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Adrian Dally
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Our ref: DP06/02

18 July 2006

Dear Mr Dally

Financial Ombudsman Service compulsory jurisdiction: funding review

This is the Financial Services Consumer Panel's response to Discussion Paper 06/02, Financial Ombudsman Service compulsory jurisdiction: funding review.

The Panel believes that the Financial Ombudsman Service, together with the Financial Services Compensation Scheme, plays an essential role in protecting consumers of financial services and reinforcing consumer confidence in the industry. Clearly this benefits all firms as well as consumers and it is right that authorised firms should meet the cost of the operating the Ombudsman Service. Provided that the cost is spread in a proportionate way and that overall the Scheme is sustainable, we do not have firm views on how the costs should be split.

We have focused our response on the following specific questions.

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?

No, we have no other criteria to add.

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?

We believe this is a pragmatic issue rather than one of principle. We would like the cost to be spread equitably, with the greatest burden being placed on larger firms. We would not wish to see smaller firms being put under undue financial pressure by fees levied to meet the cost of 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?

No further comments.

Q6: Which of the options (A to K) listed in Chapter 5 do you favour? Why do you favour that particular option?

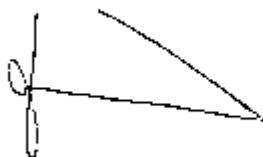
Q7: Do you have any other options to propose, in the light of the information provided by this paper and the issues raised?

Of the eleven options posed, none is obviously either advantageous or detrimental from the consumer point of view. Option B does however seem to increase the financial stability of the service as a whole.

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?

We would certainly support a cap on annual fees for credit unions as they are essentially socially-motivated not-for-profit bodies. We do not have particular view on cash plan health providers and friendly societies, but we have no strong objection to a similar cap being applied.

Yours sincerely

A handwritten signature in black ink, consisting of a vertical line with a small loop at the top, followed by a horizontal line that extends to the right and then curves upwards and to the right.

John Howard

Chairman

Financial Services Consumer Panel