

MONEY
ADVICE TRUST

BUSINESS
DEBTLINE

NATIONAL
DEBTLINE

WISER
ADVISER

Consultation Response:

Financial Ombudsman Service 2024/25 plans and budget

Response by the Money Advice Trust

Date: January 2024

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2023, our National Debtline and Business Debtline advisers provided help to 127,390 people by phone, webchat and our digital advice tool with 2.44 million visits to our advice websites. In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2023 we delivered this free training to 800 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org.

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to comment on the Financial Ombudsman Service plans and budget for 2024 to 2025.

Our thoughts are set out below in response to the individual questions.

Responses to individual questions

Projected demand

Question 1: What volume and trends should we expect to see in complaints in 2024/25 in the following areas?

- a) Banking and consumer credit
- b) Insurance
- c) Investments and pensions

Question 2: do you think they will have on complaint volumes?

The volumes and trends set out in figure 1 look reasonable to us. As the consultation identifies, as ongoing cost of living pressures impact on people's finances, some households are having to increase their borrowing levels. Many may be relying on credit for essentials, and this could lead to lending issues / complaints, albeit practice in this area has greatly improved in recent years.

It is also right that FOS identifies the potential for a slight increase in complaints about mortgages. We welcome the level of forbearance being put in place by lenders, however the significant rise in monthly payments that people coming to the end of fixed-term deals are facing will be a challenge for many. Among our frontline debt advice services, mortgage arrears levels remain low but have increased.

- ✓ Around 4% of callers to National Debtline have mortgage arrears, up from 3% last year.
- ✓ 8% of callers to Business Debtline have mortgage arrears, up from 7% last year.

Likewise, we've seen an increase in people with mortgages coming to us for help – potentially reflecting the growing financial pressure and worry they are facing.

- ✓ In Quarter 4 2023, 16% of callers to National Debtline were mortgage holders, up from 13.5% in Quarter 4 2022.
- ✓ 38% of Business Debtline callers were mortgage holders, up from 34% in Quarter 4 2022.

We also welcome the recognition of the impact of the FCA's Consumer Duty in the plans for 2024. Although it may be unlikely that individual consumers complain based on the Duty alone/ itself, as the document highlights, there may be an increasing number of complaints where the Duty is a relevant factor. In time, we expect these will bring greater clarity over how the Duty should be applied by firms.

Question 3: Should regulation of Buy Now Pay Later (BNPL) come into force, what types of complaints might we receive about these products?

We hope the Government will act to bring forward proposed regulation of BNPL as soon as possible and welcome the preparatory steps FOS is taking ahead of this.

Research suggests that consumers can sometimes be unclear about the terms of a BNPL agreement, or the consequences of non-payment. While there have been some welcome steps taken by the FCA to get firms to amend potentially unfair and unclear contract terms, this could be an area in which FOS may receive complaints. Recent research by the Centre for Financial Capability¹ found that one-quarter of UK BNPL users had been charged late repayment fees, with younger consumers more likely to have experienced these (34% of 18 – 34 year olds were charged for missing a repayment between June-December 2023).

Based on our discussions with FOS and other stakeholders, we would suggest that – alongside some of these specific issues for BNPL products, other areas of complaints may mirror those for other credit products including: affordable lending; debt collection and charges; terms and conditions; customer service; credit reference/score issues; section 75 claims; fraud and scams.

Projected service standards

Question 4: Do you agree that the service standards we have set out will help our customers? Are there areas where you think we should be more ambitious?

It is positive to see the improvements in FOS service standards during the first half of 2023/24. We welcome the commitment to further improve these, particularly the pace of resolution of complaints – to 90% resolved within five months. This recognises the importance to consumers of receiving a timely resolution to complaints, particularly in the FOS context where the problem will typically relate to money and finances. We would urge FOS to continue to be ambitious in delivering against these improvements, particularly on the ease of complaints and confidence in the complaints process.

¹ <https://www.ft.com/content/1f10d0ad-bb56-4178-9ee2-510a85cd623d>

Question 5: What more can we do to share insight to prevent complaints and unfairness from arising?

As set out in our response to question 2, anything FOS can do to share insight into the application of the FCA's Consumer Duty and support firms to apply that appropriately would be helpful.

Projected costs

Question 6: Have we captured the right priority areas in our transformation programme to drive both an improved customer experience and value for money?

We have no specific response to this question at this time. The transformation programme would appear to be a really positive development.

Question 7: What other areas should we consider in our transformation programme?

We would only emphasise that inclusive design needs to be central. It is vital to include consumers in the transformation programme so that their experiences, particularly in relation to any move to completing forms digitally are taken into account.

Projected funding

Question 8: Do you agree with the level and the rationale behind our proposed funding changes for 2024/25, both in relation to the compulsory jurisdiction (CJ) and voluntary jurisdiction (VJ)?

The rationale for the proposed funding changes, as set out in the document, looks sensible to us. We recognise there is a balance to be struck between ensuring FOS has the resources to effectively and quickly resolve complaints, while also delivering value for money for organisations who contribute to FOS' funding. The proposed approach seems to strike an effective balance between these.

Question 9: Do you agree with our proposal to adopt the Financial Conduct Authority's (FCA's) widened definition of 'relevant business' when reporting data and calculating the VJ levy? If not, why not?

We have no specific response to this question at this time.

Question 10: Do you agree with our other proposed changes to the FCA Handbook in relation to FEES 5.5B and DISP 4.2.6R, which sets out which parts of FEES apply to VJ participants? If not, why not?

We have no specific response to this question at this time.

Our draft budget

Question 11: Do you agree that our proposed use of surplus reserves in 2024/25 is appropriate?

AND

Question 12: Do you support our proposed budget for 2024/25?

We welcome the plans for investment in transformation to improve the customer experience. We agree with the risk the paper highlights regarding unexpected demand and the importance of accurate forecasting where possible.

Question 13: Do you feel we are offering value for money? If not, where do you think we could improve?

We have no specific comments to make with regards to any value for money improvements that FOS could make.

Charging professional representatives

Question 14: Do you consider that FOS should exercise the power given to charge professional representatives? If not, why not?

Yes, we would support exercising the power to charge professional representatives, given they are making economic gain from this work. This should help to deter any companies from issuing speculative or badly put together claims that are likely to fail.

Alongside this, we encourage FOS to continue to prioritise making the service as easy to access and use as possible, so that vulnerable complainants are able to access the FOS service directly without losing substantial sums of compensation in fees and commission.

Question 15: If this power is exercised, what is your view of the likely impact of a fee for professional representatives on overall complaint volumes and types submitted to the Financial Ombudsman Service?

We are not best placed to comment on what the impact would be on overall complaint volumes. We would imagine that the impact could be limited if action is not taken to limit the ability of professional representatives, particularly CMCs, to pass on the cost to consumers. Without this, it may have limited impact on their activity or complaint volumes.

Question 16: If this power is exercised, to help shape our Equality Impact Assessment, do you think there are any potential impacts of charging professional representatives on different groups of complainants, for example vulnerable groups and those with protected characteristics? If so, how do you think these could be mitigated?

Certain groups, who may find it hard to engage with the FOS complaints process without support could be disadvantaged by the proposal if the fee charged to professional representatives is able to be passed on to the individual complainant, as it could see them losing more of any subsequent award.

This would apply to anyone who is currently more likely to use a professional representative or CMC to complain (which we would assume FOS has data on). To mitigate this, action could be taken to limit the extent to which the fee can be passed onto complainants. In addition, it is vital that further action is taken to improve FOS' accessibility to these groups of complainants in particular and to develop awareness of how it can be easy and straightforward to make a complaint directly or through a free advice service.

Question 17: If this power is exercised, how do you think the regulatory system could address/avoid professional representatives passing on the fee to consumers?

We would encourage FOS to work with the FCA and Government to consider a further reduction in the cap on the amount that professional representatives/ CMCs can charge individuals in fees and commission. This could help limit the ability of professional representatives / CMCs to pass on these fees to consumers. As a result, this could help to minimise the potential losses for consumers who have used a CMC when they could have made a complaint directly to FOS.

Question 18: If this power is exercised, what other factors should we consider when evaluating charging professional representatives?

We have no specific response to this question at this time.

Question 19: If this power is exercised, do you agree with our initial thoughts to provide the same level of free cases (three) as for respondent firms?

Yes, this appears to be a fair and reasonable approach for FOS to take.

Question 20: If this power is exercised, what do you think of the potential pricing options, or the proposed fees, for charging professional representatives?

We have no specific response to this question at this time, but lean towards higher fees to deter bad practice.

Question 21: If this power is exercised, what preparations will professional representatives need to make? And what is the timescale that it will take to implement such preparations?

We have no specific response to this question at this time.

For more information on our response, please contact:

Meg van Rooyen, Policy Lead

meg.vanrooyen@moneyadvicetrust.org

07881 105 045



The Money Advice Trust

21 Garlick Hill

London EC4V 2AU

Tel: 020 7489 7796

Fax: 020 7489 7704

Email: info@moneyadvicetrust.org

www.moneyadvicetrust.org