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Financial Services Authority and
Financial Ombudsman Service

Financial Ombudsman Service compulsory jurisdiction: funding review

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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 email sent to both adrian.dally@financial-ombudsman.org.uk and dp06_02@fsa.gov.uk.

Alternatively, please send comments in writing to:

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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.

Who should read this paper?

We expect this paper to be read mainly by regulated firms who fund the Financial Ombudsman Service's compulsory jurisdiction through annual fees and case fees.

But there is also a wider public interest in the issues discussed in this paper. Others, particularly organisations representing consumers, are also invited to respond.

Copies of this discussion paper can be downloaded from our websites: www.fsa.gov.uk or www.financial-ombudsman.org.uk. Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

1 Overview

Background

- 1.1 The Financial Services Authority and the Financial Ombudsman Service are publishing this paper to stimulate discussion about how the cost of funding the ombudsman service's compulsory jurisdiction should be shared out in future. 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.
- 1.2 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 (fixed by the FSA) and case fees (fixed by the ombudsman service with FSA approval). FSMA does not allow the ombudsman service to charge complainants a complaint fee or deposit.
- 1.3 Plans for a review of funding were announced in the ombudsman service's corporate plan published in January 2006¹, and were warmly welcomed by the industry – though any change is bound to produce 'winners' and 'losers'. This discussion paper considers how the costs of the compulsory jurisdiction should be divided amongst regulated firms. This review is not about how much the total costs should be. The ombudsman service consults about those each year when it publishes its budget.
- 1.4 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. 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 firms. And various issues, described in Chapter 4, have been raised by firms and others about the existing arrangements.

1 www.financial-ombudsman.org.uk/publications/pb06/index.html.

- 1.5 This review is proceeding in parallel with the FSA's review of Financial Services Compensation Scheme (FSCS) funding², so that firms can see the overall impact. The options explored in this paper are compatible with the ideas emerging there, and the developing sense that there are linked but distinct features relevant to the differing work of the FSA, the ombudsman service and the FSCS.
- 1.6 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 and will be dealt with separately. They will not necessarily follow the same model as the compulsory jurisdiction.

Current arrangements

- 1.7 Chapter 2 describes the existing arrangements. More than 70% of the ombudsman service's funding now comes from charging case fees – after the first two cases per firm per year, which it does not charge for. The balance comes from annual fees (or levies) payable by all firms, calculated according to the scale of their business within fee blocks that broadly reflect the activities in which they are involved. The standard case fee has remained fixed at £360 since 2002, with the annual fees covering the variable balance remaining after the estimated income from case fees.
- 1.8 Chapter 3 explains the current distribution of cases and funding amongst firms. In a typical year:
- 22,193 firms (85% of firms) have no cases.
 - 1,420 firms (5% of firms) have more than 2 cases and so pay case fees.
 - 277 firms (1.06% of firms) have 25 or more cases each – a total of 103,035 cases (90.53% of cases). They provide 84.32% of total fees.
 - 26 firms (0.10% of firms) have 1,000 or more cases each – a total of 67,425 cases (59.10% of cases). They provide 51.95% of total fees.

Issues and options

- 1.9 Chapter 4 sets out the main issues that arise in relation to the existing arrangements – as background to a range of options that follow. It considers the balance between annual fees and case fees, and other issues about the structure of funding. It refers to concerns that have been raised – including small-firm worries about case fees, and the view by some large firms which are good complaint-handlers that they are subsidising other large firms which are poor complaint-handlers.

2 DP06/1 FSCS funding review: www.fsa.gov.uk/pubs/discussion/dp06_01.pdf.

- 1.10 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 cost-per-case.

Those options which use fee blocks do not involve any change to the constitution of the existing fee blocks.

- 1.11 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.
- 1.12 Chapter 7 summarises the questions raised in the previous chapters. We invite views, and we are also open to suggestions for other options – perhaps including elements from the options we have set out.
- 1.13 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 (but anonymised) 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.

Illustrative figures

- 1.14 The figures quoted to illustrate the effect of various options are based on an example year, using the most up-to-date figures available at the time of writing. These figures use, as appropriate:
- the annual fee (or levy) rates and case fees fixed for 2006/7; and
 - the number and spread of cases closed during the calendar year 2005.
- 1.15 On this basis, the cost-per-case would be £481 for the example year. That is slightly more than the £472 cost-per-case in the 2006/7 budget, because the ombudsman service expects to close more cases in 2006/7 than in 2005.³

3 Cost-per-case is the total budget (less cost of financing) divided by the number of cases closed.

Cost-per-case is not the only measure

1.16 In considering the balance between annual fees and case fees, it is relevant to remember that the ombudsman service's funding covers much more than closing cases. It includes many activities directed to helping resolve complaints that never become chargeable cases, and helping to eliminate the sources of complaints. For example (in the calendar year 2005):

- the ombudsman service's technical advice desk (for firms and consumer advisers) handled more than 20,000 enquiries;
- the ombudsman service's customer contact division handled more than 660,000 enquiries from consumers;
- the ombudsman service's customer contact division also resolved about 11,000 complaints which would otherwise have become chargeable cases;
- the ombudsman service ran seven conferences around the UK, and provided speakers for 124 conferences and seminars run by other organisations;
- it visited 201 major providers of financial services and had 84 liaison meetings with groups of financial services practitioners;
- the ombudsman service provided 47 days of training and workshops for organisations that advise consumers;
- it handled 500 enquiries from Members of Parliament and 3,500 calls from the media;
- there were about 1,250,000 visits to the ombudsman service's website (which has more than 1,000 pages of information); and
- the ombudsman service printed and distributed 2,700,000 leaflets and other publications.

2 Current funding arrangements: description

Structure

- 2.1 In 2001/2 the ombudsman service was funded through service level agreements with the predecessor schemes. Since 2002/3 the compulsory jurisdiction has been funded by a combination of annual fees and case fees.
- 2.2 The annual fees are:
- paid by all FSA-regulated firms subject to the compulsory jurisdiction⁴, whether or not they have any cases referred to the ombudsman service;
 - set by the FSA after public consultation⁵; and
 - are invoiced and collected by the FSA (under a single invoice covering fees for the FSA, the ombudsman service and the Financial Services Compensation Scheme).
- 2.3 The case fees are:
- paid by firms that have cases referred to the ombudsman service;
 - set by the ombudsman service (with FSA approval)⁶; and
 - are invoiced and collected by the ombudsman service when the case is closed.
- 2.4 Since 2004/5 cases have been charged only for the third and subsequent cases per firm per year. Subject to that:
- most chargeable cases attract the standard case fee of £360 (a figure which has remained unchanged since 1 April 2002);

4 FSA-regulated firms other than those which have certified to the FSA under DISP 1.1.7 R that they do not do business with eligible complainants.

5 The FSA's power to set annual fees for the ombudsman service's compulsory jurisdiction is given by section 234 of FSMA.

6 The ombudsman service's power to set case fees for the compulsory jurisdiction is given by paragraph 15 of schedule 17 to FSMA.

- but a few chargeable cases, such as those where the complainant is a small business, attract a special case fee of £475 (a figure which has reduced in stages from £720)⁷.

Existing balance between annual fees and case fees

- 2.5 There was a public consultation before the 2002/3 annual fees and case fees were set. Some respondents favoured recovering most or all of the cost through annual fees paid by all firms. Other respondents favoured recovering most or all of the cost through case fees paid by firms about which cases were referred to the ombudsman service.
- 2.6 For 2002/3 we decided that 50% of the costs of the compulsory jurisdiction should be raised through annual fees and 50% through case fees. The standard case fee of £360 was calculated on this basis. In the event, because the number of cases closed was greater than anticipated, case fees actually covered 58% of the costs.
- 2.7 For subsequent years, the amount of the standard case fee was left unchanged at £360. So, as the number of cases increased and the cost-per-case declined, the case fee formed an increasing proportion of total funding.
- 2.8 Now, case fees provide more than 70% of total funding. But, if all other things remained equal, a reduction in the number of cases closed would reduce the proportion of funding covered by case fees.

Setting the annual fees

- 2.9 The proportion of the ombudsman service's budget represented by annual fees does not currently reflect a specific area of costs. In calculating the amounts that will be raised by annual fees and case fees, the ombudsman service:
- estimates how many cases it will close during the year;
 - calculates how much this will raise in case fees; and
 - calculates how much it will need to raise by annual fees.
- 2.10 The total annual fees are then allocated amongst firms in two stages:
- The total annual fees are divided among the fee blocks (which are based on activities), according to the number of case-handling staff the ombudsman service expects to need for cases from that sector.
 - The annual fees for each fee block are divided among the firms in that block, according to a tariff rate (relevant to that sector) which is intended to reflect the scale of the firm's business.

⁷ The special case fee was £720 in 2002/3, £600 in 2003/4, £550 in 2004/5 and became £475 in 2005/6.

- 2.11 There are 15 separate activity-based Financial Ombudsman Service (FOS) fee blocks (numbered 1 to 10 and 13 to 17) – reflecting current FSA fee blocks or amalgamations of them. The blocks do not differentiate between large firms and small, though some of the tariff rates do.
- 2.12 The compulsory jurisdiction covers about 26,000 FSA-regulated firms. Because some firms are involved in more than one regulated activity and appear in more than one fee block, the 26,000 firms pay about 41,000 annual fees. The split between case fees and annual fees applies in the same way to all firms, from members of the largest groups to sole proprietors.
- 2.13 The annual fees are assessed on FSA-regulated firms. Some major groups contain around 50 FSA-regulated firms – each of which is assessed separately. About 85% of firms are so small they pay the minimum annual fee for their FOS fee block.
- 2.14 A firm carrying out more than one activity pays an annual fee for each FOS fee block within which it falls. This means, for example, that a high-street sole practitioner who is both an insurance broker and a mortgage broker pays two minimum annual fees. And a high-street sole practitioner who is an insurance broker, a mortgage broker and an IFA pays three minimum annual fees.
- 2.15 Table 1 (overleaf) shows the 2006/7 annual fee rates for the compulsory jurisdiction.

Table 1: 2006/7 annual fees for the compulsory jurisdiction⁸

| Block | Description | Tariff basis | Gross tariff rate (£) | Minimum annual fee (£) | Gross total (£k) | Contribution by block % |
|-------|--|---|-----------------------|------------------------|------------------|-------------------------|
| 1 | Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | per relevant account | 0.0059 | 100 | 1,579 | 10.0% |
| 2 | Insurers – general (excluding firms in blocks 13 & 15) | per £1,000 of relevant annual gross premium income | 0.055 | 100 | 1,404 | 8.9% |
| 3 | The Society of Lloyd's | | n/a | n/a | 28 | 0.2% |
| 4 | Insurers – life (excluding firms in block 15) | per £1,000 of relevant adjusted annual gross premium income | 0.135 | 100 | 5,597 | 35.3% |
| 5 | Fund managers (including those holding client money/assets and not holding client money/assets) | per £1,000 relevant funds under management | 0.0007 | 100 | 495 | 3.1% |
| 6 | Operators, trustees & depositaries of collective investment schemes | flat fee | 0 | 75 | 36 | 0.2% |
| 7 | Dealers as principal | flat fee | 0 | 50 | 26 | 0.2% |
| 8 | Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | per relevant approved person | 150 | 150 | 3,983 | 25.1% |
| 9 | Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | per relevant approved person | 35 | 50 | 1,267 | 8.3% |
| 10 | Corporate finance advisers | flat fee | 0 | 50 | 51 | 0.3% |
| 13 | Cash plan health providers | flat fee | 0 | 50 | 1 | 0.0% |
| 14 | Credit unions | flat fee | 0 | 50 | 28 | 0.2% |
| 15 | Friendly societies whose tax exempt business represents 95% or more of their total relevant business | flat fee | 0 | 50 | 7 | 0.0% |
| 16 | Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | flat fee | 0 | 50 | 366 | 2.3% |
| 17 | General insurance mediation (excluding firms in blocks 13, 14 and 15) | flat fee | 0 | 50 | 937 | 5.9% |
| | Total – all blocks | | | | 15,847 | 100% |

⁸ The 'gross total' column is rounded to the nearest £1,000. Any discrepancy in the total is due to this rounding. The 'tariff basis' is multiplied by the 'gross tariff rate' in order to calculate the annual fee in £. For example, a bank with 1,000,000 relevant accounts would pay an annual fee of $1,000,000 \times £0.0059 = £59,000$.

3 Current distribution of cases and funding

By number of cases

- 3.1 Table 2 shows, for the example year, a breakdown of firms in relation to the number of cases referred to the ombudsman service during the year. It includes the percentage of cases and the percentage of total fees. This shows that some groups of firms produce a percentage of cases which is higher than the percentage of fees they pay – although, as already explained, the ombudsman service’s budget covers more than resolving cases.

Table 2: distribution of cases and funding⁹

| Cases per firm | Number of firms | Number of cases | Percentage of cases | Case fees (£k) | Annual fees (£k) | Total fees (£k) | Percentage of total fees |
|----------------|-----------------|-----------------|---------------------|----------------|------------------|-----------------|--------------------------|
| 0 | 22,193 | 0 | 0.00 | 0 | 3,334 | 3,334 | 6.10 |
| 1 to 2 | 2,403 | 3,056 | 2.68 | 0 | 1,917 | 1,917 | 3.50 |
| 3 to 5 | 664 | 2,474 | 2.17 | 413 | 433 | 846 | 1.55 |
| 6 to 10 | 277 | 2,073 | 1.82 | 547 | 386 | 932 | 1.70 |
| 11 to 24 | 202 | 3,181 | 2.79 | 1,000 | 550 | 1,550 | 2.83 |
| 25 to 99 | 155 | 7,560 | 6.64 | 2,610 | 1,702 | 4,312 | 7.88 |
| 100 to 299 | 62 | 10,130 | 8.90 | 3,602 | 1,437 | 5,039 | 9.21 |
| 300 to 999 | 34 | 18,100 | 15.90 | 6,492 | 1,862 | 8,353 | 15.27 |
| 1,000 to 4,999 | 23 | 42,546 | 37.38 | 15,300 | 3,191 | 18,491 | 33.81 |
| Over 5,000 | 3 | 24,699 | 21.70 | 8,889 | 1,036 | 9,925 | 18.15 |
| Total | 26,016 | 113,819 | 100.00 | 38,852 | 15,847 | 54,700 | 100.00 |

- 3.2 Out of 26,016 firms, 22,193 (85%) had no cases during the year. Only 1,420 firms (5%) had more than two cases and so paid case fees. Smaller-user firms and larger-user firms are not necessarily the same as small firms and large firms. A small firm can be a larger user, and a large firm can be a smaller user.

⁹ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

3.3 Amongst larger-user firms the distribution varies considerably. Of the 11 largest financial groups, whose firms provide most cases, the largest-user group provided six times as many cases as the smallest-user group – and eight times if market share is factored in.

3.4 Moving downwards from the largest-user firms:

- Three firms (0.01%) have:
 - 5,000 or more cases each
 - a total of 24,699 cases (21.70% of cases)
- 23 firms (0.09%) have:
 - 1,000 to 4,999 cases each
 - a total of 42,546 cases (37.38% of cases)
- 34 firms (0.13%) have:
 - 300 to 999 cases each
 - a total of 18,100 cases (15.90% of cases)
- 62 firms (0.24%) have:
 - 100 to 299 cases each
 - a total of 10,130 cases (8.90% of cases)
- 155 firms (0.60%) have:
 - 25 to 99 cases each
 - a total of 7,560 cases (6.64% of cases)

3.5 Moving upwards from the smallest-user firms:

- 22,193 firms (85.31%) have:
 - no cases, and so pay no case fees
- 2,403 firms (9.24%) have:
 - one or two cases each, and so pay no case fees
 - a total of 3,056 cases (2.68% of cases)
- 664 firms (2.55%) have:
 - three to five cases each
 - a total of 2,474 cases (2.17% of cases)
- 277 firms (1.06%) have:
 - six to ten cases each

- a total of 2,073 cases (1.82% of cases)

Cumulative totals (from largest-user firms)

3.6 Table 3 shows the cumulative totals of the same figures, starting from the largest-user firms.

Table 3: distribution – (cumulative totals from largest-user firms)¹⁰

| Cases per firm | Number of firms | Number of cases | Percentage of cases | Case fees (£k) | Annual fees (£k) | Total fees (£k) | Percentage of total fees |
|----------------|-----------------|-----------------|---------------------|----------------|------------------|-----------------|--------------------------|
| 5,000 or more | 3 | 24,699 | 21.70 | 8,889 | 1,036 | 9,925 | 18.15 |
| 1,000 or more | 26 | 67,245 | 59.08 | 24,189 | 4,227 | 28,417 | 51.95 |
| 300 or more | 60 | 85,345 | 74.98 | 30,681 | 6,089 | 36,770 | 67.22 |
| 100 or more | 122 | 95,475 | 83.88 | 34,283 | 7,526 | 41,809 | 76.43 |
| 25 or more | 277 | 103,035 | 90.53 | 36,893 | 9,228 | 46,121 | 84.32 |
| 11 or more | 479 | 106,216 | 93.32 | 37,893 | 9,778 | 47,671 | 87.15 |
| 6 or more | 756 | 108,289 | 95.14 | 38,440 | 10,163 | 48,603 | 88.85 |
| 3 or more | 1,420 | 110,763 | 97.32 | 38,852 | 10,596 | 49,449 | 90.40 |
| 1 or more | 3,823 | 113,819 | 100.00 | 38,852 | 12,513 | 51,366 | 93.90 |
| Total | 26,016 | 113,819 | 100.00 | 38,852 | 15,847 | 54,700 | 100.00 |

3.7 Moving downwards from the largest-user firms:

- 26 firms (0.10%) have:
 - 1,000 or more cases each
 - a total of 67,245 cases (59.10% of cases)
- 60 firms (0.23%) have:
 - 300 or more cases each
 - a total of 85,345 cases (74.98% of cases)
- 122 firms (0.47%) have:
 - 100 or more cases each
 - a total of 95,475 cases (83.88% of cases)
- 277 firms (1.06%) have:
 - 25 or more cases each
 - a total of 103,035 cases (90.53% of cases)
- 479 firms (1.84%) have:
 - 11 or more cases each

¹⁰ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

- a total of 106,216 cases (93.32% of cases)
- 756 firms (2.91%) have:
 - six or more cases each
 - a total of 108,289 cases (95.14% of cases)
- 1,420 firms (5.46%) have:
 - three or more cases each
 - a total of 110,763 cases (97.32% of cases)

Cumulative totals (from smallest-user firms)

3.8 Table 4 shows the cumulative totals of the same figures, starting from the smallest-user firms.

Table 4: distribution – cumulative totals (from smallest-user firms)¹¹

| Cases per firm | Number of firms | Number of cases | Percentage of cases | Case fees (£k) | Annual fees (£k) | Total fees (£k) | Percentage of total fees |
|----------------|-----------------|-----------------|---------------------|----------------|------------------|-----------------|--------------------------|
| 0 | 22,193 | 0 | 0.00 | 0 | 3,334 | 3,334 | 6.10 |
| 0 to 2 | 24,596 | 3,056 | 2.68 | 0 | 5,251 | 5,251 | 9.60 |
| 0 to 5 | 25,260 | 5,530 | 4.86 | 414 | 5,684 | 6,097 | 11.15 |
| 0 to 10 | 25,537 | 7,603 | 6.68 | 959 | 6,070 | 7,029 | 12.85 |
| 0 to 24 | 25,739 | 10,784 | 9.47 | 1,959 | 6,620 | 8,579 | 15.68 |
| 0 to 99 | 25,894 | 18,344 | 16.12 | 4,569 | 8,322 | 12,891 | 23.57 |
| 0 to 299 | 25,956 | 28,474 | 25.02 | 8,171 | 9,759 | 17,930 | 32.78 |
| 0 to 999 | 25,990 | 46,574 | 40.92 | 14,663 | 11,620 | 26,283 | 48.05 |
| 0 to 4,999 | 26,013 | 89,120 | 78.30 | 29,963 | 14,811 | 44,774 | 81.85 |
| Total | 26,016 | 113,819 | 100.00 | 38,852 | 15,847 | 54,700 | 100.00 |

3.9 Moving upwards from the smallest-user firms:

- 24,596 firms (95.00%) have:
 - 0 to two cases each and so pay no case fees
- 25,260 firms (97.09%) have:
 - 0 to five cases each
- 25,537 firms (98.16%) have:
 - 0 to ten cases each
- 25,739 firms (98.94%) have:
 - 0 to 24 cases each

¹¹ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

4 Main issues

Principles

4.1 We suggest that the funding arrangements should seek to strike a reasonable balance amongst the following factors:

- fair shares amongst firms of different sizes, types and behaviours;
- sustainable over time through variations in case numbers;
- no undue incentive for firms to reject justified complaints, nor accept unjustified complaints;
- practicable for the FSA and the ombudsman service to assess and collect;
- easy for firms to understand; and
- no transitional difficulties if the system is changed.

Q1: Are there any different or additional factors you consider relevant?

Balance between annual fees and case fees

4.2 Some people consider that most or all of the cost of the ombudsman service should be recovered through annual fees payable by all retail firms according to their market share. Their reasons include: all firms benefit from the existence of the ombudsman service as part of the statutory underpinning of consumer confidence in financial services; not all the ombudsman service's costs relate to resolving cases; and the incidence of complaints can be affected by the conduct of consumers and claims-management companies as well as by the conduct of firms.

- 4.3 Others consider that most or all of the cost of the ombudsman service should be recovered through case fees payable by firms whose cases are considered by the ombudsman service. Their reasons include: the need to underpin consumer confidence arises in part from the sub-optimal conduct of some firms in providing services and/or in dealing with complaints; and the absence of a substantial case fee might encourage firms to reject complaints inappropriately, as they would have nothing to lose in cases going on to the ombudsman service.
- 4.4 As previously explained, the initial funding arrangements for the ombudsman service reflected a compromise between these views, with 50% planned to be recovered by case fees and 50% by annual fees. Subsequently, the balance has shifted, with case fees providing more than 70% of funding. This review includes consideration of what the appropriate balance is between annual fees and case fees, and whether the balance should be the same for all firms or differ between smaller-user firms and larger-user firms.

Q2: Do you think the balance between annual fees and case fees is an issue of principle? Or do you consider it an issue to be resolved pragmatically and, if so, on what basis? Where would you strike the balance and why? Would you strike the balance in the same way for all firms or differently for smaller-user and larger-user firms?

The largest-user firms may benefit from the current allocation

- 4.5 Some large firms which are good complaint handlers have complained to the ombudsman service that the current charging system encourages some other large firms to skimp their complaint handling because they rely on:
- only a proportion of people whose complaints are rejected going on to the ombudsman service; and
 - once the firm has paid its annual fee, each extra case costs it only £360.
- 4.6 As one large firm put it in responding to the recent consultation on the ombudsman service's corporate plan and 2006/7 budget:

'For those large firms which provide the majority of cases and income, we consider that there is scope for developing a fee structure which provides a greater incentive for firms to improve their in-house complaint-handling performance, as opposed to relying on the Ombudsman to settle disputes.'

Most small firms resent having to pay a case fee even if they ‘win’

- 4.7 The ombudsman service upholds about one third of the complaints it considers. That does not mean that two thirds of complaints are referred to the ombudsman service without justification. Many firms could be better at explaining things to complainants, who may only get a proper explanation of why their complaint should not be upheld when they come to the ombudsman service.
- 4.8 Large firms gain on the roundabouts what they lose on the swings. If the ombudsman service did not charge £360 in cases where the firms ‘win’, the ombudsman service would have to charge £1,080 in the one third of cases where the firms lose.
- 4.9 But the swings and roundabouts principle does not work with a small firm that has few cases. £360 is a significant sum for small firms, and they – including firms that have never actually paid a case fee – can be disturbed by the prospect of having to pay even to prove their ‘innocence’.
- 4.10 These concerns are not limited to ‘live’ firms, but come also from ‘departed’ firms – firms which are no longer regulated but were regulated at the time of the act/omission giving rise to the complaint, and so are covered by the ombudsman service’s compulsory jurisdiction.¹² For example, a sole-practitioner IFA who retired five years ago may receive a number of complaints about products he sold 10 or 15 years ago. If these turn into more than two ombudsman service cases per year, he has to pay a case fee – even if he ‘wins’.
- 4.11 There are significant practical difficulties with a case fee based on who ‘wins’:
- For the reasons mentioned above, a £360 case fee would have to become a £1,080 case fee. That is an even more significant sum for a small firm, and the question of whether a case fee was payable would become a significant issue in its own right – adding complexity and delay.
 - Such a substantial case fee would be likely to reduce mediated settlements, as smaller firms would be reluctant to settle unless the ombudsman service agreed to waive the case fee. But to do so would reduce further the proportion of cases in which a fee would be payable, leading to yet a further increase in the case fee.
 - Where the ombudsman service adjudicates, there is not always a clear ‘winner’ and ‘loser’. The courts (where the parties’ costs usually follow the outcome) had to develop a complex system of payments (into court) and offers under part 36 of the Civil Procedure Rules to make such a system workable. That would also add to complexity and delay.

12 This is primarily an issue for sole traders and partnerships. Most former firms that were companies have been put into liquidation.

- Such a fee would be payable by a conscientious firm where the facts and/or the law were complex and the firm declined the complaint in good faith, though the ombudsman service took a different view of the merits. And it would not be payable by a sloppy firm whose poor explanation meant the complainant was justified in seeking a second opinion from the ombudsman service, even though the ombudsman service did not uphold the complaint.

4.12 In any event, there is an over-riding issue of principle which makes a case fee based on who ‘wins’ a non-starter. A fee based on the outcome of the case would appear to give the ombudsman service a financial incentive to uphold cases – meaning it would no longer be an independent tribunal. At present, the ombudsman service budgets on the basis of the number of cases it expects to close. If there were an outcome-related fee, it would have to budget instead on the basis of the number of cases it expected to uphold – creating a clear appearance of bias.

Not charging for the first few cases

4.13 Charging case fees for only the third and subsequent cases per firm per year was intended to mitigate small-firm concerns about having to pay a case fee even if they ‘win’. It must, of course, be remembered that this arrangement benefits larger-user firms also, and they are proportionately more likely to have more than two cases per year.

4.14 Of the 2,403 firms with one or two cases in 2005:

- only 363 (15.1%) had one or two cases also in 2004 (but none in 2003); and
- only 350 (14.6%) had one or two cases also in both 2004 and 2003.

4.15 This suggests that most of the firms with one or two cases are a floating population, with a minority of repeat firms, and that the new arrangement is not being abused. Small firms are unlikely to want to risk an adverse ombudsman award just because there is no case fee.

4.16 The change was welcomed by small firms. But a few investment firms receive (and many fear they will receive) more than two cases per year which they believe to be entirely without merit.¹³ Following regulation of insurance and mortgage intermediaries, many thousands more small firms have recently become subject to the compulsory jurisdiction. However, it is still rather early to assess the number of future cases they are likely to produce, which may well increase from the current comparatively low number.

4.17 So we are considering whether the funding arrangements should go further to recognise a distinction between smaller-user firms and larger-user firms, and where the cut-off between these two groups should be.

13 This is particularly so for firms which sold mortgage-endowment policies, which fear they may be targeted by claims-management companies.

Annual fees are currently geared

- 4.18 Because of increased efficiency, and economies of scale as case numbers have grown, the ombudsman service's cost-per-case has fallen. This has made it possible to both keep the standard case fee unchanged and reduce the proportion of funding raised through annual fees. But once the current surge of mortgage-endowment cases comes to an end, some of the economies of scale will reduce and the cost-per-case is likely to rise.
- 4.19 The gearing effect of using only the annual fees to cover any increase means that, if the cost-per-case rises, the annual fees would increase disproportionately. So, for example, all other things being equal:
- if a fixed standard case fee of £360 means that case fees cover 75% of the costs and variable annual fees covers the other 25%; then
 - because of the gearing, an increase of about 2% in total costs requires an increase of about 8% in the annual fees.

Accordingly, maintaining the standard case fee at £360 indefinitely is likely to produce fluctuations in annual fees of a size that firms may well find unattractive.

Special case fee

- 4.20 The (higher) special case fee applies in certain circumstances.¹⁴ The most common circumstance in which the special case fee is payable is where the complainant is a small business rather than a private individual.
- In some FOS fee blocks the tariff data is based on numbers of customers or income from customers (e.g. blocks 1 and 2, where the tariff data for the annual fee is based on numbers of accounts or premium income). But it is impractical for the firms in those blocks to distinguish small business customers from other business customers. So the tariff data is based solely on customers who are private individuals. The (higher) special case fee for complaints by small-business customers is intended to make up for their exclusion from the calculation of the annual fee for these firms.
 - But in other FOS fee blocks (e.g. blocks 8 and 9, where the tariff is based on the number of 'approved persons') the tariff data makes no distinction between types of customer. Yet firms in these fee blocks also have to pay the (higher) special case fee where the complainant is a small business, even though there has been no exclusion in calculating the annual fee for these firms.

14 See FEES 5.5.5 R to 5.5.14 R (which recently replaced similar provisions in DISP 5.6.6 R to 5.6.12 R).

- 4.21 The special case fee also applies where the complaint is against a former firm (one that was regulated at the time of the act/omission giving rise to the complaint, but is no longer regulated when the complaint is referred to the ombudsman service) – because the former firm ceased paying annual fees when it ceased to be regulated. The special case fee is also payable in some circumstances, related to the transition from the former schemes, which are usually no longer relevant.
- 4.22 In practice, the special case fee applies in only 2% of cases. So it is for consideration whether, in view of the associated complexity, the special case fee should be abolished – so the standard case fee applies throughout. The figures quoted in the rest of this paper assume the special case fee no longer applies and the cost is made up by adjusting other fees.

Q3: Do you agree that the special case fee (applicable in only 2% of cases) should be abolished, so the standard case fee applies to all cases where a case fee is payable?

Adjusting the standard case fee

- 4.23 As previously explained, the ombudsman service invoices and collects the case fee when the case is completed and closed. This contrasts, for example, with the former PIA Ombudsman Bureau (one of the predecessor ombudsman schemes), which invoiced and collected a case fee when the case was received – minimising the incidence of bad debt, but requiring a refund if it turned out that no case fee was chargeable.
- 4.24 If the standard case fee changes from one financial year to another, the rate payable by the firm will depend on the financial year within which the case is closed. This could become an issue in relation to cases closed shortly before or after a year end, if the firm thinks that (handled differently) the cases could have been closed later or earlier. But firms may well prefer this to having case fees invoiced and collected when cases are received.

Q4: Do you consider that, even if the standard case fee is altered, it should be invoiced and collected when the case is closed rather than when the case is received by the ombudsman service?

Stage-related case fees

- 4.25 The ombudsman service has explored the possibility of charging case fees according to the stage in the ombudsman process at which a case is resolved – but has concluded that would create undue complexity and unfairness.

4.26 The ombudsman process involves consideration of whether a case is within jurisdiction, whether it: should be dismissed without consideration of the merits; can be resolved by mediation; requires investigation; can be resolved by an initial decision from an adjudicator; or requires a final decision from an ombudsman. But these steps do not necessarily happen in that order, nor in the same order in all cases. For example:

- It may be that a case initially appears inappropriate for mediation, because both parties are unwilling to compromise, but an investigation turns up information that persuades both parties to think again – and the adjudicator is then able to mediate a settlement.
- It may be that a case goes all the way to an ombudsman’s final decision on the issue of when the complainant first became aware of particular events, in circumstances where that decision will (strictly speaking) turn on issues of jurisdiction.

And the stage at which a case is resolved may depend as much on the complainant as on the firm which is paying the case fee.

4.27 The simplest stage to identify is when a case passes from adjudicator to ombudsman. But only 8% of cases are decided by an ombudsman, so a stage-related charge would make little difference in practice. And it would make even less difference if it were charged only in the 4% of cases where it was the firm (rather than the complainant) who chose to take the case as far as an ombudsman final decision.

Data collection

4.28 When the current funding structure was created, it was based primarily on the readily available data the FSA collects from firms for its own purposes. That data was designed to estimate the amount of supervision the FSA would need to carry out, rather than for other purposes.

4.29 It is not practicable to collect alternative data from all firms to construct fee blocks designed specifically for ombudsman service purposes. Options which use fee blocks do not involve any change to the constitution of the existing fee blocks. But data is now available on the spread of ombudsman cases generated by firms, and that could be taken into account in the funding structure.

Q5: Do you have any further comments on the issues raised in Chapter 4, or any additional issues that you consider should be taken into account?

5 Options: description

- 5.1 This chapter sets out a number of options. Annexes A to K contain tables¹⁵ for each of the options – showing the amounts that would be payable by:
- all the firms in each of the current FOS fee blocks; and
 - some real (but anonymised) firms.

Annex L shows how the distribution of funding under each of these options compares with the current distribution, previously described in Chapter 3.

Retain the existing arrangements

- A** **Option A** is to retain the existing arrangements.

Case fees: These would be payable for the third and subsequent cases per firm per year. The case fee would remain fixed at £360.

Annual fees: These would cover the fluctuating balance then required, and would be calculated on the existing basis of FOS fee blocks and tariff rates.

- 5.2 Advantages include that the system is familiar, and the existence of the annual fees gives a measure of security to the ombudsman service's funding. Disadvantages include the criticisms identified in Chapter 4: *main issues*.
- 5.3 Respondents will have their own views on whether or not the result of the current arrangements is proportionate in the light of the information in Chapter 3: *current distribution of cases and funding*.

¹⁵ Because of rounding, there are slight variations in the totals.

Case fees for case-related costs: annual fees for other costs

- B** **Option B** is a modification of the existing arrangements, with a fixed apportionment between case fees and annual fees.

Case fees: These would be payable for the third and subsequent cases per firm per year. The case fee would be set each year at the rate necessary to cover case-related costs (80%). This would produce a case fee of about £405 for the example year.

Annual fees: These would cover the balance then required (20%), and would be calculated on the basis of FOS fee blocks and tariff rates – producing a slightly lower annual fee than currently.

- 5.4 These proportions are calculated by reference to the numbers of staff involved in each activity. Because the annual fees are set at a fixed percentage (rather than as a balancing figure), both case fees and annual fees would vary by the same proportion if the cost-per-case rises or falls.

Annual fees only: no case fees

- C** **Option C** is to recover all costs through annual fees only.

Case fees: There would be none.

Annual fees: These would be calculated on the basis of FOS fee blocks and tariff rates – producing annual fees about four times as large as currently.

- 5.5 This would be attractive to those who consider that all of the cost of the ombudsman service should be recovered through annual fees payable by all retail firms according to their market share. It would also remove small firm-concerns about case fees – albeit at the cost of greatly increased annual fees.
- 5.6 It would be unattractive to those who consider that most or all of the cost of the ombudsman service should be recovered through case fees payable by firms whose cases are considered by the ombudsman service.

Case fees only: no annual fees

- D** **Option D** is to recover all costs through case fees only.

Case fees: These would be payable for the third and subsequent cases per firm per year. This would produce a case fee of about £505 for the example year.

Annual fees: There would be none.

- 5.7 This would be attractive to those who consider that all of the cost of the ombudsman service should be recovered through case fees payable by firms whose cases are considered by the ombudsman service.

5.8 It would be unattractive to those who consider that most or all of the cost of the ombudsman service should be recovered through annual fees payable by all retail firms according to their market share. It would also increase small-firm concerns about case fees.

New model

5.9 As shown by table 3 in Chapter 3:

- only 3% of firms have more than five cases per year, and they produce 95% of cases;
- only 2% of firms have more than ten cases per year, and they produce 93% of cases; and
- only 1% of firms have more than 24 cases per year, and they produce 90% of cases.

5.10 A more radical approach to funding would be to establish a cut-off (at 5, 10 or 24 cases per year) and to deal differently with larger-user and smaller-user firms. This would make it simpler to deal with fear of case fees amongst small firms, while at the same time dealing with concerns about proportionality of funding amongst large firms. Under this model:

- For cases up to the cut-off point, no case fee would be payable. For cases above the cut-off point, the case fee would be broadly equivalent to the cost-per-case.
- There would be a small flat-rate annual fee. This would be the same for all, because all could potentially benefit from the same number of cases below the cut-off point.

5.11 Depending on the cut-off point chosen, this means that:

- the 97/98/99% of firms that are smaller-users (with few, or no, cases going to the ombudsman service) would pay no case fees.
- the 3/2/1% of firms that are larger-users (who provide 95/93/90% of all the cases) would pay in proportion to the number of cases.

5.12 The flat-rate annual fee might be calculated per permission, so a firm pays a fee for each FOS fee block in which it appears (as happens currently). Or it might be calculated per firm, in which case a firm appearing in more than one FOS fee block would still only pay one annual fee.

5.13 This produces a range of options which differ only according to whether:

- case fees are payable from the sixth, eleventh or twenty-fifth case per firm per year; and

- the flat-rate annual fee is charged per permission or per firm.

Under the new model:

Case fees: The case fee would be set each year at a rate broadly equivalent to the cost-per-case. This would produce, for cases above the cut-off, a case fee of about £480 for the example year.

Annual fees: These would be a flat-rate per permission or per firm.

- E** **Option E** is this new model with case fees payable for the **sixth** and subsequent cases per firm per year, and a flat-rate annual fee per **permission** of about **£110** for the example year.
- F** **Option F** is this new model with case fees payable for the **sixth** and subsequent cases per firm per year, and a flat-rate annual fee per **firm** of about **£175** for the example year.
- G** **Option G** is this new model with case fees payable for the **eleventh** and subsequent cases per firm per year, and a flat-rate annual fee per **permission** of about **£145** for the example year.
- H** **Option H** is this new model with case fees payable for the **eleventh** and subsequent cases per firm per year, and a flat-rate annual fee per **firm** of about **£230** for the example year.
- J** **Option J** is this new model with case fees payable for the **twenty-fifth** and subsequent cases per firm per year, and a flat-rate annual fee per **permission** of about **£205** for the example year.
- K** **Option K** is this new model with case fees payable for the **twenty-fifth** and subsequent cases per firm per year, and a flat-rate annual fee per **firm** of about **£325** for the example year.

Views invited

- 5.14 The table below sets out a summary of the options described in this chapter. We would welcome comments on these options. While we remain open-minded, we recognise that options E to K have the virtue of comparative simplicity – with no need for recourse to FOS fee blocks or annually-set tariff rates to set the annual fees – although option B would give the ombudsman service more stability in its funding.

| Option | Case fees | Annual fees |
|--------|--|---|
| A | Current £360 for the third and subsequent cases per firm per year | Balance of funding, calculated on the existing basis of FOS fee blocks and tariff rates |
| B | About £405 for the third and subsequent cases per firm per year – covering 80% of funding | 20% of funding, calculated on the existing basis of FOS fee blocks and tariff rates |
| C | None | 100% of funding, calculated on the existing basis of FOS fee blocks and tariff rates |
| D | About £505 for the third and subsequent cases per firm per year – covering 100% of funding | None |
| E | About £480 for the sixth and subsequent cases per firm per year | Flat-rate of about £110 per permission |
| F | About £480 for the sixth and subsequent cases per firm per year | Flat-rate of about £175 per firm |
| G | About £480 for the 11th and subsequent cases per firm per year | Flat-rate of about £145 per permission |
| H | About £480 for the 11th and subsequent cases per firm per year | Flat-rate of about £230 per firm |
| J | About £480 for the 25th and subsequent cases per firm per year | Flat-rate of about £205 per permission |
| K | About £480 for the 25th and subsequent cases per firm per year | Flat-rate of about £325 per firm |

5.15 In relation to these options:

- Option A means that no changes would have to be made. But it would not address the concerns highlighted by stakeholders (see Chapter 4) and would mean that any increase in costs would be borne only by the annual fees.
- Option B would have the benefit of reducing the volatility of the ombudsman service's funding, and of clarity. It would mean that increases in costs would be shared proportionately, but would not fully address the concerns of stakeholders (see Chapter 4).
- Option C would produce an annual fee about four times higher than currently. It would mean low volatility in funding, but there would be no link at all between the amount a firm paid and the number of cases it produced.
- Option D would directly link the amount a firm paid and the number of cases it produced. But it would increase the concerns of small firms about case fees and increase the volatility of funding.
- Options E to K address the concerns of small firms (by reducing the 'threat' of having to pay case fees) and large firms (by making their funding of FOS proportionate to the number of cases they produce), while simplifying matters by removing the need for fee blocks and tariff rates.

5.16 We would also welcome suggestions of other options, perhaps including elements from the options we have set out, in the light of the information provided by this paper and the issues raised.

- Q6: Which of the options (A to K) listed in Chapter 5 do you favour? Why do you favour that particular option?
- Q7: Do you have any other options to propose, in the light of the information provided by this paper and the issues raised?

6 Other issues

Block case fees

- 6.1 If the comparatively few larger-user firms indicated an interest in the possibility, the ombudsman service might explore whether it would be legally and practicably possible to sell them pre-paid blocks of case fees at a discount, on the basis that unused pre-paid case fees would not be carried forward to the next year.
- 6.2 This would help the ombudsman service with its cashflow and also focus the attention of larger-user firms on the desirability of more accurately predicting the number of cases the ombudsman service might expect to receive from them.
- 6.3 It is necessary to consider whether a discount that reflected the cashflow advantage to the ombudsman plus the risk of unused pre-paid fees to the firm, but did not over-subsidise pre-pay users, would be sufficiently attractive to firms.

Q8: If you represent a larger-user firm, would your firm be interested in the possibility of buying pre-paid blocks of case fees at a discount, but on the basis that unused pre-paid case fees would not be carried forward to the next year?

Credit unions, cash plan health providers and some friendly societies

- 6.4 Certain non-profit and non-commercial organisations are not charged case fees. They comprise credit unions, cash plan health providers and those friendly societies whose tax-exempt business represents 95% or more of their total relevant business (FOS fee blocks 13 to 15). In fact, none of these firms had any cases in the example year.
- 6.5 It is for consideration whether their annual fees should be capped at a low figure (currently £50) even if the option adopted would otherwise involve an increase in the amount recovered by annual fees. Because of the small numbers involved, the consequential effect on other regulated firms would be insignificant.

Q9: Do you think we should cap the annual fees for credit unions, cash plan health providers and friendly societies whose tax-exempt business represents 95% or more of their relevant business (FOS fee blocks 13 to 15)?

Networks

- 6.6 The ombudsman service's compulsory jurisdiction attaches to regulated firms. Many regulated firms have 'appointed representatives' who trade under the umbrella of the regulated firm, and for whose acts the regulated firm is liable. A complaint arising from an appointed representative's act or omission is dealt with by the regulated firm's complaints department. If the complainant remains dissatisfied, it turns into an ombudsman case against the regulated firm.
- 6.7 Sometimes the relationship arises because a product provider (the regulated firm) sells its products through a self-employed sales-force or through another intermediary business. Alternatively, the relationship arises in a 'network' – where a group of intermediary businesses depend on a shared service company. The service company is the regulated firm, dealing with compliance and complaints, and the intermediaries are appointed representatives. This means the annual fees are assessed on the network, as a single regulated firm, and (under the current arrangements) the network pays case fees for the third and subsequent cases per year – irrespective of the number of members of the network.
- 6.8 We would welcome views on whether the treatment of network members should be changed. Some critics of the case-fee system are network members who think that the network should only have to pay case fees for the third and subsequent cases per year per member, because they see themselves as equivalent to competitors who are regulated firms. But some regulated firms argue that network members, having freely chosen that method of practice, are seeking the benefit of being a regulated firm without accepting the burden – and that such a change would distort the market.
- 6.9 Because the cases are brought against the regulated network firm, the ombudsman service records them against the regulated firm. So, the ombudsman service currently has insufficient data to model the actual cost of treating network members as if they were regulated firms. But a very rough preliminary estimate, based on figures obtained from some of the larger networks, suggests:
- **Option A:** Annual fees for investment intermediaries under the current arrangements are based on the number of authorised individuals. So the amount raised from networks by annual fees may well be much the same. The change would reduce income from case fees equivalent to about 4% of total funding. As this would have to be made up out of the annual fees, the change would (because of the gearing effect previously described) raise annual fees for all by about 16%.

- **Option B:** As with option A, the amount raised from networks by annual fees may well be much the same. The change would reduce income from case fees equivalent to about 4% of total funding. This would have to be made up by increasing case fees for all by about 4% and annual fees for all by about 4%.
- **Option C:** As there would be no case fees, the position of regulated firms and of network members would be unaffected.
- **Option D:** The change would reduce income from case fees equivalent to about 4% of total funding. This would have to be made up by increasing case fees for all by about 4% and annual fees for all by about 4%.
- **Options E to K:** Because the flat-rate annual fees would be based on the total number of network members' quasi-permissions¹⁶ or on the total number of network members, the change would increase the amount raised through annual fees. This might be enough to balance out the loss of case fees.

6.10 There are also some practical issues, including:

- It appears that many cases against networks involve former (rather than existing) members. It would be inappropriate to treat former network members as if they were regulated firms, as they are likely either to have gone out of business or become regulated firms in their own right.
- Robust and auditable administrative arrangements would have to be created to ensure the change was implemented in a fair and consistent way, without the ombudsman service itself having to incur the cost of scrutinising the membership and compliance records of networks.

Q10: Do you think regulated network firms should continue to be treated the same as other regulated firms? Or do you consider that the appointed-representative members of the network should be treated (for annual fees and case fees) as if they were each regulated firms?

Q11: If you represent a network, it would be helpful if you supplied the following information for your network in relation to the calendar year 2005. In this context: 'cases' means cases closed by the ombudsman service during 2005; 'current members' means those who were members when the case was closed; and 'former members' means those who had ceased to be members when the case was closed:

- the name of the network;
- the total number of appointed-representative members;

16 The permissions they would require for their activities if they were regulated firms.

- how many dealt with investment only;
- how many dealt with insurance only;
- how many dealt with mortgages only;
- how many dealt with two of these;
- how many dealt with all three;
- the total number of cases closed by the ombudsman service;
- how many were against current members;
- how many were against former members;
- how many current members had no cases closed by the ombudsman service;
- how many current members had 1 or 2 cases closed by the ombudsman service
- the total number of those cases;
- how many current members had 3 to 5 cases closed by the ombudsman service
- the total number of those cases;
- how many current members had 6 to 10 cases closed by the ombudsman service
- the total number of those cases;
- how many current members had 11 to 24 cases closed by the ombudsman service
- the total number of those cases; and
- how many current members had more than 24 cases closed by the ombudsman service
- the total number of those cases.

6.11 The information requested by Q11 would enable us to calculate what the cost of such a change might be. But this request does not mean we have formed any view about whether it would be appropriate in principle to make such a change.

7 Summary of questions

In Chapter 4

Q1: We suggest that the funding arrangements should seek to strike a reasonable balance amongst the following factors:

- fair shares amongst firms of different sizes, types and behaviours;
- sustainable over time through variations in case numbers;
- no undue incentive for firms to reject justified complaints, nor accept unjustified complaints;
- practicable for the FSA and the ombudsman service to assess and collect;
- easy for firms to understand; and
- no transitional difficulties if the system is changed.

Are there any different or additional factors you consider relevant?

Q2: Do you think the balance between annual fees and case fees is an issue of principle? Or do you consider it an issue to be resolved pragmatically and, if so, on what basis? Where would you strike the balance and why? Would you strike the balance in the same way for all firms or differently for smaller-user and larger-user firms?

Q3: Do you agree that the special case fee (applicable in only 2% of cases) should be abolished, so the standard case fee applies to all cases where a case fee is payable?

- Q4: Do you consider that, even if the standard case fee is altered, it should be invoiced and collected when the case is closed rather than when the case is received by the ombudsman service?
- Q5: Do you have any further comments on the issues raised in Chapter 4, or any additional issues that you consider should be taken into account?

In Chapter 5

- Q6: Which of the options (A to K) listed in Chapter 5 do you favour? Why do you favour that particular option?
- Q7: Do you have any other options to propose, in the light of the information provided by this paper and the issues raised?

In Chapter 6

- Q8: If you represent a larger-user firm, would your firm be interested in the possibility of buying pre-paid blocks of case fees at a discount, but on the basis that unused pre-paid case fees would not be carried forward to the next year?
- Q9: Do you think we should cap the annual fees for credit unions, cash plan health providers and friendly societies whose tax-exempt business represents 95% or more of their relevant business (FOS fee blocks 13 to 15)?
- Q10: Do you think regulated network firms should continue to be treated the same as other regulated firms? Or do you consider that the appointed-representative members of the network should be treated (for annual fees and case fees) as if they were each regulated firms?
- Q11: If you represent a network, it would be helpful if you supplied the following information for your network in relation to the calendar year 2005. In this context: 'cases' means cases closed by the ombudsman service during 2005; 'current members' means those who were members when the case was closed; and 'former members' means those who had ceased to be members when the case was closed:
- the name of the network;

- the total number of appointed-representative members;
- how many dealt with investment only;
- how many dealt with insurance only;
- how many dealt with mortgages only;
- how many dealt with two of these;
- how many dealt with all three;
- the total number of cases closed by the ombudsman service;
- how many were against current members;
- how many were against former members;
- how many current members had no cases closed by the ombudsman service;
- how many current members had 1 or 2 cases closed by the ombudsman service
- the total number of those cases;
- how many current members had 3 to 5 cases closed by the ombudsman service
- the total number of those cases;
- how many current members had 6 to 10 cases closed by the ombudsman service
- the total number of those cases;
- how many current members had 11 to 24 cases closed by the ombudsman service
- the total number of those cases; and
- how many current members had more than 24 cases closed by the ombudsman service
- the total number of those cases.

Option A

Case fees payable: for third and subsequent case per firm per year

Case fee amount: £360

Annual fees: for the balance, using fee blocks and tariff rates

Table A1 shows the amounts payable by the different FOS fee blocks under option A for the example year.

Table A1: by FOS fee block (no change)¹⁷

| Fee block | Firms | Cases | Annual fees (£k) | Case fees (£k) | Total (£k) |
|--|--------|---------|------------------|----------------|------------|
| Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | 546 | 11,789 | 1,579 | 4,177 | 5,756 |
| Insurers – general (excluding firms in blocks 13 & 15) | 564 | 9,423 | 1,404 | 3,299 | 4,703 |
| The Society of Lloyd's | 1 | 193 | 28 | 69 | 97 |
| Insurers – life (excluding firms in block 15) | 181 | 44,255 | 5,597 | 15,850 | 21,446 |
| Fund managers (including those holding client money/assets and not holding client money/assets) | 1,914 | 1,632 | 495 | 543 | 1,038 |
| Operators, trustees & depositaries of collective investment schemes | 52 | 0 | 36 | 0 | 36 |
| Dealers as principal | 166 | 31 | 26 | 8 | 33 |
| Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | 553 | 26,868 | 3,983 | 9,489 | 13,471 |
| Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | 6,621 | 18,212 | 1,311 | 5,107 | 6,417 |
| Corporate finance advisers | 480 | 7 | 51 | 2 | 52 |
| Cash plan health providers | 17 | 0 | 1 | 0 | 1 |
| Credit unions | 561 | 0 | 28 | 0 | 28 |
| Friendly societies whose tax exempt business represents 95% or more of their total relevant business | 141 | 0 | 7 | 0 | 7 |
| Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | 3,831 | 480 | 366 | 89 | 455 |
| General insurance mediation (excluding firms in blocks 13, 14 and 15) | 10,388 | 929 | 937 | 221 | 1,159 |
| Total – all blocks | 26,016 | 113,819 | 15,847 | 38,852 | 54,700 |

¹⁷ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

Table A2 shows the amounts payable by some real (but anonymised) example firms and groups of firms under option A for the example year.

Table A2: by example firms and groups of firms (no change)

| Firm or group of firms | Cases | Annual fees (£) | Case fees (£) | Total (£) |
|---|-------|-----------------|---------------|-----------|
| Bank A: a bank-led group of firms | 8,921 | 214,463 | 3,210,840 | 3,425,303 |
| Bank B: a bank-led group of firms | 1,409 | 589,154 | 506,520 | 1,095,674 |
| Insurer C: an insurer-led group of firms | 5,211 | 475,566 | 1,875,240 | 2,350,806 |
| Insurer D: an insurer-led group of firms | 1,514 | 374,554 | 544,320 | 918,874 |
| Building society E | 87 | 3,739 | 30,600 | 34,339 |
| Building society F | 16 | 9,364 | 5,040 | 14,404 |
| Intermediary G: with two permissions (not holding client money) ¹⁸ | 9 | 100 | 2,520 | 2,620 |
| Intermediary H: with one permission (not holding client money) ¹⁹ | 9 | 50 | 2,520 | 2,570 |
| Intermediary J: with three permissions (not holding client money) ²⁰ | 5 | 205 | 1,080 | 1,285 |
| Intermediary K: with two permissions (not holding client money) ²¹ | 3 | 190 | 360 | 550 |
| Intermediary L: with one permission (not holding client money) ²² | 1 | 50 | 0 | 50 |
| Intermediary M: with one permission (not holding client money) ²³ | 0 | 50 | 0 | 50 |

18 Independent financial adviser and insurance intermediary

19 Insurance intermediary

20 Independent financial adviser, insurance intermediary and mortgage intermediary

21 Independent financial adviser and insurance intermediary

22 Insurance intermediary

23 Independent financial adviser

Option B

Case fees payable: for third and subsequent case per firm per year

Case fee amount: £405, to cover 80% of funding

Annual fees: to cover 20% of funding, using fee blocks and tariff rates

Table B1 shows the amounts payable by the different FOS fee blocks under option B for the example year.

Table B1: by FOS fee block (case fees for case-related costs)²⁴

| Fee block | Firms | Cases | Annual fees (£k) | Case fees (£k) | Total (£k) |
|--|--------|---------|------------------|----------------|------------|
| Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | 546 | 11,789 | 1,090 | 4,699 | 5,789 |
| Insurers – general (excluding firms in blocks 13 & 15) | 564 | 9,423 | 969 | 3,711 | 4,680 |
| The Society of Lloyd's | 1 | 193 | 19 | 77 | 97 |
| Insurers – life (excluding firms in block 15) | 181 | 44,255 | 3,863 | 17,831 | 21,694 |
| Fund managers (including those holding client money/assets and not holding client money/assets) | 1,914 | 1,632 | 342 | 611 | 953 |
| Operators, trustees & depositaries of collective investment schemes | 52 | 0 | 25 | 0 | 25 |
| Dealers as principal | 166 | 31 | 18 | 9 | 26 |
| Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | 553 | 26,868 | 2,749 | 10,675 | 13,424 |
| Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | 6,621 | 18,212 | 905 | 5,745 | 6,650 |
| Corporate finance advisers | 480 | 7 | 35 | 2 | 37 |
| Cash plan health providers | 17 | 0 | 1 | 0 | 1 |
| Credit unions | 561 | 0 | 19 | 0 | 19 |
| Friendly societies whose tax exempt business represents 95% or more of their total relevant business | 141 | 0 | 5 | 0 | 5 |
| Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | 3,831 | 480 | 252 | 100 | 353 |
| General insurance mediation (excluding firms in blocks 13, 14 and 15) | 10,388 | 929 | 647 | 249 | 896 |
| Total – all blocks | 26,016 | 113,819 | 10,940 | 43,709 | 54,648 |

²⁴ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

Table B2 shows the amounts payable by some real example firms and groups of firms – the same firms as in previous options – under option B for the example year.

Table B2: by example firms (case fees for case-related costs)

| Firm or group of firms | Cases | Annual fees (£) | Case fees (£) | Total (£) |
|---|--------------|------------------------|----------------------|------------------|
| Bank A: a bank-led group of firms | 8,921 | 148,044 | 3,612,195 | 3,760,239 |
| Bank B: a bank-led group of firms | 1,409 | 406,693 | 569,835 | 976,528 |
| Insurer C: an insurer-led group of firms | 5,211 | 328,283 | 2,109,645 | 2,437,928 |
| Insurer D: an insurer-led group of firms | 1,514 | 258,555 | 612,360 | 870,915 |
| Building society E | 87 | 2,581 | 34,425 | 37,006 |
| Building society F | 16 | 6,464 | 5,670 | 12,134 |
| Intermediary G: with two permissions (not holding client money) | 9 | 69 | 2,835 | 2,904 |
| Intermediary H: with one permission (not holding client money) | 9 | 35 | 2,835 | 2,870 |
| Intermediary J: with three permissions (not holding client money) | 5 | 142 | 1,215 | 1,357 |
| Intermediary K: with two permissions (not holding client money) | 3 | 131 | 405 | 536 |
| Intermediary L: with one permission (not holding client money) | 1 | 35 | 0 | 35 |
| Intermediary M: with one permission (not holding client money) | 0 | 35 | 0 | 35 |

Option C

Case fees payable: none

Case fee amount: not applicable

Annual fees: entire funding, using fee blocks and tariff rates

Table C1 shows the amounts payable by the different FOS fee blocks under option C for the example year.

Table C1: by FOS fee block (annual fees only)²⁵

| Fee block | Firms | Cases | Annual fees (£k) | Case fees (£k) | Total (£k) |
|--|--------|---------|------------------|----------------|------------|
| Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | 546 | 11,789 | 5,451 | 0 | 5,451 |
| Insurers – general (excluding firms in blocks 13 & 15) | 564 | 9,423 | 4,844 | 0 | 4,844 |
| The Society of Lloyd's | 1 | 193 | 97 | 0 | 97 |
| Insurers – life (excluding firms in block 15) | 181 | 44,255 | 19,317 | 0 | 19,317 |
| Fund managers (including those holding client money/assets and not holding client money/assets) | 1,914 | 1,632 | 1,710 | 0 | 1,710 |
| Operators, trustees & depositaries of collective investment schemes | 52 | 0 | 125 | 0 | 125 |
| Dealers as principal | 166 | 31 | 88 | 0 | 88 |
| Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | 553 | 26,868 | 13,747 | 0 | 13,747 |
| Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | 6,621 | 18,212 | 4,524 | 0 | 4,524 |
| Corporate finance advisers | 480 | 7 | 174 | 0 | 174 |
| Cash plan health providers | 17 | 0 | 3 | 0 | 3 |
| Credit unions | 561 | 0 | 97 | 0 | 97 |
| Friendly societies whose tax exempt business represents 95% or more of their total relevant business | 141 | 0 | 25 | 0 | 25 |
| Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | 3,831 | 480 | 1,262 | 0 | 1,262 |
| General insurance mediation (excluding firms in blocks 13, 14 and 15) | 10,388 | 929 | 3,235 | 0 | 3,235 |
| Total – all blocks | 26,016 | 113,819 | 54,699 | 0 | 54,699 |

²⁵ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

Table C2 shows the amounts payable by some real example firms and groups of firms – the same firms as in previous options – under option C for the example year.

Table C2: by example firms and groups of firms (annual fees only)

| Firm or group of firms | Cases | Annual fees (£) | Case fees (£) | Total (£) |
|---|--------------|------------------------|----------------------|------------------|
| Bank A: a bank-led group of firms | 8,921 | 740,240 | 0 | 740,240 |
| Bank B: a bank-led group of firms | 1,409 | 2,033,524 | 0 | 2,033,524 |
| Insurer C: an insurer-led group of firms | 5,211 | 1,641,464 | 0 | 1,641,464 |
| Insurer D: an insurer-led group of firms | 1,514 | 1,292,811 | 0 | 1,292,811 |
| Building society E | 87 | 12,906 | 0 | 12,906 |
| Building society F | 16 | 32,321 | 0 | 32,321 |
| Intermediary G: with two permissions (not holding client money) | 9 | 345 | 0 | 345 |
| Intermediary H: with one permission (not holding client money) | 9 | 173 | 0 | 173 |
| Intermediary J: with three permissions (not holding client money) | 5 | 708 | 0 | 708 |
| Intermediary K: with two permissions (not holding client money) | 3 | 656 | 0 | 656 |
| Intermediary L: with one permission (not holding client money) | 1 | 173 | 0 | 173 |
| Intermediary M: with one permission (not holding client money) | 0 | 173 | 0 | 173 |

Option D

Case fees payable: for third and subsequent case per firm per year

Case fee amount: £505, to cover entire funding

Annual fees: none

Table D1 shows the amounts payable by the different FOS fee blocks under option D for the example year.

Table D1: by FOS fee block (case fees only)²⁶

| Fee block | Firms | Cases | Annual fees (£k) | Case fees (£k) | Total (£k) |
|--|--------|---------|------------------|----------------|------------|
| Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | 546 | 11,789 | 0 | 5,859 | 5,859 |
| Insurers – general (excluding firms in blocks 13 & 15) | 564 | 9,423 | 0 | 4,628 | 4,628 |
| The Society of Lloyd's | 1 | 193 | 0 | 96 | 96 |
| Insurers – life (excluding firms in block 15) | 181 | 44,255 | 0 | 22,234 | 22,234 |
| Fund managers (including those holding client money/assets and not holding client money/assets) | 1,914 | 1,632 | 0 | 762 | 762 |
| Operators, trustees & depositaries of collective investment schemes | 52 | 0 | 0 | 0 | 0 |
| Dealers as principal | 166 | 31 | 0 | 11 | 11 |
| Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | 553 | 26,868 | 0 | 13,310 | 13,310 |
| Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | 6,621 | 18,212 | 0 | 7,163 | 7,163 |
| Corporate finance advisers | 480 | 7 | 0 | 3 | 3 |
| Cash plan health providers | 17 | 0 | 0 | 0 | 0 |
| Credit unions | 561 | 0 | 0 | 0 | 0 |
| Friendly societies whose tax exempt business represents 95% or more of their total relevant business | 141 | 0 | 0 | 0 | 0 |
| Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | 3,831 | 480 | 0 | 125 | 125 |
| General insurance mediation (excluding firms in blocks 13, 14 and 15) | 10,388 | 929 | 0 | 311 | 311 |
| Total – all blocks | 26,016 | 113,819 | 0 | 54,501 | 54,501 |

²⁶ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

Table D2 shows the amounts payable by some real example firms and groups of firms – the same firms as in previous options – under option D for the example year.

Table D2: by example firms and groups of firms (case fees only)

| Firm or group of firms | Cases | Annual fees (£) | Case fees (£) | Total (£) |
|---|--------------|------------------------|----------------------|------------------|
| Bank A: a bank-led group of firms | 8,921 | 0 | 4,504,095 | 4,504,095 |
| Bank B: a bank-led group of firms | 1,409 | 0 | 710,535 | 710,535 |
| Insurer C: an insurer-led group of firms | 5,211 | 0 | 2,630,545 | 2,630,545 |
| Insurer D: an insurer-led group of firms | 1,514 | 0 | 763,560 | 763,560 |
| Building society E | 87 | 0 | 42,925 | 42,925 |
| Building society F | 16 | 0 | 7,070 | 7,070 |
| Intermediary G: with two permissions (not holding client money) | 9 | 0 | 3,535 | 3,535 |
| Intermediary H: with one permission (not holding client money) | 9 | 0 | 3,535 | 3,535 |
| Intermediary J: with three permissions (not holding client money) | 5 | 0 | 1,515 | 1,515 |
| Intermediary K: with two permissions (not holding client money) | 3 | 0 | 505 | 505 |
| Intermediary L: with one permission (not holding client money) | 1 | 0 | 0 | 0 |
| Intermediary M: with one permission (not holding client money) | 0 | 0 | 0 | 0 |

Option E

Case fees payable: for sixth and subsequent case per firm per year

Case fee amount: £480, broadly equivalent to cost per case

Annual fees: £110 flat-rate per permission

Table E1 shows the amounts payable by the different FOS fee blocks under option E for the example year.

**Table E1: by FOS fee block
(case fee equivalent to cost-per-case – flat-rate annual fee per permission)²⁷**

| Fee block | Firms | Cases | Annual fees (£k) | Case fees (£k) | Total (£k) |
|--|--------|---------|------------------|----------------|------------|
| Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | 546 | 11,789 | 60 | 5,489 | 5,549 |
| Insurers – general (excluding firms in blocks 13 & 15) | 564 | 9,423 | 62 | 4,262 | 4,324 |
| The Society of Lloyd's | 1 | 193 | 0 | 90 | 90 |
| Insurers – life (excluding firms in block 15) | 181 | 44,255 | 24 | 21,001 | 21,026 |
| Fund managers (including those holding client money/assets and not holding client money/assets) | 1,914 | 1,632 | 231 | 678 | 909 |
| Operators, trustees & depositaries of collective investment schemes | 52 | 0 | 53 | 0 | 53 |
| Dealers as principal | 166 | 31 | 56 | 4 | 60 |
| Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | 553 | 26,868 | 203 | 12,466 | 12,668 |
| Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | 6,621 | 18,212 | 786 | 5,855 | 6,640 |
| Corporate finance advisers | 480 | 7 | 111 | 1 | 112 |
| Cash plan health providers | 17 | 0 | 2 | 0 | 2 |
| Credit unions | 561 | 0 | 62 | 0 | 62 |
| Friendly societies whose tax exempt business represents 95% or more of their total relevant business | 141 | 0 | 16 | 0 | 16 |
| Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | 3,831 | 480 | 804 | 89 | 893 |
| General insurance mediation (excluding firms in blocks 13, 14 and 15) | 10,388 | 929 | 2,062 | 230 | 2,292 |
| Total – all blocks | 26,016 | 113,819 | 4,532 | 50,164 | 54,696 |

²⁷ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

Table E2 shows the amounts payable by some real example firms and groups of firms – the same firms as in previous options – under option E for the example year.

**Table E2: by example firms
(case fee equivalent to cost-per-case – flat-rate annual fee per permission)**

| Firm or group of firms | Cases | Annual fees (£) | Case fees (£) | Total (£) |
|---|-------|-----------------|---------------|-----------|
| Bank A: a bank-led group of firms | 8,921 | 1,870 | 4,279,680 | 4,281,550 |
| Bank B: a bank-led group of firms | 1,409 | 5,500 | 673,920 | 679,420 |
| Insurer C: an insurer-led group of firms | 5,211 | 2,310 | 2,498,880 | 2,501,190 |
| Insurer D: an insurer-led group of firms | 1,514 | 4,620 | 724,320 | 728,940 |
| Building society E | 87 | 440 | 39,360 | 39,800 |
| Building society F | 16 | 550 | 5,280 | 5,830 |
| Intermediary G: with two permissions (not holding client money) | 9 | 220 | 1,920 | 2,140 |
| Intermediary H: with one permission (not holding client money) | 9 | 110 | 1,920 | 2,030 |
| Intermediary J: with three permissions (not holding client money) | 5 | 330 | 0 | 330 |
| Intermediary K: with two permissions (not holding client money) | 3 | 220 | 0 | 220 |
| Intermediary L: with one permission (not holding client money) | 1 | 110 | 0 | 110 |
| Intermediary M: with one permission (not holding client money) | 0 | 110 | 0 | 110 |

Option F

Case fees payable: for sixth and subsequent case per firm per year

Case fee amount: £480, broadly equivalent to cost per case

Annual fees: £175 flat-rate per firm

Table F1 shows the amounts payable by the different FOS fee blocks under option F for the example year.

**Table F1: by FOS fee block
(case fee equivalent to cost-per-case – flat-rate annual fee per firm)²⁸**

| Fee block | Firms | Cases | Annual fees (£k) | Case fees (£k) | Total (£k) |
|--|--------|---------|------------------|----------------|------------|
| Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | 546 | 11,789 | 96 | 5,489 | 5,584 |
| Insurers – general (excluding firms in blocks 13 & 15) | 564 | 9,423 | 99 | 4,262 | 4,361 |
| The Society of Lloyd's | 1 | 193 | 0 | 90 | 90 |
| Insurers – life (excluding firms in block 15) | 181 | 44,255 | 32 | 21,001 | 21,033 |
| Fund managers (including those holding client money/assets and not holding client money/assets) | 1,914 | 1,632 | 335 | 678 | 1,013 |
| Operators, trustees & depositaries of collective investment schemes | 52 | 0 | 9 | 0 | 9 |
| Dealers as principal | 166 | 31 | 29 | 4 | 33 |
| Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | 553 | 26,868 | 97 | 12,466 | 12,562 |
| Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | 6,621 | 18,212 | 1,159 | 5,855 | 7,013 |
| Corporate finance advisers | 480 | 7 | 84 | 1 | 85 |
| Cash plan health providers | 17 | 0 | 3 | 0 | 3 |
| Credit unions | 561 | 0 | 98 | 0 | 98 |
| Friendly societies whose tax exempt business represents 95% or more of their total relevant business | 141 | 0 | 25 | 0 | 25 |
| Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | 3,831 | 480 | 670 | 89 | 759 |
| General insurance mediation (excluding firms in blocks 13, 14 and 15) | 10,388 | 929 | 1,818 | 230 | 2,048 |
| Total – all blocks | 26,016 | 113,819 | 4,553 | 50,164 | 54,717 |

²⁸ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

Table F2 shows the amounts payable by some real example firms and groups of firms – the same firms as in previous options – under option F for the example year.

**Table F2: by example firms
(case fee equivalent to cost-per-case – flat-rate annual fee per firm)**

| Firm or group of firms | Cases | Annual fees (£) | Case fees (£) | Total (£) |
|---|-------|-----------------|---------------|-----------|
| Bank A: a bank-led group of firms | 8,921 | 1,050 | 4,279,680 | 4,280,730 |
| Bank B: a bank-led group of firms | 1,409 | 3,500 | 673,920 | 677,420 |
| Insurer C: an insurer-led group of firms | 5,211 | 2,275 | 2,498,880 | 2,501,155 |
| Insurer D: an insurer-led group of firms | 1,514 | 3,675 | 724,320 | 727,995 |
| Building society E | 87 | 175 | 39,360 | 39,535 |
| Building society F | 16 | 350 | 5,280 | 5,630 |
| Intermediary G: with two permissions (not holding client money) | 9 | 175 | 1,920 | 2,095 |
| Intermediary H: with one permission (not holding client money) | 9 | 175 | 1,920 | 2,095 |
| Intermediary J: with three permissions (not holding client money) | 5 | 175 | 0 | 175 |
| Intermediary K: with two permissions (not holding client money) | 3 | 175 | 0 | 175 |
| Intermediary L: with one permission (not holding client money) | 1 | 175 | 0 | 175 |
| Intermediary M: with one permission (not holding client money) | 0 | 175 | 0 | 175 |

Option G

Case fees payable: for 11th and subsequent case per firm per year

Case fee amount: £480, broadly equivalent to cost per case

Annual fees: £145 flat-rate per permission

Table G1 shows the amounts payable by the different FOS fee blocks under option G for the example year.

**Table G1: by FOS fee block
(case fee equivalent to cost-per-case – flat-rate annual fee per permission)²⁹**

| Fee block | Firms | Cases | Annual fees (£k) | Case fees (£k) | Total (£k) |
|--|--------|---------|------------------|----------------|------------|
| Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | 546 | 11,789 | 79 | 5,391 | 5,471 |
| Insurers – general (excluding firms in blocks 13 & 15) | 564 | 9,423 | 82 | 4,071 | 4,153 |
| The Society of Lloyd's | 1 | 193 | 0 | 88 | 88 |
| Insurers – life (excluding firms in block 15) | 181 | 44,255 | 32 | 20,804 | 20,836 |
| Fund managers (including those holding client money/assets and not holding client money/assets) | 1,914 | 1,632 | 305 | 639 | 944 |
| Operators, trustees & depositaries of collective investment schemes | 52 | 0 | 70 | 0 | 70 |
| Dealers as principal | 166 | 31 | 74 | 0 | 74 |
| Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | 553 | 26,868 | 267 | 12,291 | 12,558 |
| Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | 6,621 | 18,212 | 1,036 | 5,153 | 6,189 |
| Corporate finance advisers | 480 | 7 | 146 | 0 | 146 |
| Cash plan health providers | 17 | 0 | 2 | 0 | 2 |
| Credit unions | 561 | 0 | 81 | 0 | 81 |
| Friendly societies whose tax exempt business represents 95% or more of their total relevant business | 141 | 0 | 21 | 0 | 21 |
| Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | 3,831 | 480 | 1,060 | 73 | 1,133 |
| General insurance mediation (excluding firms in blocks 13, 14 and 15) | 10,388 | 929 | 2,718 | 174 | 2,892 |
| Total – all blocks | 26,016 | 113,819 | 5,974 | 48,684 | 54,659 |

²⁹ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

Table G2 shows the amounts payable by some real example firms and groups of firms – the same firms as in previous options – under option G for the example year.

**Table G2: by example firms
(case fee equivalent to cost-per-case – flat-rate annual fee per permission)**

| Firm or group of firms | Cases | Annual fees (£) | Case fees (£) | Total (£) |
|---|--------------|------------------------|----------------------|------------------|
| Bank A: a bank-led group of firms | 8,921 | 2,465 | 4,277,280 | 4,279,745 |
| Bank B: a bank-led group of firms | 1,409 | 7,250 | 671,520 | 678,770 |
| Insurer C: an insurer-led group of firms | 5,211 | 3,045 | 2,496,480 | 2,499,525 |
| Insurer D: an insurer-led group of firms | 1,514 | 6,090 | 721,920 | 728,010 |
| Building society E | 87 | 580 | 36,960 | 37,540 |
| Building society F | 16 | 725 | 2,880 | 3,605 |
| Intermediary G: with two permissions (not holding client money) | 9 | 290 | 0 | 290 |
| Intermediary H: with one permission (not holding client money) | 9 | 145 | 0 | 145 |
| Intermediary J: with three permissions (not holding client money) | 5 | 435 | 0 | 435 |
| Intermediary K: with two permissions (not holding client money) | 3 | 290 | 0 | 290 |
| Intermediary L: with one permission (not holding client money) | 1 | 145 | 0 | 145 |
| Intermediary M: with one permission (not holding client money) | 0 | 145 | 0 | 145 |

Option H

Case fees payable: for 11th and subsequent case per firm per year

Case fee amount: £480, broadly equivalent to cost per case

Annual fees: £230 flat-rate per firm

Table H1 shows the amounts payable by the different FOS fee blocks under option H for the example year.

**Table H1: by FOS fee block
(case fee equivalent to cost-per-case – flat-rate annual fee per firm)³⁰**

| Fee block | Firms | Cases | Annual fees (£k) | Case fees (£k) | Total (£k) |
|--|--------|---------|------------------|----------------|------------|
| Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | 546 | 11,789 | 126 | 5,391 | 5,517 |
| Insurers – general (excluding firms in blocks 13 & 15) | 564 | 9,423 | 130 | 4,071 | 4,201 |
| The Society of Lloyd's | 1 | 193 | 0 | 88 | 88 |
| Insurers – life (excluding firms in block 15) | 181 | 44,255 | 42 | 20,804 | 20,846 |
| Fund managers (including those holding client money/assets and not holding client money/assets) | 1,914 | 1,632 | 440 | 639 | 1,079 |
| Operators, trustees & depositaries of collective investment schemes | 52 | 0 | 12 | 0 | 12 |
| Dealers as principal | 166 | 31 | 38 | 0 | 38 |
| Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | 553 | 26,868 | 127 | 12,291 | 12,419 |
| Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | 6,621 | 18,212 | 1,523 | 5,153 | 6,676 |
| Corporate finance advisers | 480 | 7 | 110 | 0 | 110 |
| Cash plan health providers | 17 | 0 | 4 | 0 | 4 |
| Credit unions | 561 | 0 | 129 | 0 | 129 |
| Friendly societies whose tax exempt business represents 95% or more of their total relevant business | 141 | 0 | 32 | 0 | 32 |
| Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | 3,831 | 480 | 881 | 73 | 954 |
| General insurance mediation (excluding firms in blocks 13, 14 and 15) | 10,388 | 929 | 2,389 | 174 | 2,563 |
| Total – all blocks | 26,016 | 113,819 | 5,984 | 48,684 | 54,668 |

³⁰ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

Table H2 shows the amounts payable by some real example firms and groups of firms – the same firms as in previous options – under option H for the example year.

**Table H2: by example firms
(case fee equivalent to cost-per-case – flat-rate annual fee per firm)**

| Firm or group of firms | Cases | Annual fees (£) | Case fees (£) | Total (£) |
|---|-------|-----------------|---------------|-----------|
| Bank A: a bank-led group of firms | 8,921 | 1,380 | 4,277,280 | 4,278,660 |
| Bank B: a bank-led group of firms | 1,409 | 4,600 | 671,520 | 676,120 |
| Insurer C: an insurer-led group of firms | 5,211 | 2,990 | 2,496,480 | 2,499,470 |
| Insurer D: an insurer-led group of firms | 1,514 | 4,830 | 721,920 | 726,750 |
| Building society E | 87 | 230 | 36,960 | 37,190 |
| Building society F | 16 | 460 | 2,880 | 3,340 |
| Intermediary G: with two permissions (not holding client money) | 9 | 230 | 0 | 230 |
| Intermediary H: with one permission (not holding client money) | 9 | 230 | 0 | 230 |
| Intermediary J: with three permissions (not holding client money) | 5 | 230 | 0 | 230 |
| Intermediary K: with two permissions (not holding client money) | 3 | 230 | 0 | 230 |
| Intermediary L: with one permission (not holding client money) | 1 | 230 | 0 | 230 |
| Intermediary M: with one permission (not holding client money) | 0 | 230 | 0 | 230 |

Option J

Case fees payable: for 25th and subsequent case per firm per year

Case fee amount: £480, broadly equivalent to cost per case

Annual fees: £205 flat-rate per permission

Table J1 shows the amounts payable by the different FOS fee blocks under option J for the example year.

**Table J1: by FOS fee block
(case fee equivalent to cost-per-case – flat-rate annual fee per permission)³¹**

| Fee block | Firms | Cases | Annual fees (£k) | Case fees (£k) | Total (£k) |
|--|--------|---------|------------------|----------------|------------|
| Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | 546 | 11,789 | 112 | 5,203 | 5,315 |
| Insurers – general (excluding firms in blocks 13 & 15) | 564 | 9,423 | 116 | 3,661 | 3,777 |
| The Society of Lloyd's | 1 | 193 | 0 | 81 | 81 |
| Insurers – life (excluding firms in block 15) | 181 | 44,255 | 45 | 20,322 | 20,367 |
| Fund managers (including those holding client money/assets and not holding client money/assets) | 1,914 | 1,632 | 431 | 594 | 1,025 |
| Operators, trustees & depositaries of collective investment schemes | 52 | 0 | 99 | 0 | 99 |
| Dealers as principal | 166 | 31 | 105 | 0 | 105 |
| Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | 553 | 26,868 | 377 | 12,013 | 12,390 |
| Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | 6,621 | 18,212 | 1,464 | 4,242 | 5,707 |
| Corporate finance advisers | 480 | 7 | 207 | 0 | 207 |
| Cash plan health providers | 17 | 0 | 3 | 0 | 3 |
| Credit unions | 561 | 0 | 115 | 0 | 115 |
| Friendly societies whose tax exempt business represents 95% or more of their total relevant business | 141 | 0 | 30 | 0 | 30 |
| Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | 3,831 | 480 | 1,499 | 54 | 1,553 |
| General insurance mediation (excluding firms in blocks 13, 14 and 15) | 10,388 | 929 | 3,843 | 96 | 3,939 |
| Total – all blocks | 26,016 | 113,819 | 8,446 | 46,266 | 54,712 |

³¹ Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

Table J2 shows the amounts payable by some real example firms and groups of firms – the same firms as in previous options – under option J for the example year.

**Table J2: by example firms
(case fee equivalent to cost-per-case – flat-rate annual fee per permission)**

| Firm or group of firms | Cases | Annual fees (£) | Case fees (£) | Total (£) |
|---|-------|-----------------|---------------|-----------|
| Bank A: a bank-led group of firms | 8,921 | 3,485 | 4,270,560 | 4,274,045 |
| Bank B: a bank-led group of firms | 1,409 | 10,250 | 664,800 | 675,050 |
| Insurer C: an insurer-led group of firms | 5,211 | 4,305 | 2,489,760 | 2,494,065 |
| Insurer D: an insurer-led group of firms | 1,514 | 8,610 | 715,200 | 723,810 |
| Building society E | 87 | 820 | 30,240 | 31,060 |
| Building society F | 16 | 1,025 | 0 | 1,025 |
| Intermediary G: with two permissions (not holding client money) | 9 | 410 | 0 | 410 |
| Intermediary H: with one permission (not holding client money) | 9 | 205 | 0 | 205 |
| Intermediary J: with three permissions (not holding client money) | 5 | 615 | 0 | 615 |
| Intermediary K: with two permissions (not holding client money) | 3 | 410 | 0 | 410 |
| Intermediary L: with one permission (not holding client money) | 1 | 205 | 0 | 205 |
| Intermediary M: with one permission (not holding client money) | 0 | 205 | 0 | 205 |

Option K

Case fees payable: for 25th and subsequent case per firm per year

Case fee amount: £480, broadly equivalent to cost per case

Annual fees: £325 flat-rate per firm

Table K1 shows the amounts payable by the different FOS fee blocks under option K for the example year.

**Table K1: by FOS fee block
(case fee equivalent to cost-per-case – flat-rate annual fee per firm)³²**

| Fee block | Firms | Cases | Annual fees (£k) | Case fees (£k) | Total (£k) |
|--|--------|---------|------------------|----------------|------------|
| Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14) | 546 | 11,789 | 177 | 5,203 | 5,380 |
| Insurers – general (excluding firms in blocks 13 & 15) | 564 | 9,423 | 183 | 3,661 | 3,844 |
| The Society of Lloyd's | 1 | 193 | 0 | 81 | 81 |
| Insurers – life (excluding firms in block 15) | 181 | 44,255 | 59 | 20,322 | 20,381 |
| Fund managers (including those holding client money/assets and not holding client money/assets) | 1,914 | 1,632 | 622 | 594 | 1,216 |
| Operators, trustees & depositaries of collective investment schemes | 52 | 0 | 17 | 0 | 17 |
| Dealers as principal | 166 | 31 | 54 | 0 | 54 |
| Advisory arrangers, dealers or brokers holding and controlling client money and/or assets | 553 | 26,868 | 180 | 12,013 | 12,193 |
| Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets | 6,621 | 18,212 | 2,152 | 4,242 | 6,394 |
| Corporate finance advisers | 480 | 7 | 156 | 0 | 156 |
| Cash plan health providers | 17 | 0 | 6 | 0 | 6 |
| Credit unions | 561 | 0 | 182 | 0 | 182 |
| Friendly societies whose tax exempt business represents 95% or more of their total relevant business | 141 | 0 | 46 | 0 | 46 |
| Mortgage lenders, advisers and arrangers (excluding firms in blocks 13, 14 and 15) | 3,831 | 480 | 1,245 | 54 | 1,299 |
| General insurance mediation (excluding firms in blocks 13, 14 and 15) | 10,388 | 929 | 3,376 | 96 | 3,472 |
| Total – all blocks | 26,016 | 113,819 | 8,455 | 46,266 | 54,721 |

³² Fees are rounded to the nearest £1,000. Any discrepancy in the totals is due to this rounding.

Table K2 shows the amounts payable by some real example firms and groups of firms – the same firms as in previous options – under option K for the example year.

**Table K2: by example firms
(case fee equivalent to cost-per-case – flat-rate annual fee per firm)**

| Firm or group of firms | Cases | Annual fees (£) | Case fees (£) | Total (£) |
|---|-------|-----------------|---------------|-----------|
| Bank A: a bank-led group of firms | 8,921 | 1,950 | 4,270,560 | 4,272,510 |
| Bank B: a bank-led group of firms | 1,409 | 6,500 | 664,800 | 671,300 |
| Insurer C: an insurer-led group of firms | 5,211 | 4,225 | 2,489,760 | 2,493,985 |
| Insurer D: an insurer-led group of firms | 1,514 | 6,825 | 715,200 | 722,025 |
| Building society E | 87 | 325 | 30,240 | 30,565 |
| Building society F | 16 | 650 | 0 | 650 |
| Intermediary G: with two permissions (not holding client money) | 9 | 325 | 0 | 325 |
| Intermediary H: with one permission (not holding client money) | 9 | 325 | 0 | 325 |
| Intermediary J: with three permissions (not holding client money) | 5 | 325 | 0 | 325 |
| Intermediary K: with two permissions (not holding client money) | 3 | 325 | 0 | 325 |
| Intermediary L: with one permission (not holding client money) | 1 | 325 | 0 | 325 |
| Intermediary M: with one permission (not holding client money) | 0 | 325 | 0 | 325 |

Options: distribution of cases and funding

By number of cases

Table 5 shows, for the example year:

- the breakdown of firms in relation to the number of cases referred to the ombudsman service during the year, including the percentage of cases, as previously described in table 2 in Chapter 3
- the percentage of total fees that those firms would pay under each of the options described in Chapter 5 – though, as already explained, it should be remembered that the ombudsman service’s budget covers more than resolving cases.

Table 5: distribution of cases and funding

| Cases per firm | No. of firms | % of Cases | % of total fees produced by each option | | | | | | | | | |
|----------------|--------------|------------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | | A | B | C | D | E | F | G | H | J | K |
| 0 | 22,193 | 0.00 | 6.10 | 4.21 | 21.04 | 0.00 | 6.74 | 6.98 | 8.97 | 9.29 | 12.62 | 13.06 |
| 1-2 | 2,403 | 2.68 | 3.50 | 2.42 | 12.10 | 0.00 | 0.83 | 0.76 | 1.11 | 1.01 | 1.56 | 1.41 |
| 3-5 | 664 | 2.17 | 1.55 | 1.40 | 2.73 | 1.06 | 0.26 | 0.21 | 0.34 | 0.28 | 0.48 | 0.39 |
| 6-10 | 277 | 1.82 | 1.70 | 1.61 | 2.43 | 1.41 | 0.72 | 0.69 | 0.15 | 0.12 | 0.22 | 0.16 |
| 11-24 | 202 | 2.79 | 2.83 | 2.75 | 3.47 | 2.57 | 2.00 | 1.97 | 1.14 | 1.10 | 0.16 | 0.12 |
| 25-99 | 155 | 6.64 | 7.88 | 7.52 | 10.74 | 6.72 | 6.03 | 6.01 | 5.37 | 5.35 | 3.51 | 3.47 |
| 100-299 | 62 | 8.90 | 9.21 | 9.23 | 9.07 | 9.27 | 8.66 | 8.65 | 8.40 | 8.38 | 7.66 | 7.63 |
| 300-999 | 34 | 15.90 | 15.27 | 15.72 | 11.75 | 16.71 | 15.77 | 15.76 | 15.63 | 15.62 | 15.22 | 15.21 |
| 1,000-4,999 | 23 | 37.38 | 33.81 | 35.53 | 20.14 | 39.38 | 37.30 | 37.29 | 37.20 | 37.19 | 36.93 | 36.91 |
| Over 5,000 | 3 | 21.70 | 18.15 | 19.61 | 6.54 | 22.88 | 21.69 | 21.69 | 21.68 | 21.68 | 21.64 | 21.64 |
| Total | 26,016 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Cumulative totals (from largest-user firms)

Table 6 shows the cumulative totals of the same figures, starting from the largest-user firms – comparable with table 3 in Chapter 3.

Table 6: distribution – (cumulative totals from largest-user firms)

| Cases per firm | No. of firms | % of Cases | % of total fees produced by each option | | | | | | | | | |
|----------------|--------------|------------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | | A | B | C | D | E | F | G | H | J | K |
| 5,000 or more | 3 | 21.70 | 18.15 | 19.61 | 6.54 | 22.88 | 21.69 | 21.69 | 21.68 | 21.68 | 21.64 | 21.64 |
| 1,000 or more | 26 | 59.08 | 51.95 | 55.14 | 26.67 | 62.26 | 58.99 | 58.97 | 58.88 | 58.86 | 58.57 | 58.55 |
| 300 or more | 60 | 74.98 | 67.22 | 70.86 | 38.42 | 78.97 | 74.76 | 74.74 | 74.51 | 74.48 | 73.79 | 73.75 |
| 100 or more | 122 | 83.88 | 76.43 | 80.09 | 47.49 | 88.24 | 83.42 | 83.39 | 82.91 | 82.86 | 81.45 | 81.38 |
| 25 or more | 277 | 90.53 | 84.32 | 87.61 | 58.23 | 94.96 | 89.45 | 89.40 | 88.28 | 88.21 | 84.95 | 84.85 |
| 11 or more | 479 | 93.32 | 87.15 | 90.36 | 61.70 | 97.53 | 91.45 | 91.37 | 89.42 | 89.31 | 85.12 | 84.97 |
| 6 or more | 756 | 95.14 | 88.85 | 91.98 | 64.13 | 98.94 | 92.17 | 92.06 | 89.57 | 89.43 | 85.33 | 85.13 |
| 3 or more | 1,420 | 97.32 | 90.40 | 93.37 | 66.87 | 100.00 | 92.42 | 92.27 | 89.92 | 89.71 | 85.81 | 85.52 |
| 1 or more | 3,823 | 100.00 | 93.90 | 95.79 | 78.96 | 100.00 | 93.26 | 93.02 | 91.03 | 90.71 | 87.38 | 86.94 |
| Total | 26,016 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Cumulative totals (from smallest-user firms)

Table 7 shows the cumulative totals of the same figures, starting from the smallest-user firms – comparable with table 4 in Chapter 3.

Table 7: distribution – cumulative totals (from smallest-user firms)

| Cases per firm | No. of firms | % of Cases | % of total fees produced by each option | | | | | | | | | |
|----------------|--------------|------------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | | A | B | C | D | E | F | G | H | J | K |
| 0 | 22,193 | 0.00 | 6.10 | 4.21 | 21.04 | 0.00 | 6.74 | 6.98 | 8.97 | 9.29 | 12.62 | 13.06 |
| 0 to 2 | 24,596 | 2.68 | 9.60 | 6.63 | 33.13 | 0.00 | 7.58 | 7.73 | 10.08 | 10.29 | 14.19 | 14.48 |
| 0 to 5 | 25,260 | 4.86 | 11.15 | 8.02 | 35.87 | 1.06 | 7.83 | 7.94 | 10.43 | 10.57 | 14.67 | 14.87 |
| 0 to 10 | 25,537 | 6.68 | 12.85 | 9.64 | 38.30 | 2.47 | 8.55 | 8.63 | 10.58 | 10.69 | 14.88 | 15.03 |
| 0 to 24 | 25,739 | 9.47 | 15.68 | 12.39 | 41.77 | 5.04 | 10.55 | 10.60 | 11.72 | 11.79 | 15.05 | 15.15 |
| 0 to 99 | 25,894 | 16.12 | 23.57 | 19.91 | 52.51 | 11.76 | 16.58 | 16.61 | 17.09 | 17.14 | 18.55 | 18.62 |
| 0 to 299 | 25,956 | 25.02 | 32.78 | 29.14 | 61.58 | 21.03 | 25.24 | 25.26 | 25.49 | 25.52 | 26.21 | 26.25 |
| 0 to 999 | 25,990 | 40.92 | 48.05 | 44.86 | 73.33 | 37.74 | 41.01 | 41.03 | 41.12 | 41.14 | 41.43 | 41.45 |
| 0 to 4,999 | 26,013 | 78.30 | 81.85 | 80.39 | 93.46 | 77.12 | 78.31 | 78.31 | 78.32 | 78.32 | 78.36 | 78.36 |
| Total | 26,016 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

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