively as it should have been and a full lessons learned review has been carried out, with external help.

I have seen comprehensive plans to improve the investigations operating model, and to involve a wider range of staff in doing so. This work should be completed soon. As a key part of this, the quality of casework has been given renewed priority in casework objectives. Quicker, earlier resolution of routine cases, and the deployment of specialist expertise to deal with the minority of more complex cases and those presented by SMEs or involving complaints management companies, is expected to be achieved by refinements to the operating model and are consistent with the aim of bringing experienced ombudsmen closer to the consumer.

Changes to the culture and morale of an organisation of this size cannot be made overnight but I believe that the plans in place are appropriate. Staff survey data show that there is still much to be done but there are already encouraging signs of improvement in internal communications.
Governance and finances

The FOS has set out very high level strategic aims and begun a process of engaging staff in developing a longer term organisational strategy. It is anticipated that this work will be done by the summer, the time being taken in part because of the need to have a bottom-up approach and as a result of continuing uncertainty caused by the PPI claims deadline. In my view, the latter should not be an obstacle to swiftly giving the organisation and its stakeholders clarity about future direction.

Alongside strategic planning for the longer term, possible new funding models based on the risk that firms bring to the market are being explored, as I recommended, and I hope that the FOS will be able to consult on this before the end of 2019. This will be essential in supporting a strategy that gives greater weight to preventative work, earlier case resolution and the smarter use of technology.

In conclusion, I have found that the FOS has detailed and comprehensive plans to learn from my review, to make the necessary changes to how it operates, and at the same time to produce strategic plans for the future that will enable it to be more effective for more people. I hope to see the encouraging progress already made continue with the necessary urgency and pace.

I hope this is helpful. I am copying this letter to Caroline Wayman, John Glen MP and Charles Randell.

Yours sincerely,

RICHARD LLOYD