



National Audit Office

Report

by the Comptroller
and Auditor General

Financial Conduct Authority and Financial Ombudsman Service

Financial services mis-selling: regulation and redress

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Financial Conduct Authority and
Financial Ombudsman Service

Financial services mis-selling: regulation and redress

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

22 February 2016

This report examines whether the system of financial services regulation and redress is dealing effectively with mis-selling.

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Contents

Key facts 4

Summary 5

Part One

Introduction 14

Part Two

Coordination and cost of regulatory and redress activities 21

Part Three

Preventing and detecting mis-selling 28

Part Four

Redress for consumers 36

Appendix One

Our audit approach 47

Appendix Two

Our evidence base 49

Appendix Three

Methodology for calculating turnover of claims management companies 52

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Key facts

£22.2bn

compensation paid between April 2011 and November 2015 following mis-selling of payment protection insurance (PPI)

59%

of customer complaints to financial services firms related to mis-selling (including PPI) in 2014, compared to 25% in 2010

£3.8–£5bn

estimated amount of PPI compensation received by claims management companies between April 2011 and November 2015

£298 million fines issued by the Financial Conduct Authority for mis-selling activity since April 2013

£834 million total operating costs of the Financial Conduct Authority (£523 million), Financial Ombudsman Service (£240 million) and Financial Services Compensation Scheme (£71 million) in 2014-15¹

62% of mis-selling complaints have been upheld by the Financial Ombudsman Service since April 2013

17% of payment protection insurance cases at the Financial Ombudsman Service have been waiting over two years to be resolved (39,300 complaints)

£898 million amount of compensation received by consumers from the Financial Services Compensation Scheme related to mis-selling by defunct firms, between 2010-11 and 2014-15

¹ These include costs for many activities other than regulating and responding to mis-selling.

Summary

1 Mis-selling of financial services products can cause serious harm. Mis-selling can take many forms. In 2013, the Financial Services Authority defined it as “a failure to deliver fair outcomes for consumers”, including providing customers with misleading information or recommending that they purchase unsuitable products.¹ It has occurred across many different product areas, including bank accounts, consumer loans and insurance. Between April 2011 and November 2015, financial services institutions paid out at least £22.2 billion in compensation to people who had bought payment protection insurance, following complaints and regulatory action. The Bank of England has identified the consequences of misconduct by banks, including mis-selling, as a risk to financial stability. It views addressing misconduct as essential for rebuilding confidence in the financial system.

2 In 2013, the value of goods and services produced in the UK financial and insurance sectors was over £120 billion, about 7% of gross domestic product. Until 2013, most of the financial services sector by value was regulated by the Financial Services Authority. The Financial Services Act 2012 created the Financial Conduct Authority (FCA) and the Prudential Regulation Authority to replace the Financial Services Authority from April 2013. The FCA has a strategic objective to ensure that the relevant markets function well. The FCA's three statutory operational objectives are to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK financial system and to promote competition in the interest of consumers.

3 Several other bodies have a significant interest in mis-selling of financial services. The Financial Ombudsman Service (the Ombudsman) aims to resolve individual complaints between consumers and businesses. The decisions it makes can be binding on firms. The Financial Services Compensation Scheme (FSCS) pays compensation to consumers if a financial services firm is unable, or likely to be unable, to pay claims against it. The Money Advice Service aims to improve people's understanding and knowledge of financial matters and their ability to manage their financial affairs. HM Treasury sponsors all of these bodies, and has some powers over them, which vary according to the institution but include the ability to appoint or approve the appointment of some or all board members. In addition, the FCA oversees the budget of the FSCS, the Ombudsman and the Money Advice Service.

¹ Financial Services Authority, *Final guidance: Risks to customers from financial incentives*, January 2013.

4 In this report, we assess:

- how the bodies involved coordinate their activities with respect to mis-selling, and the costs involved (Part Two);
- how the FCA acts to prevent and detect mis-selling (Part Three); and
- how redress is provided to consumers (Part Four).

5 We focus on retail mis-selling by authorised financial services firms. We did not audit the Financial Services Authority, so do not evaluate actions taken before April 2013, though we do describe them to provide context. We do not evaluate efforts to improve the financial literacy of consumers, led by the Money Advice Service.

6 Domestic and EU legislation prohibits the FCA from providing the Comptroller and Auditor General with certain confidential information that the FCA holds about firms. This means that we were unable to carry out a full assessment of the effectiveness of the FCA's actions, as we could not see all of the evidence that the FCA holds. For instance, we have only limited evidence on how the FCA's actions have changed firm behaviour.

Key findings

Coordination and costs

7 **The FCA's strategic approach to managing the interventions it makes in response to mis-selling is still evolving.** Under the new strategy it launched in December 2014, the FCA is developing 'common views' to bring together data and intelligence, helping it to analyse what is happening across regulated sectors and to identify the right interventions. This should help to inform its decisions on what to prioritise and improve its understanding of risks. The FCA sets objectives for individual interventions and learns lessons from them. But it does not yet systematically draw together aims and success criteria for related interventions, evaluate how they fit together, or link the outcomes of interventions to their costs. This creates a risk that interventions may not be well coordinated, and means that the FCA cannot be sure that it has chosen the most cost-effective way of intervening (paragraph 2.2).

8 The FCA and the Ombudsman work hard to coordinate their activities, but haven't yet convinced firms that they have succeeded in doing this. Effective coordination between the FCA and the Ombudsman could help them both to carry out their different statutory roles. We saw examples of coordination at many levels, including strategic assessments of risks and operational discussions about particular firms. Industry representatives told us that they felt that a lack of coordination between the FCA and the Ombudsman can result in duplication of activities and extra costs to firms. Many examples they gave us seemed to reflect the differing remits of the FCA and the Ombudsman, but some seemed to reflect shortcomings in operational coordination. For example, the British Bankers Association told us that banks are sometimes asked to provide the Ombudsman with evidence demonstrating the appropriateness of products, services and charges, despite already having given this information to the FCA. Such duplications partly reflect legal restrictions on information sharing, but there is likely to be scope for some operational improvements (paragraphs 2.3 to 2.5).

9 The costs of regulatory responses to mis-selling, and of arranging for redress for consumers, are substantial, and some gaps in the FCA's understanding of the costs of its activities could hamper its decision-making (paragraphs 2.6 to 2.11):

- **Direct costs.** The 2014-15 operating costs of the FCA, the Ombudsman and FSCS were £523 million, £240 million and £71 million respectively. There is no complete estimate of the costs of their mis-selling work, partly because mis-selling issues cut across several areas of regulation. These costs are met by financial services firms in the first instance, but ultimately consumers pay too through firms' fees and charges. Firms also incur the costs of independent reviewers appointed by themselves or by the FCA, which can be substantial. The FCA reports that nine firms have paid £300 million to independent reviewers for work on the interest rate hedging products redress scheme.
- **Compliance costs.** Compliance costs are difficult to assess accurately because it is hard to determine what firms would do in the absence of regulation, and the FCA does not estimate the overall costs of complying with regulations. Smaller firms may face proportionately higher costs, since they are less able to develop in-house regulatory expertise. For proposed new rules, the FCA estimates benefits and costs in advance, including compliance costs. But it does not routinely undertake post-implementation reviews, which could improve its understanding of the actual impacts of regulatory interventions, including their effects on smaller firms. Of the 15 firms who responded to our information request, nine told us that their costs of complying with FCA conduct regulations were now 'much more' than in 2008. This could reflect the cost of strengthening compliance in response to past misconduct.
- **Wider costs.** Regulation aimed at preventing the sale of unsuitable products could have unintended consequences, such as discouraging innovations that could benefit consumers. For example, one firm told us that it considered that firms had become more reluctant to introduce new products, because they could subsequently be regarded as mis-sold if they prove to be unsuitable for some consumers. The FCA has established an innovation hub to allow firms to develop new services and products in an environment of regulatory support, advice and challenge.

Prevention and detection of mis-selling

10 Increased fines and redress payments appear to have substantially reduced financial incentives for firms to mis-sell products. Historically, firms and their sales staff had strong financial incentives to sell products such as payment protection insurance to their customers, even where the products were unsuitable, and many firms appear to have judged the immediate benefits of mis-selling to be greater than the later potential costs of compensation and fines. The FCA has made multiple interventions to affect incentives, including introducing restrictions on bonus structures through the remuneration code, and imposing mis-selling fines totalling £298 million from April 2013 to October 2015. Redress payments have been substantially larger, particularly for mis-selling of payment protection insurance. Most firms responding to our information request reported changes to their incentive structures to reduce the risk of mis-selling, in part because of the FCA's actions. The FCA has done valuable work to assess firms' incentive schemes for their retail sales staff, but it does not yet have an integrated picture of whether firms, and people working within them, could benefit financially from carrying out mis-selling activities (paragraphs 2.2 and 3.4 to 3.6).

11 The FCA is also acting to change other causes of mis-selling within firms. It has promoted changes to governance and internal controls, and launched campaigns aimed at helping people to avoid buying unsuitable products. The Senior Managers Regime, which is due to be introduced for banking sector firms in 2016, is expected to make individuals more accountable for their actions. In responding to our information request, several firms told us that they had made changes to their approaches, including devoting more senior management time to the risks of mis-selling and misconduct. However, both firms and the FCA acknowledge that changing the culture throughout firms is challenging, particularly at middle management level. Although the FCA undertakes several activities aimed at reaching smaller regulated firms, some smaller firms told us that they sometimes found it difficult to know how to comply with mis-selling regulations, as they had little interaction with the FCA (paragraphs 3.7 to 3.9).

12 The FCA lacks good evidence on whether its actions are reducing overall levels of mis-selling. Complaints data provide an imperfect indicator of current mis-selling levels because complaints may reflect past mis-selling rather than continued problems, and the FCA's information on complaints to firms does not identify when alleged mis-selling took place. The FCA does not yet draw together information that could show whether its actions are reducing mis-selling. In 2014, mis-selling accounted for 59% (2.7 million) of customer complaints to financial services firms. This compared with 25% (0.9 million) in 2010. Payment protection insurance alone accounted for 2.3 million complaints in 2014 – 51% of all complaints. There has been no clear trend in complaints about mis-selling of products other than payment protection insurance (paragraphs 3.10 and 3.11).

13 The FCA is taking a more active approach than its predecessor to identifying and responding to risks related to mis-selling, particularly for new products. It has developed information and analysis processes and techniques, which it told us helped it to detect potential mis-selling of self-invested personal pensions at an early stage. It has used its powers to stop the sale of unsuitable products, such as the sale of contingent convertible securities to retail customers; it expects this to prevent between £16 million and £235 million of detriment. The FCA has identified pension reforms as a possible trigger for future mass mis-selling, and is acting to prepare itself for the problems that may arise. It is also improving its understanding of the drivers of consumer behaviour. However, some consumer and firm representatives told us they thought the FCA's approach was based too much on monitoring and implementing detailed disclosure requirements, rather than assessing whether consumers truly understand what they are buying (paragraph 3.12).

Redress for consumers

14 Overall, banks' handling of complaints has been poor, requiring ongoing action from the FCA and the Ombudsman. Inadequate complaint handling by financial services firms has been a factor in many cases of alleged mis-selling going to the Ombudsman for adjudication, and in increased use of claims management companies by consumers. The FCA has tried to improve complaints handling by introducing new rules, conducting thematic reviews and taking enforcement action (including fining Lloyds Banking Group £117 million). The Ombudsman also provides guidance to firms based on the cases it adjudicates. The FCA and the Ombudsman told us that in their view complaints handling has improved over time. Seven out of 15 firms that responded to our information request reported changes in their approach, at least partly as a result of the FCA's or the Ombudsman's actions. However, there has been no noticeable fall in the level of complaints about mis-selling upheld by the Ombudsman in the past five years. It has found in favour of consumers in 62% of cases raised with it since April 2013 (paragraphs 4.2 to 4.4).

15 The FCA does not evaluate its chosen redress schemes formally, making it hard to assess whether schemes achieve their intended outcomes. The FCA has several informal and formal options for securing redress for consumers from firms. The type of redress mechanism chosen can affect outcomes, including speed of redress, the proportion of affected customers that receive redress, and the costs of providing redress. The FCA has set objectives, considered options, monitored progress and learned lessons for some larger, high-profile redress schemes. It decides on its approach to redress on a case-by-case basis, having regard to specific regulatory failings and consumer detriment. To date, it has not formally evaluated the factors that contribute to successful outcomes across different types of redress routes, including redress through complaints to the Ombudsman, but it has started work to identify common principles that should feature across its redress schemes (paragraphs 4.5 to 4.7).

16 The Ombudsman has continued to provide an effective service to complainants following a massive increase in complaints, but it has struggled with a backlog of older payment protection insurance cases. The Ombudsman opened around 400,000 new mis-selling cases in both 2012-13 and 2013-14, compared with around 120,000 in 2010-11, because of a rapid increase in complaints about payment protection insurance. The Ombudsman has trebled in size in response, without any evidence of a fall in the quality of its decision-making; in 2014-15, 74% of complainants agreed that the Ombudsman handled complaints efficiently and professionally. The Ombudsman received 1.49 million payment protection insurance complaints between 2001 and January 2016, 93% of these since 2010. Although the Ombudsman has reduced the number of open payment protection insurance cases from over 445,000 in May 2013 to 234,000 in November 2015, 17% of open cases (39,300) have now been outstanding for more than two years. Only 52% of complainants agreed that the Ombudsman settled disputes in an acceptable length of time (paragraphs 4.8 to 4.11).

17 Although complaining directly to the Ombudsman is straightforward and free, many consumers who have been mis-sold financial products fail to receive full compensation, because of lack of awareness or reliance on claims management companies. Lack of awareness can mean that consumers do not know that they were mis-sold a product, or that redress is available. The Ombudsman has found that many consumers don't pursue a complaint because they believe that it wouldn't achieve anything, or that it would be too stressful. The FCA, the Ombudsman and the FSCS have had some success in increasing awareness of mis-selling and redress, but the scale of the challenge is large. In 2014-15, 80% of survey respondents had some awareness of the Ombudsman, though only 24% could name it without prompting. The Ombudsman and the FCA have tried to encourage consumers to complain directly if they have problems, with little apparent impact so far; around 80% of payment protection insurance complaints to the Ombudsman come through claims management companies. We estimate that, between April 2011 and November 2015, claims management companies received between £3.8 billion and £5 billion of the £22.2 billion of compensation paid out to consumers of payment protection insurance (paragraphs 4.14 to 4.19).

Conclusion on value for money

18 The regulatory and redress bodies have carried out many activities to prevent and detect mis-selling and to ensure that consumers receive the redress to which they are entitled. These appear to have increased the prominence of mis-selling issues in financial services firms. But the complexity of products, continuing commercial incentives to achieve sales, and the difficulties in changing cultures within firms mean the risk of mis-selling remains. The FCA's strategic overview of these risks, and its understanding of the cost-effectiveness of different interventions and redress schemes, are currently limited, which makes it harder to respond effectively when problems emerge.

19 Legislative restrictions have prevented the FCA from sharing with us information it holds on firms. This makes it impossible for us to draw definitive conclusions on its approach. The information available to us, such as customer complaints, does not show any clear reduction in the extent of mis-selling. Despite some signs of progress, the FCA therefore has further to go to demonstrate that it is achieving value for money. The Ombudsman has dealt well with the unprecedented increase in its workload because of payment protection insurance cases, but there remains a substantial backlog of complaints.

Diagnosis and recommendations

20 The task of reducing mis-selling of financial services cost-effectively is a difficult one. Consumers often have limited information and exhibit behavioural biases, which can make mis-selling very profitable for firms. The FCA faces challenges in promoting good behaviour and cultures in firms, and in tackling the weaknesses that the Financial Services Authority and the FCA had identified in previous regulatory approaches. Our recommendations are designed to build on the FCA's current strategy and increase confidence that it is achieving its intended outcomes for consumers.

21 The FCA should:

- a** **Develop further its strategic view of the risks of mis-selling and its approach to tackling them.** It should communicate its expectations with regard to mis-selling clearly and consistently to firms, and work with the Ombudsman to assess regularly how it is affecting how firms and individuals weigh up the potential risks and rewards of mis-selling. It should ensure that it routinely defines the aims and success criteria of regulatory actions, monitoring and formally evaluating whether it has achieved them. The FCA should draw together indicators to help it and others to judge whether its actions on mis-selling are achieving their intended effects. These actions would help it to follow through on the impacts of its work and to judge the relative effectiveness of different interventions.
- b** **Develop a stronger understanding of the total costs and benefits of its work, and use cost and benefit information more routinely in its decision-making.** This should include detailed evaluations of how regulatory changes affect the costs of compliance. It should use a wide range of data sources to help it to assess how consumer behaviour responds to regulatory interventions. This would support its evaluations of the effectiveness of its work, and increase confidence that it is achieving value for money.

c Formalise its approach to evaluating redress mechanisms, including their costs, rates of uptake by consumers and how quickly they provide redress to consumers. It should set out clear success criteria and compare the effectiveness of different types of schemes. This would help it to identify more clearly the factors that contribute to successful scheme outcomes and to make more informed decisions between different approaches. It should work with the Ombudsman and financial services firms to evaluate tools for encouraging redress, including complaints-led approaches.

d Analyse alternative approaches to deciding whether products are mis-sold. At present, as well as undertaking a wide range of other regulatory activities, the FCA places detailed requirements on how firms describe and sell their products. It should assess whether an approach based on firms testing customer understanding directly, and the FCA assessing how they do so, would be more effective. It should consider whether its current rules prevent potentially valuable innovations.

22 The FCA and the Ombudsman should:

e Work together to improve firms' complaints handling, to develop better measures of the quality of complaints handling, and to publish the results. They should build on existing industry good practice in measuring complaints handling performance to facilitate comparisons between firms. This would enable them to assess whether complaints handling is improving, and help consumers and regulators to put pressure on poorly-performing firms.

f Work with financial services firms to help consumers to access redress without using claims management companies. They should test the effectiveness of different approaches to encouraging direct compensation claims, and implement any lessons that result in advance of a possible deadline for payment protection insurance complaints.

23 The Ombudsman should:

g Outline publicly how quickly it expects to clear the backlog of payment protection insurance cases on current assumptions about caseload, and report progress regularly. Given the likely increase in cases in the run-up to a possible deadline for claims, it is vital that it deals with the current backlog well before this date.

24 HM Treasury should:

h Strengthen the FCA's accountability by removing restrictions on the disclosure to the Comptroller and Auditor General of information that the FCA holds on firms, where this is permitted in EU law. Following the financial crisis, Parliament made the Comptroller and Auditor General the statutory auditor of the FCA, with the objective of improving accountability. But this is currently impeded by the impossibility of carrying out a full assessment of the effectiveness of the FCA's actions to influence firm behaviour. As a result, we cannot conclude on the economy, efficiency and effectiveness of its use of resources.

25 If HM Treasury and the Ministry of Justice propose any major changes to the regulation of claims management companies, they should:

i Establish an approach and timeline for evaluating the impacts of the changes on consumers and businesses. The Ministry of Justice should publish estimates of the effect of claims management companies on compensation received by consumers, before and after any cap on the amount that claims management companies can charge their customers.

Part One

Introduction

The mis-selling problem

1.1 Mis-selling has been a major, recurring problem in the financial services industry. It can take various forms. For example, a firm might sell a product that is unsuitable for a particular consumer, or give customers misleading information (**Figure 1**). Consumers are particularly susceptible to mis-selling of financial services, as many have limited understanding of the products on offer. In part this is because the products are complex and their benefits may be uncertain. Conduct regulation aims to protect consumers when they are disadvantaged in market transactions with financial services providers.

1.2 Firm behaviour, market forces and regulatory failure can contribute to mis-selling of financial services. Mis-selling may be tolerated or even facilitated by firms, for example through bonus structures, cultural norms and aggressive sales processes. Ineffective internal governance and product design practices can allow problems to continue unchecked. Market forces can put pressure on firm managers to achieve short-term sales targets. In the case of the mis-selling of payment protection insurance, ineffective regulation was identified as a contributory factor in the failure to end mis-selling quickly.

1.3 Mis-selling happens in many different product areas, including bank accounts, consumer loans and insurance. The best-known cases involve mass mis-selling, where a single product, or group of related products, is sold to large numbers of consumers, for many of whom it is inappropriate. Prominent past examples of mass mis-selling, which can affect millions of customers, include endowment mortgages and personal pensions. But mis-selling can also happen on an individual level, for instance if a financial adviser recommends that a customer purchase a portfolio of products that is unsuitable for their particular circumstances.

Figure 1

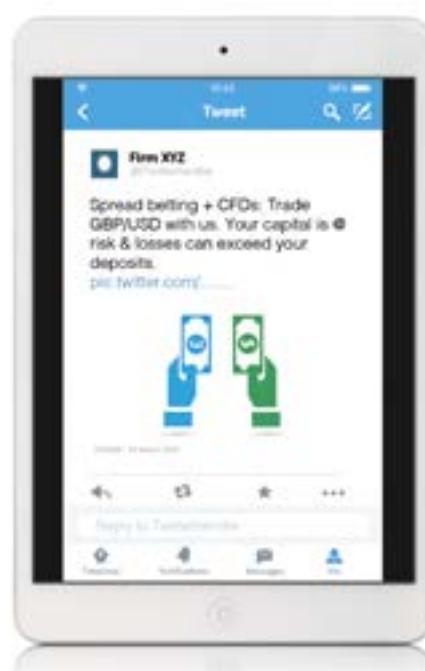
An example of a non-compliant financial promotion

Non-compliant promotion can overemphasise the benefits of a financial services product

Example of a non-compliant promotional tweet



Example of a fair, clear and not misleading tweet, conveying a prominent warning within the character limitation



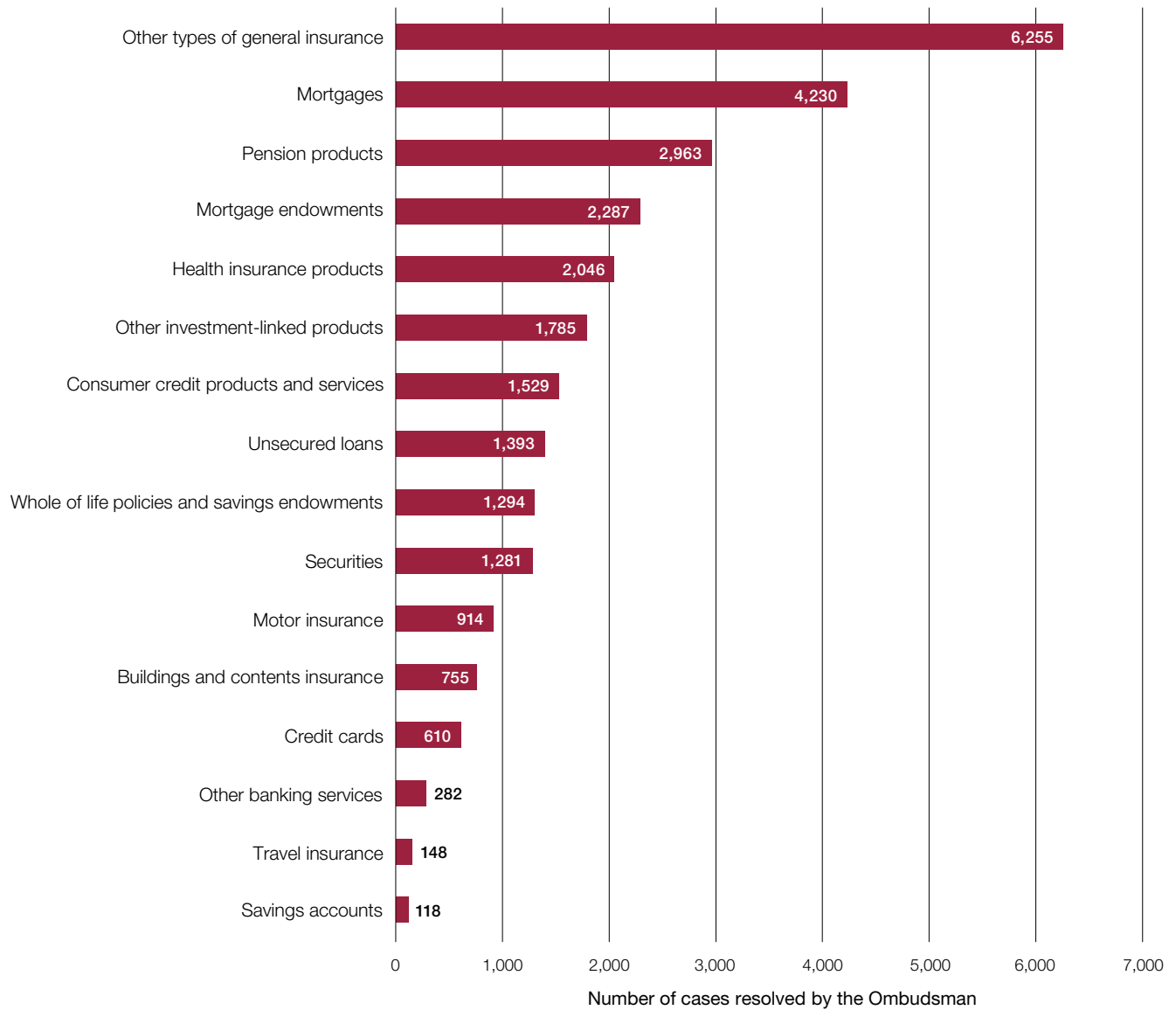
Source: Financial Conduct Authority, FG15/4: *Social media and customer communications*

1.4 Figure 2 overleaf shows the number of complaints relating to mis-selling that the Financial Ombudsman Service resolved across different sectors in 2014-15. It excludes payment protection insurance, which accounted for 92% of all mis-selling complaints. Payment protection insurance was sold in large volumes between about 1990 and 2009, and became the biggest recent mis-selling issue. By November 2015, firms had handled over 16.5 million customer complaints about payment protection insurance, and had upheld 75% of them.² Between April 2011 and November 2015, firms paid out £22.2 billion in redress to more than 12 million customers.

² Financial Conduct Authority, *Rules and guidance on payment protection insurance complaints*, November 2015.

Figure 2
Mis-selling across different financial products in 2014-15

Mis-selling is not just confined to payment protection insurance



Note

1 Additionally, 8,330 packaged bank account cases were closed in this period which, subject to a review of data categories, should be considered mis-sales.

Source: National Audit Office analysis of the Ombudsman's data

1.5 Mis-selling of financial services harms consumers, the financial services industry and the wider economy. Consumers suffer from buying unsuitable products that they do not need, or will not provide the outcomes they expected. Mis-selling undermines public confidence in the financial services sector as a whole, and in regulators and other public bodies if problems are not prevented, detected or handled effectively. The Bank of England has identified the consequences of misconduct by banks, including mis-selling, as a risk to financial stability.³ Fines and redress costs have made it harder for banks to rebuild capital levels since 2009. Misconduct has also undercut public trust and hindered progress in rebuilding the banking sector after the crisis.

The regulation and redress system

1.6 In 2013, the value of goods and services produced in the UK financial and insurance sectors was over £120 billion, about 7% of gross domestic product. Until 2013, most of the financial services sector by value was regulated by the Financial Services Authority. The Financial Services Act 2012 created the Financial Conduct Authority (FCA) and the Prudential Regulation Authority to replace the Financial Services Authority from April 2013.

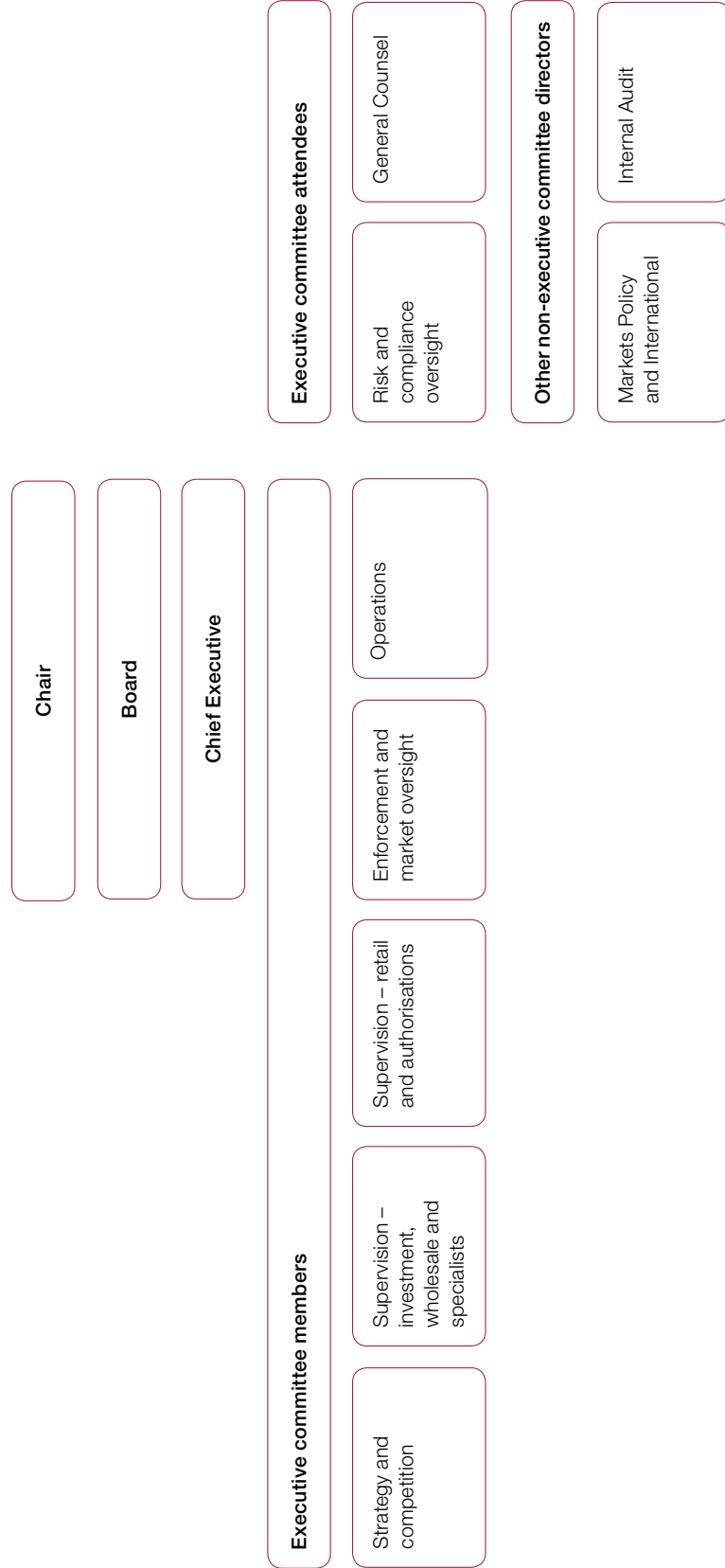
1.7 The FCA now has the lead role in promoting good conduct in financial markets. Under the Financial Services Act 2012, the FCA's strategic objective is "ensuring that the relevant markets function well". It has three statutory operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote competition in the interest of consumers. It regulates more than 70,000 firms, categorised into eight different sectors of the financial services market. The FCA operates a risk-based approach to regulation and organises its activities across several different functions, including authorisations, supervision and enforcement (**Figure 3** overleaf).

1.8 The Ombudsman is a statutory dispute resolution scheme for consumer complaints about financial services products. Consumers who have raised a complaint with their financial services provider and are dissatisfied with the outcome can bring their case to the Ombudsman for independent review, at no cost to them. Most cases are resolved informally by the Ombudsman's adjudicators, but either the firm or the consumer can ask for an ombudsman's final decision, which is binding on both sides if the consumer accepts it. Where the Ombudsman upholds a complaint, it usually recommends that the provider puts the customer back in the financial position they would have been in before the mis-selling occurred. In 2014-15, the Ombudsman resolved 448,000 customer complaints across many different areas, including cases of mis-selling.

1.9 The Financial Services Compensation Scheme (FSCS) is the compensation fund of last resort for customers of authorised financial services firms. It provides compensation to consumers if a financial services firm is unable, or likely to be unable, to pay claims against it (usually because it has stopped trading). The FSCS dealt with 20,000 customer claims related to mis-selling in 2014-15, almost two-thirds of all claims.

³ Bank of England, *Financial Stability Report*, July 2015 and Bank of England, *Stress testing the UK banking system: 2015 results*, December 2015.

Figure 3
Financial Conduct Authority organisational chart



Note

1 Financial Conduct Authority organisation chart as of November 2015.

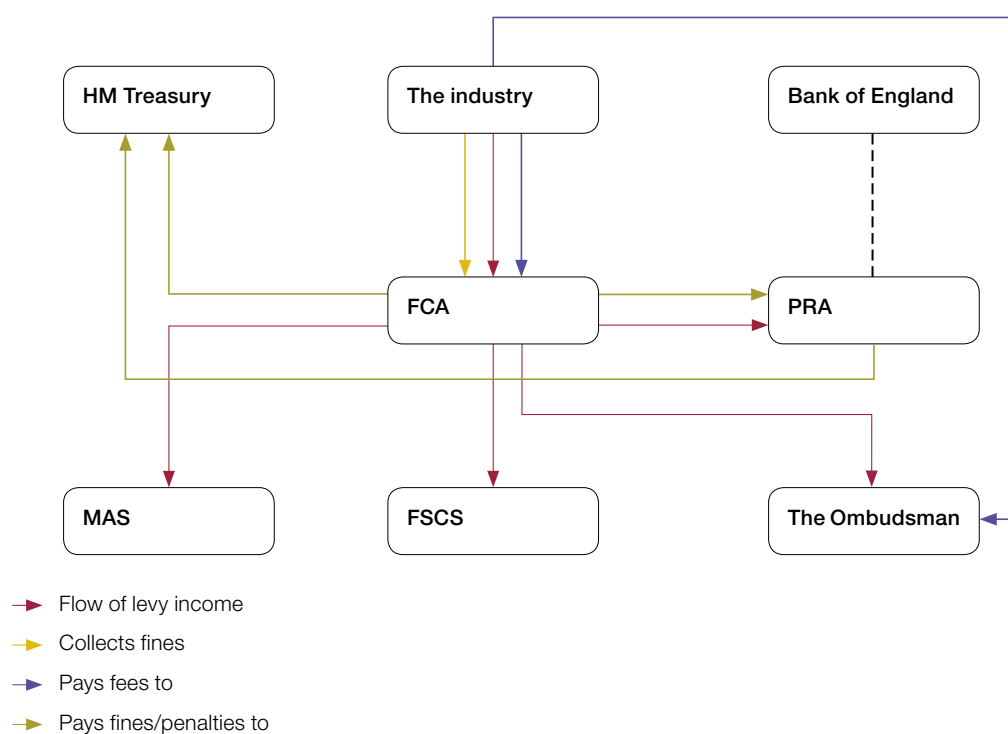
Source: Financial Conduct Authority

1.10 The FCA, the Ombudsman and the FSCS are operationally independent of government, and accountable to both Parliament and HM Treasury. HM Treasury is responsible for designing the framework within which the FCA, the Ombudsman and the FSCS operate. It sponsors all of these bodies within government, and has some powers over them, including the ability to appoint or approve the appointment of some or all board members. Although the Ombudsman is operationally independent, the FCA approves the Ombudsman's plans and budgets and is required to ensure that the Ombudsman is capable of exercising its statutory functions.⁴ **Figure 4** shows how the bodies are funded.

Figure 4

How the financial services regulation and redress bodies are funded

Regulatory and redress bodies are funded predominantly by levies on the financial services industry



Notes

- 1 The FCA collects levy income from the industry, acting as an agent on behalf of the Prudential Regulation Authority (PRA), the Ombudsman, FSCS and the Money Advice Service (MAS).
- 2 The FCA collects fines from the industry, acting as an agent on behalf of the PRA.
- 3 HM Treasury receives the net penalty amount from the FCA and the PRA.

Source: National Audit Office

⁴ The Financial Conduct Authority also oversees the budgets of the Financial Services Compensation Scheme and the Money Advice Service.

1.11 Three other public bodies have significant roles in relation to mis-selling:

- The Money Advice Service aims to improve people's understanding and knowledge of financial matters and their ability to manage their financial affairs.
- The Claims Management Regulator (within the Ministry of Justice) regulates claims management companies, which have played a major part in the redress system in recent years.
- The Bank of England aims to maintain monetary and financial stability, including in relation to risks to stability arising from misconduct.

Scope of this report

1.12 In this report, we assess:

- how the bodies involved coordinate their activities with respect to mis-selling, and the costs involved (Part Two);
- how the FCA acts to prevent and detect mis-selling (Part Three); and
- how redress is provided to consumers (Part Four).

1.13 Appendix One outlines our audit approach and Appendix Two our evidence base.

1.14 We focus on retail mis-selling by authorised financial services firms. We did not audit the Financial Services Authority, so do not evaluate the actions it took in relation to mis-selling before April 2013, though we do describe some of them to provide context. For instance, we do not evaluate the Retail Distribution Review, begun in 2006 and completed in 2012, which aimed to improve the quality of financial advice and the incentives for financial advisers to promote customer welfare. The FCA has acknowledged that there were weaknesses in previous regulatory approaches, so we have reviewed how the FCA has sought to learn lessons from them. We do not evaluate efforts to increase the financial literacy of consumers, led by the Money Advice Service.

1.15 Sections 348 and 349 of the Financial Services and Markets Act 2000 read with EU law restrictions prevent the FCA from releasing to us certain confidential information it holds on firms;⁵ we are in discussions with HM Treasury about the degree of restriction EU law imposes. This limits our ability to reach a judgement on the FCA's value for money, as we could not carry out a full assessment of the effectiveness of the FCA's actions. For instance, we have only limited evidence on how the FCA's actions have changed firm behaviour, and how effective its redress schemes have been in providing compensation to consumers.

⁵ For example, there is currently no 'gateway' in secondary legislation for the FCA to release confidential information to us for the purpose of value for money examinations.

Part Two

Coordination and cost of regulatory and redress activities

2.1 In this part, we examine how well the Financial Conduct Authority (FCA) structures its approach to tackling mis-selling of financial products, how it coordinates its work with other organisations, and the overall costs of efforts to combat mis-selling.

How the FCA approaches mis-selling

2.2 Many parts of the FCA carry out work on mis-selling, as part of the FCA's wider regulation of conduct by financial services firms. This work includes developing and enforcing rules, authorising firms and people, supervising individual firms, analysing thematic issues across markets and designing redress schemes. The FCA described to us how its different functions engage with each other, and how decisions are made, prioritised and approved through a hierarchy of committees. We assessed how the FCA manages the different stages of its varied interventions:

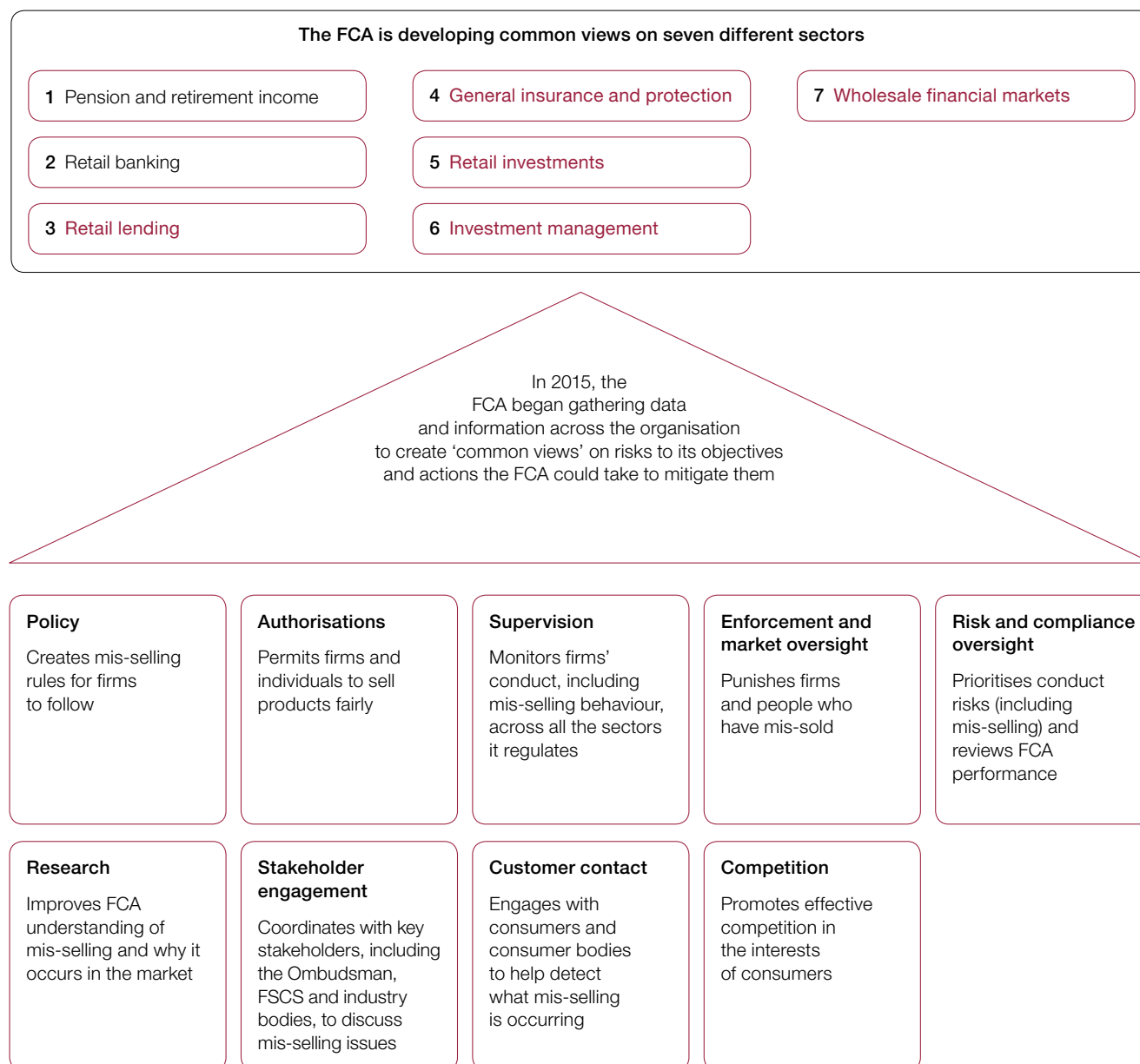
- **Articulating objectives.** In December 2014, the FCA launched a new strategy. It aimed to make its approach to regulation more risk-based and sustainable, with the ability to respond flexibly to changing circumstances and use its resources more effectively.⁶ As part of this new strategy, the FCA is developing 'common views' to bring together data and intelligence, helping it to analyse what is happening across regulated sectors, to define clearly the outcomes that it wants to achieve, and to identify the right interventions (**Figure 5** on page 23). This should help it to build on its existing work to outline the objectives of individual interventions and appraise their likely impacts. However, the FCA does not yet systematically describe the success criteria of interventions, either individually or as related groups. This makes it difficult for the FCA to know subsequently whether its interventions have been successful.

⁶ Financial Conduct Authority, *Our Strategy*, December 2014.

- **Bringing together information to diagnose and respond to issues.** Intelligence about mis-selling is spread across the whole FCA and in external bodies. The FCA acknowledges that it needs to make better use of information to understand the markets it regulates. It plans to use the common view process to reduce the possibility of overlooking important insights, and to help it to prioritise its actions and use of resources. The FCA gave us a redacted version of one common view, on the pensions and retirement income sector. This outlines clearly the FCA's view of the main prospective risks, and should provide a good basis for unified action to tackle them. However, it does not currently link risks to the costs of proposed actions, meaning that it is unclear how much effect the common view will have on prioritisation choices. The FCA told us that only two of the seven initial common views were in place as of January 2016, though it has early versions of the remaining five, and expects them to be in place by April 2016. It said that it will take time for these to embed so that they fully inform its decision-making.
- **Monitoring and evaluating interventions.** The FCA told us that it monitors individual interventions related to mis-selling on an ongoing basis, principally through its supervisory teams. It has also undertaken lessons learned exercises relating to individual interventions, such as its thematic work on lump sum investment advice in retail banking. However, it does not routinely draw together an appraisal of the purpose and likely impact of proposed interventions, together with a framework for monitoring and evaluating them. The FCA's processes for checking the effectiveness of its actions appear most developed in its firm-based supervision, where teams monitor whether firms are complying with rules. The data that the FCA currently holds can be insufficient to undertake full evaluations and impact assessments, and the FCA has further to go in assessing how effective its broader regulatory interventions are, including analysing whether desired changes are embedded in firms. Following implementation, the FCA may not know whether interventions have met their aims, and may miss opportunities to inform future decisions.
- **Evaluating across interventions and regulatory tools.** The FCA's work on mis-selling covers many types of intervention, often with common or related aims. The FCA does not undertake formal evaluations of groups of related activities, and lacks an overall picture of how its interventions fit together and their collective impact. It has not developed an understanding of the cost-effectiveness of different regulatory tools in different situations. It therefore cannot be confident that it is using the most cost-effective tools to tackle its priority risks, and cannot demonstrate to those funding its activities that it is doing so. The FCA told us that it is working to improve its understanding of the effectiveness of different approaches, but this will take some time to implement and mature.

Figure 5
Financial Conduct Authority common views

Common views should help the FCA form a more integrated view of mis-selling risks



Note

1 The common views for the sectors in red are incomplete.

Source: National Audit Office analysis of Financial Conduct Authority information

Coordination across regulatory and redress bodies

2.3 Effective coordination among regulatory and redress bodies can result in substantial benefits for consumers and increase value for money. For instance, FCA supervisors told us that they use information from the Financial Ombudsman Service on customer complaints to help detect risks related to mis-selling. The FCA's decisions about whether or not to intervene can affect the Ombudsman operationally. Most obviously, the Ombudsman's workload would have been much smaller had the Financial Services Authority taken an alternative approach to redress for consumers who had been mis-sold payment protection insurance, for example by using formal or informal arrangements to agree redress mechanisms with firms.

2.4 The FCA, the Ombudsman and the FSCS have several procedures for coordinating their actions, including those relating to mis-selling. These include:

- formal memoranda of understanding between the FCA and the Ombudsman, and between the FCA and the FSCS, covering issues such as exchanging information, governance and cooperation;
- meetings of a 'coordination committee', initially established by the Office of Fair Trading and now chaired by the FCA. Members include the FCA, the Ombudsman, the FSCS, the Money Advice Service, the Claims Management Regulator and the Competition and Markets Authority;
- regular meetings across the three organisations at different levels, covering issues such as developing new rules and guidance and sharing intelligence on risks of mis-selling; and
- discussions about particular firms, covering issues such as their complaints processes and their financial position.

2.5 We were unable to assess the overall effectiveness of cooperation since the FCA is restricted in showing us how its supervisors use information from the Ombudsman. Several financial services firms and their representatives told us that they thought the Ombudsman and the FCA did not coordinate well enough. Many examples they gave us seemed to reflect the differing remits of the FCA and the Ombudsman, which we do not consider in this report. But some identified scope for better co-ordination over matters within their remits. For example, the British Bankers Association told us that firms sometimes have to carry out extra work, often involving external professional advisory firms, to produce evidence for the Ombudsman that their products, services and charges are appropriate. It said that this duplicates work already undertaken by the FCA and that improved co-ordination would allow firms to provide this evidence once and at reduced cost. Such duplications partly reflect legal restrictions on information sharing between the FCA and the Ombudsman, but there is likely to be scope for some operational improvements.

Costs of regulation and redress

2.6 The costs of the FCA, the Ombudsman and the FSCS are paid for by levies and charges on financial services firms, and ultimately affect the amount that consumers pay for financial services. The total operating costs of the FCA and the Ombudsman, including mis-selling and all other work, were £523 million and £240 million respectively in 2014-15. The FSCS had management expenses of £71 million in 2014-15 and its costs of paying compensation were £327 million, of which £196 million related to mis-selling.

2.7 Costs attributable to mis-selling are not recorded separately, and there is no complete estimate of costs across the regulatory and redress bodies. The Ombudsman estimates mis-selling costs at £184 million in 2014-15, about 77% of its costs. Regulatory costs are difficult to compare over time because of changes such as the separation of the Financial Services Authority in 2013, and because the FCA undertakes many activities not related to mis-selling. The Ombudsman estimates that the proportion of its costs that relate to mis-selling has increased over time, largely due to mis-selling of payment protection insurance (**Figure 6** overleaf).

2.8 Regulatory and redress responses to mis-selling can lead to other costs for financial services firms. Firms or the FCA can appoint independent reviewers for purposes such as advising on redress schemes established by the FCA. The costs can be substantial – the FCA reports that nine firms have paid around £300 million to independent reviewers for work on redress for mis-selling of interest rate hedging products,⁷ not including the costs of their own reviews.

2.9 Firms bear other less transparent costs in complying with regulation, including employing internal specialists to explain and develop appropriate controls and assurance. Smaller firms may face a proportionately higher burden to comply because they are less able to develop in-house regulatory expertise. Information on the costs of compliance can inform regulatory decisions, such as whether the costs of regulatory action justify the benefits. Since March 2014, central government departments have had to estimate the potential impact of regulatory proposals on small and micro businesses, and to explore ways of mitigating them.

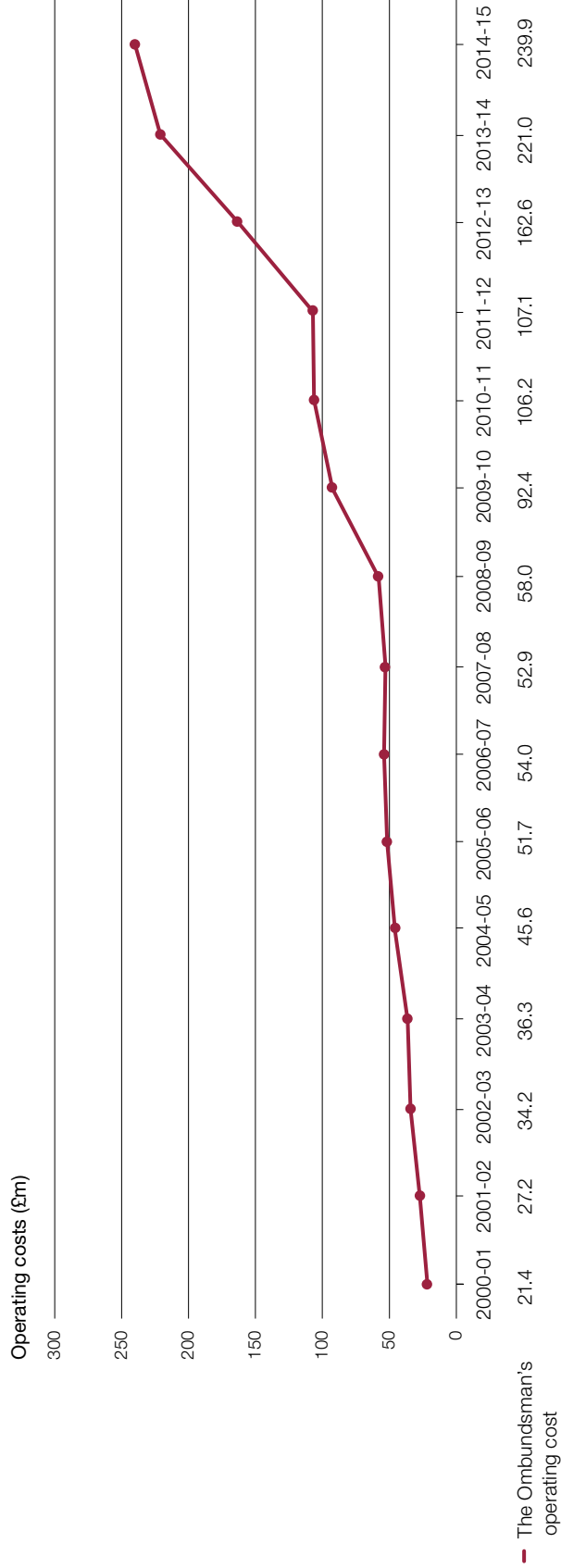
2.10 When proposing new rules, the FCA estimates potential compliance costs along with other costs and benefits, and publishes these estimates as part of its consultations. The FCA told us that it also appraises the costs and benefits of potential enforcement action in individual cases. But it does not routinely undertake post-implementation reviews, which could improve its understanding of the actual impacts of regulatory interventions, including their effects on smaller firms.

⁷ Products whose stated purpose is to help the customer manage fluctuations in interest rates.

Figure 6

The cost of the Ombudsman over time (£m)

The Ombudsman's costs have more than doubled in the last five years, largely due to the mis-selling of payment protection insurance



Source: National Audit Office analysis of the Ombudsman's data

2.11 The FCA does not measure overall compliance costs to firms, and their extent is contested. Several firms told us that they were substantial, but consumer representatives said that in other industries they would just be treated as the costs of providing a good service to consumers. In any case, compliance costs will be particularly high if regulatory actions include any elements that go beyond the level needed to meet regulatory objectives. We asked twenty financial services firms to estimate how much it cost them to comply with regulatory requirements related to mis-selling in 2014-15.⁸ Of the 15 firms who responded, 9 told us that their costs of complying with FCA conduct regulations were now 'much more' than in 2008. Part of any increase in compliance costs could reflect the costs of strengthening compliance in response to past misconduct. Firms' estimates of current compliance costs varied widely, since it is very difficult to assess what would have happened in the absence of regulation. But all six firms that provided an estimate thought their compliance costs were higher than the costs of their levy payments for the FCA, the Ombudsman and FSCS.

Risks of unintended consequences

2.12 Regulatory action could provide substantial benefits for consumers by reducing mis-selling, but it could also lead to unintended consequences. There is a risk that regulatory interventions preventing unsuitable products from being developed or sold could discourage innovations or competition that would benefit consumers, as firms might be reluctant to introduce new products or unwilling or unable to enter a market (**Figure 7**). The FCA is seeking new ways to mitigate such consequences. For instance, it has established an FCA 'Sandbox' (part of its innovation hub) whereby firms can discuss products in development openly with the FCA without the risk of regulatory action.

Figure 7

Firms' views of unintended consequences of regulatory action

Some firms told us that regulation had reduced innovation

In response to our information request to 20 financial services firms, we received some examples where firms felt innovation had fallen as a result of regulation and redress to prevent mis-selling:

- **Resourcing for product development.** The increased cost of complying with all regulations led to fewer resources for developing innovative products and services.
- **Appetite to take a chance on producing a new product.** One firm said that "innovation has been partially stifled as firms have become risk averse to conduct risk and poor customer outcomes. The greater the degree of innovation of both products and services brings with it a greater inherent risk of poor outcomes as the behaviours of customers in reaction to the innovative product or service has not been tested in the market".
- **Ability to meet customer needs through technological developments.** One firm told us that the FCA's rules on information disclosure had not kept pace with technological developments and customers' expectations of digital services. It felt that regulation was impeding its ability to use new technology to provide information on products more effectively.

Source: National Audit Office industry information request

8 See Appendix Two for details.

Part Three

Preventing and detecting mis-selling

3.1 In this part, we examine whether the regulatory and redress regime is clear in defining and communicating what constitutes mis-selling, the actions the Financial Conduct Authority (FCA) takes to prevent mis-selling, and its work to detect and respond to mis-selling at an early stage.

Defining and communicating ‘mis-selling’

3.2 In 2013, the Financial Services Authority defined mis-selling as “a failure to deliver fair outcomes for consumers”, and specified some of these outcomes.⁹ To communicate its expectations, the FCA has set out general principles of firms’ behaviour, which it calls ‘Principles for Business’. It specifies rules with which firms must comply. It publishes guidance and provides informal advice through its supervisory relationships with larger firms, its contact centre and thematic reviews for smaller firms, and events such as roadshows.

3.3 Firms told us that they used FCA guidance in their work. But some felt that, partly because of their different remits, there are differences in how the FCA and the Ombudsman apply their guidance when making decisions, with the FCA taking a predominantly rules-based approach while the Ombudsman uses its judgement based on its assessment of fairness. Some larger firms told us that they were concerned that a lack of clarity could leave them exposed to retrospective judgements that they had mis-sold products. Smaller firms said that they typically have little interaction with the FCA, and sometimes did not know where to go to find out how to comply with rules.

Preventing mis-selling

3.4 Following the financial crisis, there have been many analyses of the reasons why agents in the financial sector acted in ways that harmed consumers and taxpayers. Some identify poor incentive structures and cultures; for instance, the Parliamentary Commission on Banking Standards concluded that “Remuneration has incentivised misconduct and excessive risk-taking, reinforcing a culture where poor standards were often considered normal.”¹⁰ On mis-selling, it stated that “Senior management set incentive schemes for front-line staff which provided high rewards for selling products and left staff who did not sell facing pressure, performance management and the risk of dismissal. ...These remuneration structures are ultimately not in the interests of banks themselves, still less of the customers they serve.”

⁹ Financial Services Authority, *Final guidance: Risks to customers from financial incentives*, January 2013.

¹⁰ Parliamentary Commission on Banking Standards, *Changing Banking for Good*, HC 175-1, June 2013.

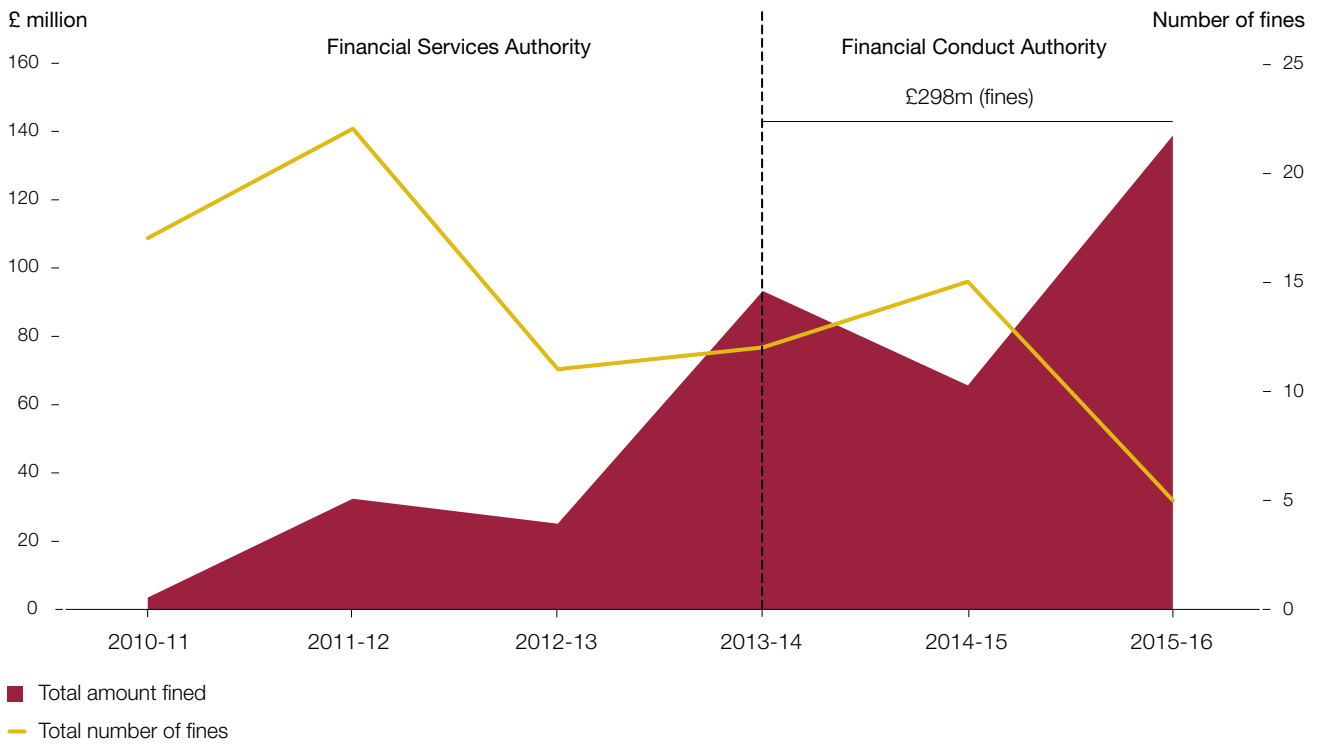
3.5 Firms, and individuals within them, face a balance of incentives between the immediate financial gains from mis-selling products to consumers, and the long-term risks of mis-selling being detected, with potential consequences such as redress payments and fines. There is a broad consensus across regulatory and enforcement agencies about what constitutes good practice in promoting credible deterrence of bad behaviour, including legal clarity, bold and resolute enforcement and strong punishment.¹¹ The FCA has taken many actions to try to strengthen incentives for behaviour that promotes consumer protection, by individuals, by firms, and by the financial sector as a whole. These include:

- **Enforcement action against firms and individuals.** The FCA imposed £298 million of fines for mis-selling between April 2013 and December 2015 (**Figure 8** overleaf). There has been a sharp increase in the average size of fines since the FCA was established, from £1.2 million between 2010-11 and 2012-13, to £8.5 million from 2013-14 to December 2015. The FCA has also used other enforcement action against individuals, including banning 16 people for mis-selling activities.
- **Bonus adjustments.** Under its Remuneration Codes, the FCA sets out standards and policies that certain firms must meet when setting pay and bonus awards for staff. Since June 2015, the Codes apply to more than 3,000 firms, including all banks and building societies. For many larger firms (those regulated by both the FCA and the Prudential Regulation Authority), the Codes require firms to set up procedures reducing variable payments for senior staff and other key individuals in the event of misconduct. The FCA told us that reductions of a total of £1.2 billion took place following manipulation of foreign exchange markets, but has not estimated reductions following mis-selling activity.
- **Supervisory interventions.** The FCA told us that it carries out many supervisory actions in relation to mis-selling. In 2014-15, these included 108 meetings with employees of firms holding 'significant influence functions', eight 'deep dives' into key areas within firms and one product restriction.
- **Increasing competition.** Unlike its predecessor, the FCA has an explicit objective to promote competition, and gained competition enforcement powers in April 2015. By changes such as making it easier for consumers to switch providers, it hopes that firms will become more responsive to customer needs, and less likely to develop sales-driven cultures.

¹¹ International Organization of Securities Commissions, *Credible deterrence in the Enforcement of Securities Regulation*, June 2015.

Figure 8
Number and amount of fines for mis-selling

The average size of fines has increased



Note
1 2015-16 indicates period up to December 2015.

Source: National Audit Office analysis of Financial Conduct Authority data

3.6 The FCA told us that its interventions into financial incentives for retail sales staff have resulted in changes within the industry. In 2014, it reported that all of the largest retail banks had made changes to their incentive schemes, although it estimated that around one in ten firms with sales teams had incentive schemes with features that increased the risk of mis-selling.¹² Due to information restrictions, we could not access information held by the FCA on how individual firms have changed their staff incentive structures in response to the FCA's actions. But, of the 15 firms who responded to our information request, nine told us that they had taken action to reduce incentives for mis-selling.¹³ For instance, some of those firms introduced a wider and more balanced range of criteria to assess staff performance. One firm told us that 40% of its performance scorecard now focuses on the customer experience, and no weight is given to sales targets. They attributed most of the changes they described partly or mainly to the FCA's actions. The managers of firms told us that they find it challenging to change cultures throughout firms. This is because, for example, middle managers have historically been promoted and rewarded on the basis of their ability to achieve sales targets. The FCA does not assess systematically how its interventions influence firms, and individuals within firms, not to carry out activities which lead to a high risk of mis-selling.

3.7 The FCA is also acting to change other causes of mis-selling within firms. In 2014, Martin Wheatley, the FCA's then chief executive, stated that financial regulators had historically concentrated more on rules than on ethics. He noted that, in a 2013 poll of financial service executives, 53% reported that career progression in their firm would be tricky without 'flexibility' over ethical standards. He said that "firms will begin to see themselves held up against stricter ethical standards."¹⁴

3.8 As part of this focus on ethics and culture, the FCA has initiated education campaigns, and is promoting changes to firms' governance and internal controls. It had planned to carry out a thematic review of culture change programmes in retail and wholesale banks, but concluded the review in December 2015. The FCA told us that, after the initial scoping phase, it became clear that each firm has its own approach, meaning that a thematic review across firms was not the best way to achieve culture change. It decided instead "to continue to engage individually with firms to encourage their delivery of cultural change".¹⁵ The Senior Managers Regime, due to be introduced for banking sector firms in 2016, is expected to make individuals more accountable for their actions, providing an incentive to prevent mis-selling and a means for the regulators to hold individuals to account should mis-selling arise.

¹² Financial Conduct Authority, *Risks to customers from financial incentives – an update*, TR14/4, March 2014.

¹³ Of the other firms, four said that the question was not applicable to their business, one said it had made no changes, and one did not respond to the question.

¹⁴ *Ethics and economics*, speech by Martin Wheatley, 4 March 2014.

¹⁵ Financial Conduct Authority, *Culture in banking – Response to FOI Request FOI4350*, 11 January 2016.

3.9 Of the 15 firms that responded to our information request, 12 told us that they had made some changes to their governance and internal controls regarding mis-selling. They attributed most of the changes partly or mainly to the FCA's actions. Three firms said the question did not apply to their business. Respondents also cited examples of positive changes to their sales processes and product design. Firms told us that regulatory interventions had successfully led their boards to pay more attention to misconduct and mis-selling risks. Of the 15 respondents:

- 14 said their most senior board maintains a conduct risk dashboard (or similar), which is regularly reviewed;
- 9 said their most senior board has substantial discussions on mis-selling or misconduct risks at every board meeting;
- 13 said that the frequency of discussion of mis-selling or misconduct risks had increased or stayed the same since 2008 – no firm reported that the frequency had fallen; and
- 5 reported that the extent to which mis-selling or misconduct issues are discussed by the most senior board has changed as a result of FCA and Ombudsman activities.

Measuring mis-selling

3.10 The FCA lacks good evidence on whether its actions and those of firms are reducing overall levels of mis-selling. Complaints data provide an imperfect indicator of current mis-selling levels because complaints may reflect past mis-selling rather than continued problems. Complaints could also increase because of greater public awareness of the availability of redress. The FCA's information on complaints to firms does not identify when alleged mis-selling took place, and the FCA does not yet draw together information that could show whether its actions are reducing mis-selling.

3.11 While imperfect, complaints data currently provide the best available overall measure of how mis-selling is evolving. In 2014, mis-selling accounted for 59% (2.7 million) of customer complaints to financial services firms, compared with 25% (0.9 million) in 2010. Payment protection insurance alone accounted for 2.3 million complaints in 2014, 51% of all complaints (**Figure 9**). There has been no clear trend in other mis-selling complaints, which were around 370,000 in 2014 compared with 241,000 in 2013 and 256,000 in 2012.¹⁶ The proportion of mis-selling complaints is usually higher for complaints raised with the Ombudsman – 79% in 2014-15 and 34% in 2009-10.

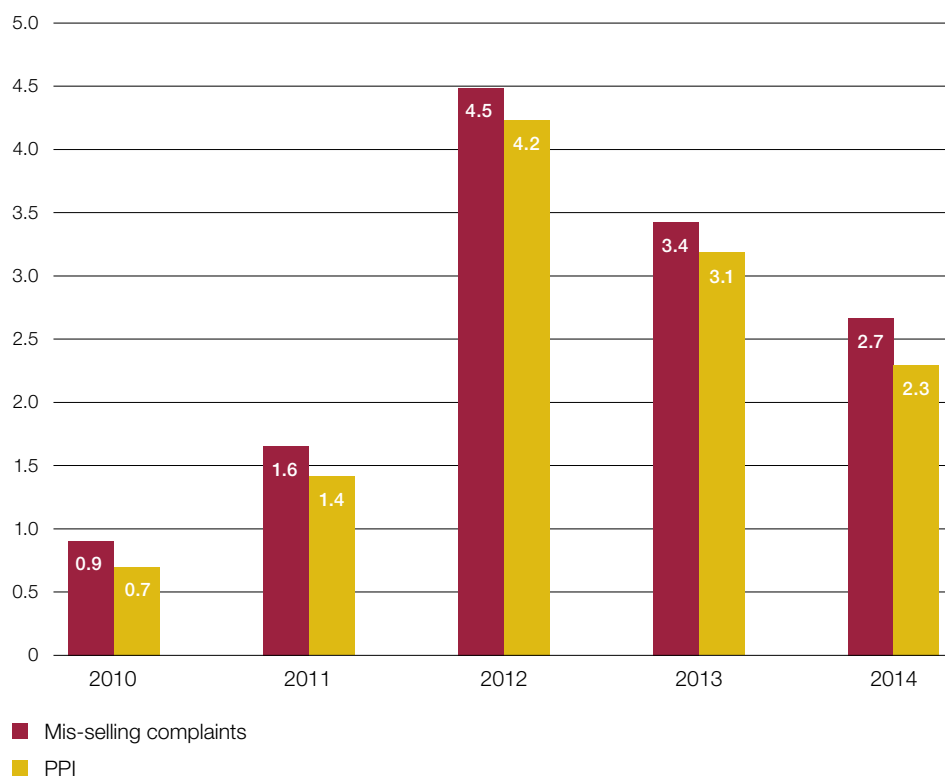
¹⁶ We do not have access to data on how many payment protection insurance complaints are related to mis-selling; this calculation assumes that all of them are. Ombudsman data show that over 95% of payment protection insurance complaints are related to mis-selling.

Figure 9

Mis-selling complaints to firms

There have been over 2 million complaints about mis-selling in each of the last three years, mostly due to PPI

Number of complaints made (millions)

**Note**

- 1 Mis-selling complaints are designated as 'advising, selling and arranging' in FCA aggregate data.
- 2 The vast majority of PPI complaints are likely to be included within mis-selling complaints.

Source: Financial Conduct Authority aggregate complaints data

Detecting and responding to mis-selling

3.12 Early action is crucial in dealing with mis-selling in a timely and cost-effective manner. The Financial Services Authority stated that “stronger action sooner could have limited the growth of the [payment protection insurance] problem.”¹⁷ The FCA is now taking a more active approach to identifying and responding to mis-selling risks, particularly for new products. Its actions include:

- Using a wide range of information sources to identify risks (including systemic risks) related to mis-selling. FCA supervisors that we interviewed told us of several sources they use to detect mis-selling, including social media, consumer groups and mystery shopping exercises. These supervisors said, however, that the type and format of information currently requested from regulated firms is not helpful to them in identifying mis-selling.
- Developing new information and analysis processes and techniques to help it to spot emerging problems. The FCA told us that these helped it to detect potential mis-selling of self-invested personal pensions.
- Using its early intervention powers, which allow it to remove products from the market if it suspects that consumer detriment may occur. The FCA told us that it used these powers 43 times in relation to cases of mis-selling in 2013-14 and 2014-15. For instance, it used its powers to stop the sale of contingent convertible securities to retail consumers at an early stage. In October 2014, it estimated that restricting the retail distribution of this product would prevent detriment to investors of between £16 million and £235 million.
- Improving its understanding of consumer behaviour, for instance by carrying out tests of different ways of encouraging consumers to claim redress.¹⁸ However, some consumer and firm representatives told us they thought its approach was based too much on monitoring and implementing detailed disclosure requirements, rather than assessing whether consumers truly understand what they are buying.
- Identifying mis-selling risks raised by new market developments, so that it can act to prevent problems before they arise. It has identified pension reforms as a possible trigger for future mass mis-selling and is taking action to prepare itself, and to try to prevent mis-selling where possible, although risks remain (**Figure 10**).

¹⁷ Financial Services Authority, *The Financial Conduct Authority: Approach to Regulation*, June 2011.

¹⁸ Financial Conduct Authority, *Encouraging consumers to claim redress: evidence from a field trial*, April 2013.

Figure 10

Financial Conduct Authority response to pension reforms

The Financial Conduct Authority has identified reforms to the pensions market as a possible trigger for future mis-selling

The issue:

- At Budget 2014, the government announced an overhaul of customer access to pensions, with most changes happening in April 2015. The reforms give greater choice to individuals over how to use their pension savings. But they raise risks that, without appropriate regulation, vulnerable and unsophisticated consumers make financial decisions that are not in their best interests. Financial services firms could take advantage of customer inexperience to sell inappropriate products. Consumers may lack affordable advice to help them to make complex decisions.
- Regulation of pensions is divided between The Pensions Regulator and the Financial Conduct Authority.

Some actions the FCA told us it is taking:

- The FCA published a market study into retirement incomes in March 2015. It stated that it is “on high alert for scams targeting consumers” and “alert to scams in the new pensions and retirement income market”. It promoted its ‘Scamsmart’ campaign in March and April 2015, outlining steps that consumers can take to protect themselves in the context of pension reforms.
- FCA supervisory teams monitor how the retirement market is responding to the reforms on an ongoing basis. The FCA is consulting on proposed changes to its rules and guidance in relation to pensions.
- The government established the Pension Wise service alongside pension reforms, as an independent information and guidance hub for consumers. The FCA monitors compliance with FCA standards by designated guidance providers.
- The FCA expects to launch a review of retirement outcomes by June 2016.

Source: National Audit Office discussions with the Financial Conduct Authority and review of FCA documents

Part Four

Redress for consumers

4.1 In this part, we examine how the regulatory and redress system has worked to improve handling of complaints and how effective it has been in ensuring redress for consumers.

Complaints handling

4.2 Consumers are required to complain first to the firm that they believe mis-sold a product to them. If consumers are unhappy with the outcome of their complaint, they can escalate their case to the Financial Ombudsman Service for independent review. Historically, many financial services firms have handled complaints badly, making it difficult for consumers to obtain the redress to which they are entitled. Inadequate complaint handling by financial services firms has been a factor in many cases of alleged mis-selling going to the Ombudsman for adjudication, and in increased use of claims management companies by consumers. In 2010, the Financial Services Authority found poor standards of complaints handling within most of the banks it assessed, resulting mainly from weaknesses in banks' culture.¹⁹ It also identified serious concerns that many firms had not acted fairly, effectively and consistently when handling complaints about payment protection insurance.²⁰

4.3 The Financial Conduct Authority (FCA) and the Ombudsman have taken several actions to improve complaints handling. These include:

- In 2014, the FCA undertook a thematic review to identify the barriers to better complaints handling.²¹
- The FCA fined Lloyds Banking Group £117 million in June 2015 for its failure to handle payment protection insurance complaints fairly.²²
- The FCA is introducing new rules from 2016 to improve aspects of complaints handling, including limiting the cost of calls consumers make to firms to a maximum 'basic rate'.
- The Ombudsman publishes a regular newsletter, which provides guidance and case study examples on how to prevent and settle financial complaints.
- Both the FCA and the Ombudsman told us that they have regular discussions with firms to try to improve the quality of their complaints handling.

¹⁹ Financial Services Authority, *Review of complaint handling in banking groups*, April 2010.

²⁰ Financial Services Authority, *The assessment and redress of Payment Protection Insurance complaints*, August 2010.

²¹ Financial Conduct Authority, *Complaint handling*, November 2014.

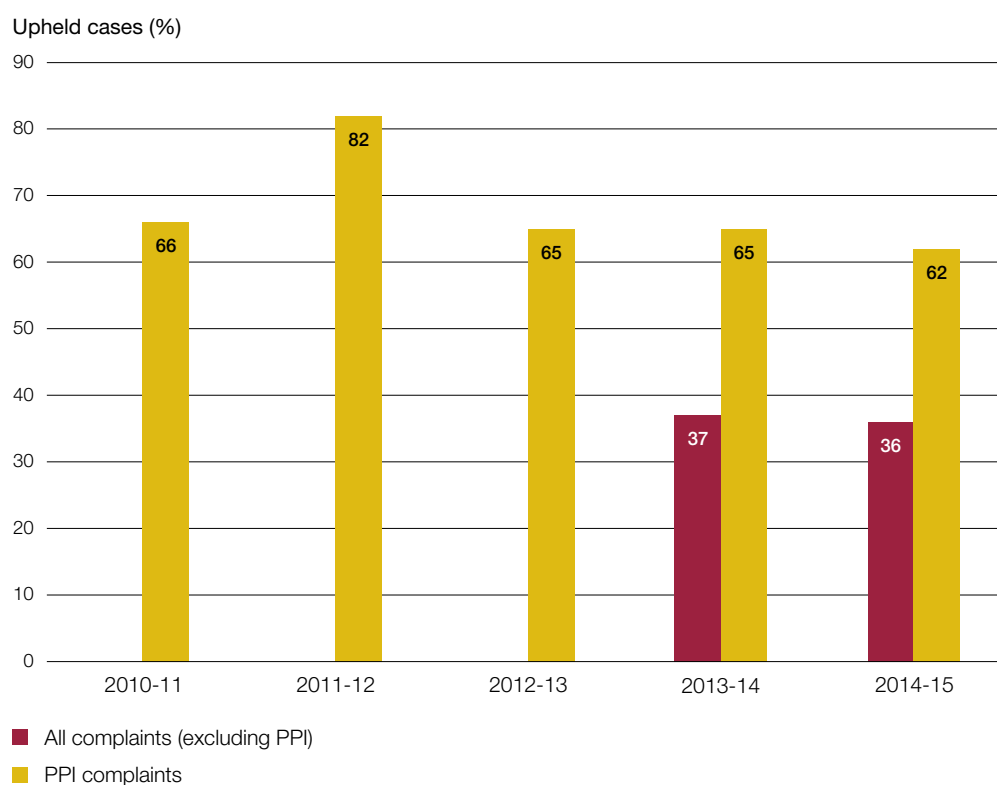
²² Lloyds Banking Group accepted that part of its complaint handling process led to a non-deliberate failure to provide fair outcomes for its customers. It told us that it has reviewed all complaints from the period and, by June 2015, all affected customers had been compensated.

4.4 There is no definitive measure of the quality of complaints handling. The FCA and the Ombudsman told us that, in their view, complaints handling has improved over time. Of the 15 firms that responded to our information request, seven told us that they had made some changes to their handling of mis-selling complaints. Firms attributed most of the changes mainly or partly to FCA or Ombudsman actions.²³ However, there has been no noticeable fall in the level of mis-selling complaints upheld by the Ombudsman, with 62% of complaints adjudicated in favour of the consumer since April 2013 (**Figure 11**).

Figure 11

The Ombudsman's upheld cases

Payment protection insurance complaints are more likely to be upheld than other complaints



Note

1 Uphold rates for cases other than payment protection insurance are only available from 2013-14.

Source: National Audit Office analysis of the Ombudsman's data

23 Of the other respondents, four said that the question was not relevant to their business, two did not respond, and two said that they had made no changes.

Redress

Redress through FCA actions

4.5 In addition to regulatory interventions regarding mis-selling, the FCA can arrange redress from firms to consumers where mis-selling has occurred. Broadly, the options available to the FCA are:

- No formal arrangements established by the FCA. Instead consumers are able to complain to firms, and try to obtain redress through the Ombudsman if dissatisfied. Redress for mis-selling of payment protection insurance has followed this route.
- Voluntary arrangements, whereby firms accept terms of redress agreed with the FCA. For example, redress in relation to interest rate hedging products for businesses. Between April 2014 and November 2015, the FCA established 21 informal redress schemes, which it estimates have provided £131 million in compensation to consumers.²⁴
- Arrangements under statutory powers.²⁵ The FCA has only used its statutory powers once so far, for investors in Arch cru funds.

4.6 Outcomes from these different redress mechanisms can vary, including costs, the proportion of affected customers that receive redress, customer satisfaction and timeliness of redress, and there can be trade-offs between them. The FCA decides on its approach to redress on a case-by-case basis, having regard to specific regulatory failings and consumer detriment.

4.7 For the largest and most high-profile cases, the FCA sets objectives and undertakes options appraisal, and monitors information on outcomes, such as take-up rates and costs. It has also undertaken 'lessons learned' exercises for individual redress interventions, some of which include assessments of the appropriateness of the redress mechanism chosen. However, it does not formally define success criteria for individual schemes to allow it to evaluate scheme performance. To date, the FCA has not formally evaluated the factors that contribute to successful outcomes across different types of schemes, or compared its redress schemes to complaints-led redress. It has started work to identify some common principles that should feature across all of its redress schemes, including how schemes are communicated, designed and implemented.

²⁴ This excludes the interest rate hedging products scheme and other schemes which were established in 2013.

²⁵ Under the Financial Services and Markets Act 2000.

Redress through the Ombudsman's actions

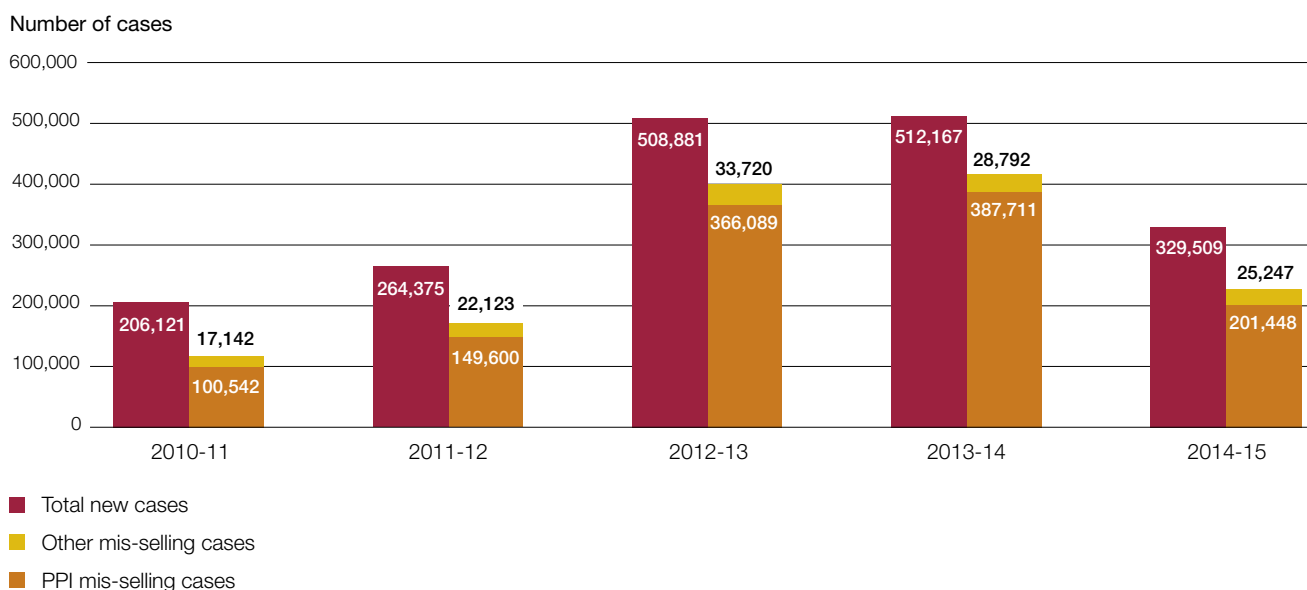
4.8 The Ombudsman adjudicates on disputes about alleged mis-selling across many different financial products. Mis-selling accounted for around 70% of the complaints it received between 2010-11 and 2014-15. Of these, payment protection insurance was by far the biggest single area, amounting to almost 1 million complaints (**Figure 12**). The Ombudsman does not record aggregate data on amounts paid out following its decisions, because it is not generally involved in cases once it has made a case decision and recommendation.

4.9 Most of our interviewees were positive about the overall quality of the Ombudsman's decisions. In 2014-15, 74% of complainants said it handled their complaints efficiently and professionally. However, the Ombudsman has struggled with a substantial backlog of older cases following a massive increase in complaints related to mis-selling of payment protection insurance. The Ombudsman opened around 400,000 new mis-selling cases in both 2012-13 and 2013-14, compared with around 120,000 in 2010-11. It received 1.49 million payment protection insurance complaints between 2001 and January 2016, 93% of these since 2010. In 2015-16 so far, payment protection insurance cases took three times as long to process compared with 2011-12 (**Figure 13** overleaf). About 45% of open cases have been with the Ombudsman for at least a year, and 17% (almost 40,000 cases) for over two years (**Figure 14** on page 41). Only 52% of complainants agreed that the Ombudsman settled disputes in an acceptable length of time. The Ombudsman has not stated publicly how quickly it expects to clear this backlog, but told us it aims to do so by July 2017.

Figure 12

Number of new cases opened by the Ombudsman

Payment protection insurance remains the most complained about product

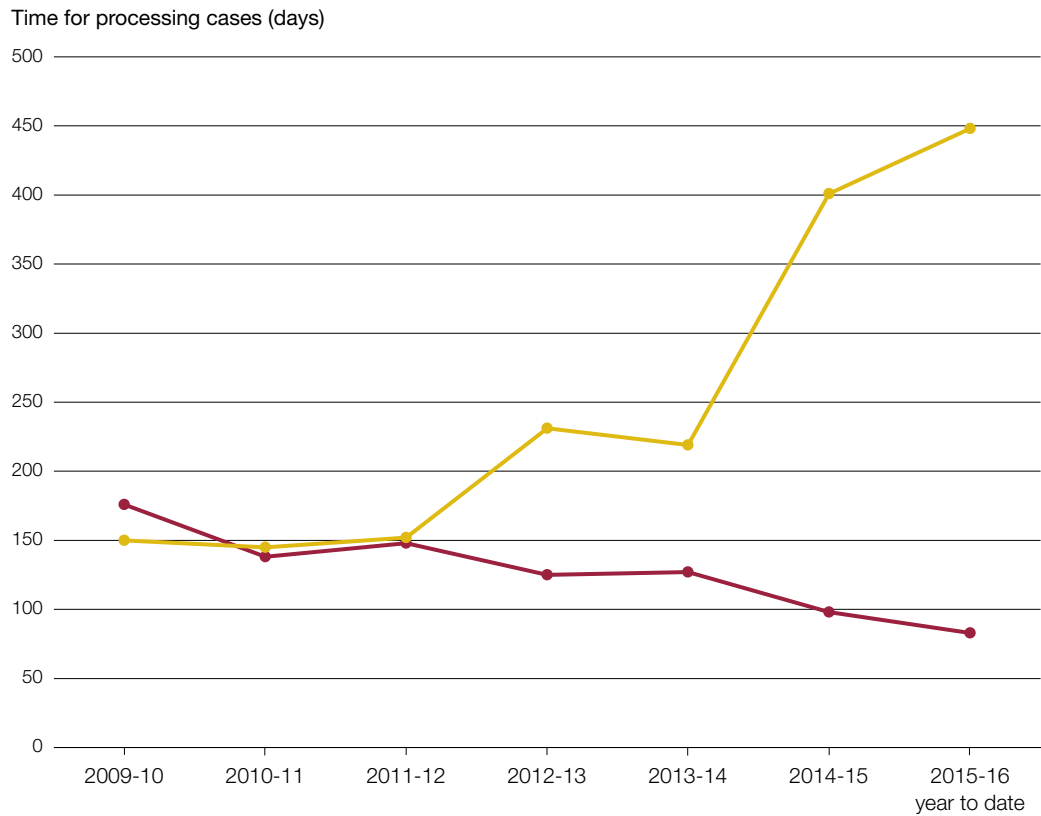


Source: National Audit Office analysis of the Ombudsman's data

Figure 13

Median time for processing cases, from conversion to closure

The Ombudsman has reduced the time taken to process cases not related to payment protection insurance, but the time taken to process payment protection insurance cases has increased



● All products excluding PPI	176	138	148	125	127	98	83
● PPI	150	145	152	231	219	401	448

Note

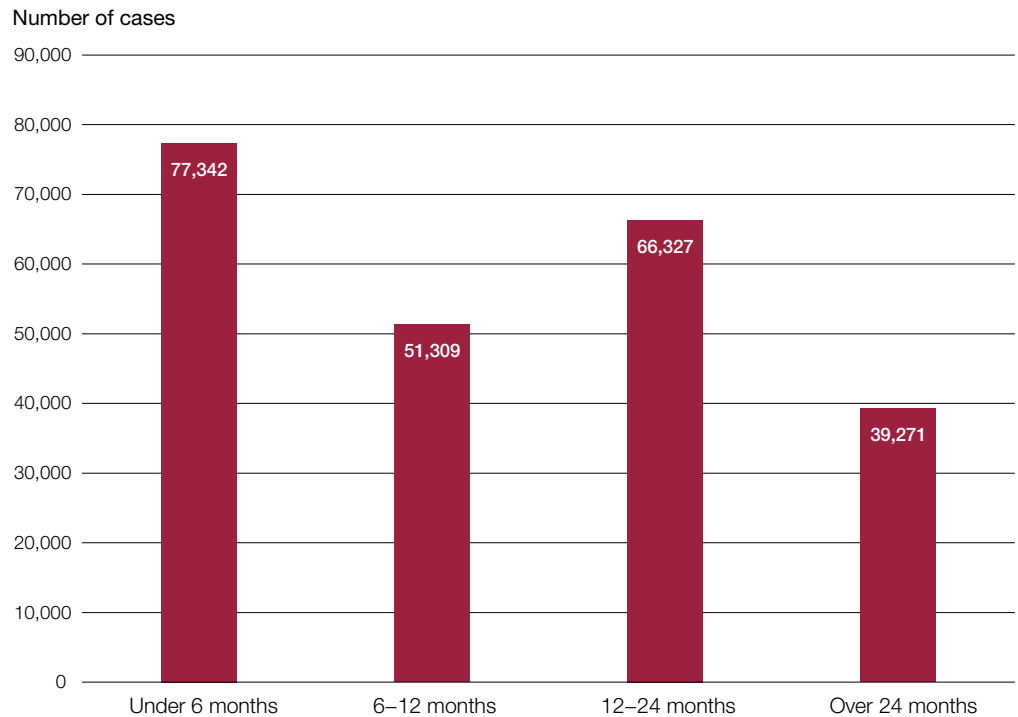
1 The graph shows median time from receipt of case to case closure.

Source: National Audit Office analysis of the Ombudsman's data

Figure 14

The Ombudsman's backlog of payment protection insurance cases, as of November 2015

Just over half of payment protection insurance complaints are resolved within 12 months



Source: National Audit Office analysis of the Ombudsman's data

4.10 It was difficult for the Ombudsman to foresee the extent of the increase in payment protection insurance cases, because it largely resulted from external factors such as the outcome of a judicial review in 2011 and a 2014 court judgment on the treatment of commission payments (*Plevin v. Paragon Personal Finance*). It has taken many actions to try to clear the backlog, including:

- employing new case handlers and adjudicators – the Ombudsman has almost tripled in size as the average number of its employees increased from 1,178 in 2011 to 3,511 in 2015;
- 'batch processing' the most straightforward claims – grouping similar cases and dealing with them together; and
- developing new case management software (Navigator) to help its case handlers to make rapid and consistent decisions.

Partly as a result, the number of open payment protection insurance cases has fallen from over 445,000 in 2012-13 to 234,000 in November 2015. The FCA is consulting on a new rule that would set a deadline by which consumers would need to make payment protection insurance complaints. In the short term, a deadline could be expected to increase the number of complaints to the Ombudsman.

4.11 In 2012, we recommended that the Ombudsman do more to develop its understanding of the unit costs of processing cases, to improve its measurement of efficiency.²⁶ Since then, its reported unit costs have varied considerably: £484 per case in 2011-12, £720 in 2012-13, £430 in 2013-14 and £536 in 2014-15. It told us that these differences mainly result from employing more staff following the dramatic increase in new payment protection cases in 2012-13. In June 2015, the Ombudsman asked Richard Thomas, the former Information Commissioner, to carry out a high-level review of its approach to payment protection insurance and what lessons could be learned. The review was largely completed in September 2015 and updated in December.

Redress through FSCS actions

4.12 Liabilities related to mis-selling are an important factor in the failure of many smaller financial services firms. The Financial Services Compensation Scheme (FSCS) is responsible for paying compensation to claimants when authorised firms default; between 2010-11 and 2014-15 it paid £898 million to consumers, relating to mis-sold financial products. Of the 10,237 payment protection insurance claims it resolved in 2014-15, it reported that 98%²⁷ of compensation decisions were made within three months of receiving a completed application form (compared with a target of 90%).

4.13 The costs of compensation are typically passed on to other authorised firms, and ultimately affect the amount that consumers pay for financial services, unless the FSCS can recover costs from failed firms. The FSCS has a duty to levy payers to maximise amounts recovered, if it is reasonably possible and cost-effective to do so. It estimates that it recovered £146 million relating to mis-selling between 2010-11 and 2014-15 (**Figure 15**). The amounts recovered depend on the individual circumstances of failed firms, and tend to lag compensation payments because it can take a long time to recover assets. The FSCS told us that inadequate professional indemnity insurance is an important reason why it is unable to recover more (as well as a contributing factor in firms' failures); some insurance contracts explicitly disallow payments to the FSCS in the event of failure. It said that it had raised this concern with HM Treasury and the FCA.

²⁶ Comptroller and Auditor General, *Efficient handling of financial services complaints*, January 2012.

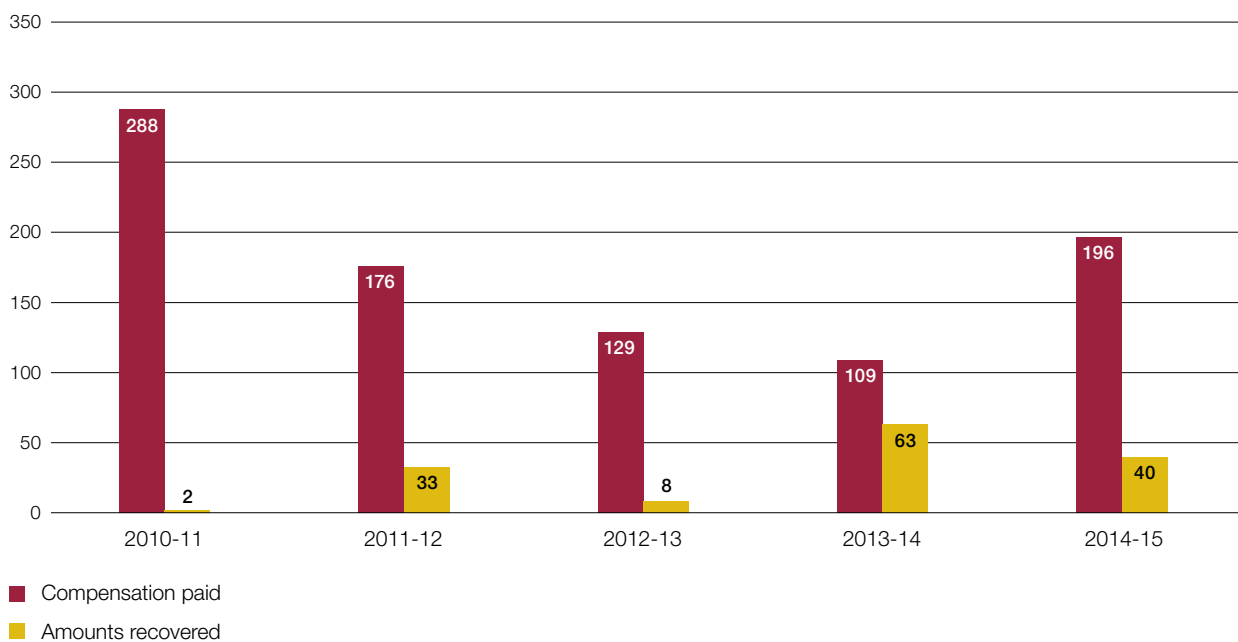
²⁷ Excluding claims related to 'Welcome Financial Services Limited'.

Figure 15

FSCS compensation and recovery related to mis-selling

FSCS recovers much less than it pays out in compensation

Amounts compensated and recovered (£m)



Source: National Audit Office analysis of Financial Services Compensation Scheme data

Gaining full compensation for consumers

Awareness

4.14 Consumers who have suffered from mis-selling typically have to submit a claim in order to receive compensation.²⁸ Consumer awareness that mis-selling has taken place, and that it is possible to gain compensation, is therefore key to achieving good outcomes. Awareness of mis-selling can come from many sources, including the media, family and friends, claims management companies, the FCA and the mis-selling firms themselves.

4.15 The regulatory and redress bodies have taken several actions to increase consumer awareness. When it establishes a redress scheme, the FCA requires firms to tell consumers who may have been affected, and has carried out research into which types of communication are most effective in encouraging claims. The FCA also requires firms to tell customers that they can complain to the Ombudsman. The Ombudsman estimates that it spent £330,000 on raising awareness in 2014-15, including on campaigns targeted at groups that are less likely to complain, such as younger consumers.

²⁸ Redress schemes can be constructed so that consumers are automatically enrolled, without having to submit a claim. For instance, some consumers were automatically enrolled into the redress scheme for interest rate hedging products.

4.16 These efforts, combined with the high profile of payment protection insurance mis-selling, have had some success in making consumers aware that they can complain to the Ombudsman. In 2014-15, 80% of respondents to the Ombudsman's survey said that they had some awareness of it, though only 24% could name it without prompting. The Ombudsman found that 30% of those who make complaints to financial services firms are dissatisfied with the response they receive; a third of these refer their complaints to the Ombudsman. Of the half who take no further action, the most common reasons given were that they didn't think that it would achieve anything (33%) or that it would be too stressful (25%).

Claims management companies

4.17 Many consumers use claims management companies to make complaints. Claims management companies are authorised by the Claims Management Regulator (part of the Ministry of Justice), which was established in 2007. In 2015, there were 847 authorised claims management companies operating in the financial services sector. Although complaining directly to the Ombudsman is straightforward and free, more than half of all complaints to it between 2010 and 2015 were raised by claims management companies. The proportion is higher for payment protection insurance complaints – around 80% in 2014-15, or 160,000 complaints (**Figure 16**). In 2014-15, just over 55% of claims made to the FSCS were made through claims management companies.

4.18 Claims management companies have two different effects on the level of compensation received by consumers. By encouraging consumers to make claims who would not otherwise have done so, they increase the number of consumers who receive compensation. But their services are costly; if they are used by consumers who would have complained anyway, they reduce the net compensation received. The Claims Management Regulator has not estimated the balance between these effects.

4.19 Based on information from the Claims Management Regulator and the Ombudsman, we estimate that claims management companies received between £3.8 billion and £5 billion in commission from payment protection insurance compensation payments between April 2011 and November 2015, up to 23% of total compensation. This assumes that claims management companies typically charge between 25% and 33% of redress paid to consumers, and that the proportion of initial complaints made using claims management companies is the same as the proportion brought to the Ombudsman. Survey evidence suggests that initial complainants are less likely to use claims management companies;²⁹ making this assumption could reduce our estimate of claims management company turnover to around £2.5 billion (see Appendix Three). For internal purposes, using slightly different assumptions, the Claims Management Regulator estimated that payment protection insurance-related turnover was around £3.5 billion between January 2011 and August 2015.

Figure 16

Proportion of complaints made to the Ombudsman using claims management companies

Most complaints come through claims management companies



● PPI complaints
● All complaints

	2010-11	2011-12	2012-13	2013-14	2014-15
PPI complaints	76.0	69.0	57.0	72.0	79.0
All complaints	58.9	55.1	49.9	60.7	65.6

Source: National Audit Office analysis of the Ombudsman's data and annual reports

4.20 The regulation of claims management companies has evolved considerably since the Claims Management Regulator was established. Its powers to enforce compliance with its rules were initially limited; for instance it could not impose financial penalties. It tightened its rules on conduct in 2013 and 2014 to provide better protection for consumers, including banning verbal contracts and the offer of up-front financial rewards to potential claimants. In December 2014, the Claims Management Regulator was given new powers to fine companies for breaching the rules. So far, it has issued four fines totalling £1.6 million. In January 2016, it revoked the licence of a company that made 40 million nuisance calls over a 3-month period. Nonetheless, the Ombudsman and the Claims Management Regulator told us that the quality of claims management remains highly variable, with some companies doing little more than passing batches of consumer complaints on to the Ombudsman while achieving high profit margins.

4.21 HM Treasury and the Ministry of Justice commissioned an independent review of claims management regulation in September 2015, which is expected to report by April 2016. In February 2016, the Ministry of Justice published a consultation paper setting out proposals to restrict the fees that regulated claims management companies can charge consumers in the financial claims sector.³⁰ For claims relating to payment protection insurance and packaged bank accounts, it proposes capping the maximum completion fee at 15% of the final compensation awarded.

³⁰ Ministry of Justice, *Claims Management Regulation – Consultation*, February 2016.

Appendix One

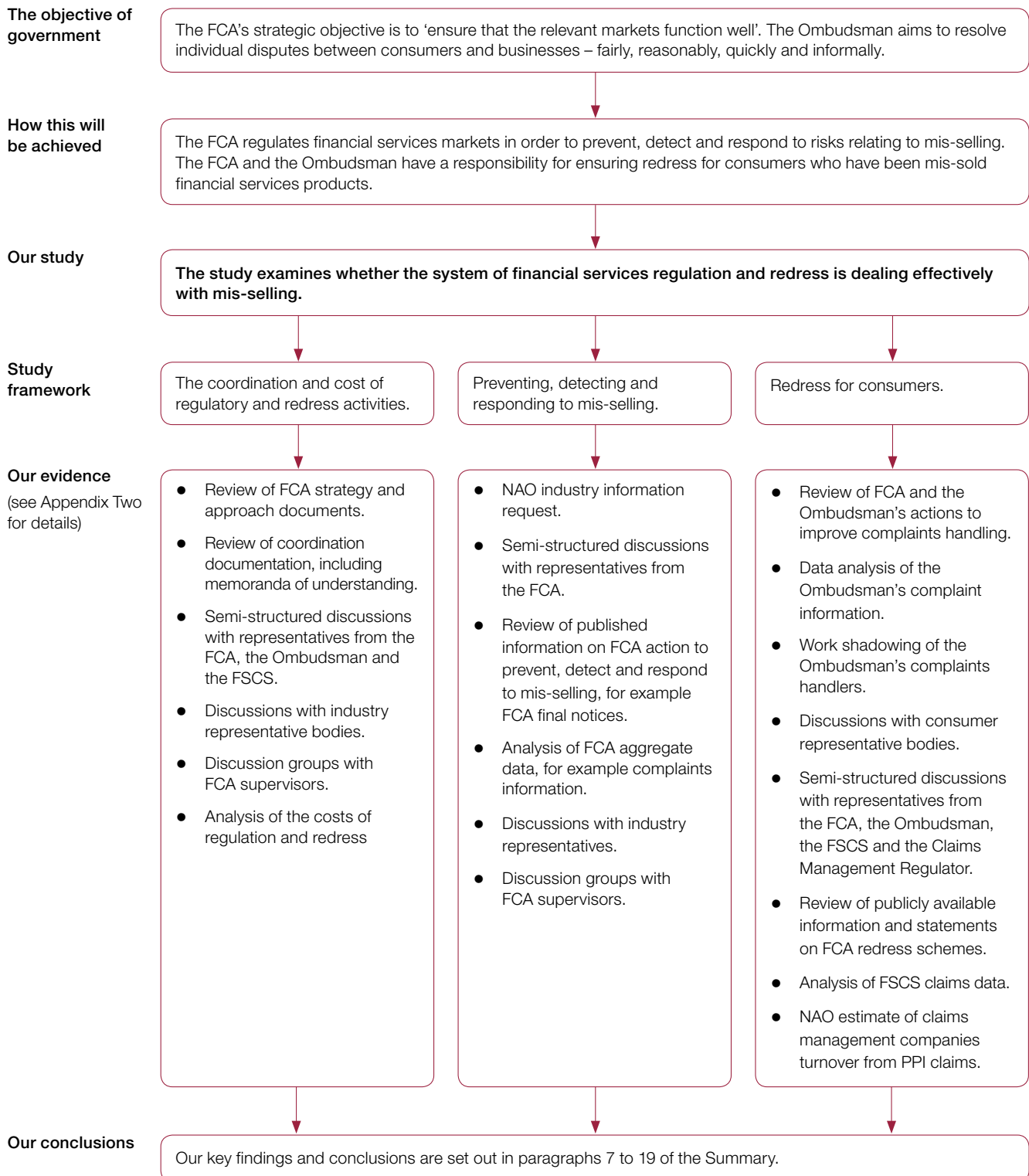
Our audit approach

1 This study examined whether the system of financial services regulation and redress is dealing effectively with mis-selling. It assessed:

- how well the FCA structures its approach to tackling mis-selling of financial products, how it coordinates its work with other organisations, and the overall costs of efforts to combat mis-selling;
- whether the regulatory and redress regime is clear in defining and communicating mis-selling, the actions the FCA takes to prevent mis-selling, and its work to detect and respond to mis-selling at an early stage; and
- how the regulatory and redress system has worked to promote better complaints handling and how effective it has been in ensuring redress for consumers.

2 Our audit approach is summarised in **Figure 17** overleaf. Our evidence base is described in Appendix Two.

Figure 17
Our audit approach



Appendix Two

Our evidence base

1 Our conclusion on whether the system of financial services regulation and redress is dealing effectively with mis-selling was reached following our fieldwork on the subject between July 2015 and December 2015. Our main methods are outlined below:

Document review:

- We reviewed FCA internal strategy and process documents. We also considered published reports, particularly relating to FCA interventions and activities relating to mis-selling and research papers published, including thematic reviews and consultation papers.
- We reviewed the annual reviews and cost information of the FCA, the Ombudsman and the FSCS.
- We reviewed reports relating to mis-selling published by consumer and industry representative bodies.

Quantitative analysis:

- Analysis of data sent to us by the FCA, including cost information, aggregate complaints data and aggregate enforcement data relating to mis-selling.
- Analysis of the Ombudsman's complaints data (for example, uphold rates) and cost information.
- Analysis of FSCS claims data, compensation and recovery related to mis-selling.
- Analysis of publicly available data on mis-selling in the financial services industry.
- We produced an estimate of claims management company receipts from PPI redress payments by firms.

Industry information request

2 To examine the effectiveness of the FCA in relation to mis-selling, we needed to gather evidence on the extent to which the FCA has influenced the actions and behaviour of firms, in line with its regulatory objectives. Because the FCA is prohibited from providing the Comptroller and Auditor General with confidential information that it holds about firms, in October 2015, we approached a selection of 20 firms and asked them to supply relevant information to us directly.

3 The firms were drawn from different financial services sectors and firm sizes, and were selected based on FCA firm-level complaints data. Our sample was split into two:

- The first ten companies selected are firms with the highest number of complaints in 2010–2014 that belong to separate firm groups. Using FCA complaints data, the first ten companies listed with the highest number of complaints included some firms which are part of the same group. We therefore substituted two firms with the next-placed firms from different groups. We therefore contacted the following ten firms: Barclays Bank plc; British Gas Services Limited; Capital One (Europe) plc; HSBC Bank plc; Lloyds Banking Group; MBNA Limited; Nationwide Building Society; Santander UK plc; Tesco Personal Finance plc and The Royal Bank of Scotland plc. The groups of which these firms are part of represented more than two-thirds of all complaints between 2010 and 2014.
- The second group of ten was selected by ranking all companies by the sum of complaints opened in 2010–2014, then taking the middle 50% of this list and randomly selecting ten of them. Three of the firms that were initially selected were no longer authorised by the FCA, so we randomly selected three alternative firms within this range.

4 The aim of our request was to collect information and data to illustrate the actions taken by financial services firms in relation to mis-selling, together with some assessment of the extent to which actions can be wholly or partly attributable to regulatory interventions. We requested 15 different pieces of information that related to three main areas:

- Requests for information on the activities financial services firms have taken to reduce the risk of mis-selling. We were particularly interested in the extent that these changes were attributable, wholly or partly, to the actions of the FCA or the Ombudsman.
- Requests for information on the costs of complying with regulations directed at mis-selling, and how this cost has changed over time. We were also interested in any unintended consequences to consumers that occurred as a result of FCA or the Ombudsman's activities.
- We requested that participants make us aware of any other relevant issues which we may not have covered.

For the purpose of our study, we were interested in information in the period since April 2013 (when the FCA was established and we became its auditor).

Of the firms that we contacted 15 out of the 20 provided a response to our request: AIG Europe Limited; Capital One (Europe) plc; Citibank International plc; DAS Legal Expenses Insurance Ltd; HSBC Bank plc; ICICI Bank UK plc; Lloyds Banking Group; MBNA Limited; Nationwide Building Society; NFU Mutual Insurance Society; Santander UK plc; TD Direct Investing (Europe) Limited; Tesco Personal Finance plc; Tesco Underwriting Limited and The Royal Bank of Scotland plc.

Given the small scale of the exercise, the purposive nature of the sampling, the fact that we were unable to validate responses, and the fact that not all firms responded, there are limitations to this exercise. As such our findings from this methodology are indicative and cannot be taken as representative of firms in general.

Interviews:

- We held semi-structured interviews with representatives from the FCA, the Ombudsman, the FSCS, HM Treasury and the Ministry of Justice.
- We consulted industry stakeholders and interest groups within the financial services industry, including: the British Bankers Association, the Association of Professional Financial Advisors, the Association of British Insurers, the Professional Financial Claims Association, the FCA Practitioner Panel and Smaller Business Practitioner Panel.
- We consulted with consumer representatives, including: *Which?*, Citizens Advice and the FCA Consumer Panel.

Discussion groups with FCA supervisors:

- We held two discussion groups with approximately 15 supervisors at the FCA to get an operational perspective on how the FCA prevents, detects and responds to mis-selling. Topics discussed included: understanding and detecting mis-selling; supervisory responses to mis-selling detected; and testing the effectiveness of FCA actions.

Appendix Three

Methodology for calculating turnover of claims management companies

1 We have applied the following formula to calculate the turnover made from payment protection insurance (PPI) complaints by claims management companies (CMCs):

$$\text{Turnover} = \sum_i \text{Total redress}_i \times \% \text{ of complaints through CMCs}_i \times \text{CMC charge rate}$$

where:

i is the financial year.

Total redress is the total amount of redress that has been paid in that year.

Percentage of complaints through CMCs is the proportion of PPI complaints made to the Ombudsman using Claims Management Companies.

'CMC charge rate' is the percentage of redress CMCs charge their customers to process their complaints.

2 For our main estimates, we assumed a range of CMC charge rates varying from 25% to 33%, following discussions with the Claims Management Regulator. In **Figure 18**, we assume an average charge rate of 28%. On this basis, we estimate that turnover from PPI mis-selling was £4.2 billion between April 2011 and November 2015, or 19% of total PPI compensation payments over the same time period. Our estimate uses the Ombudsman's data on the percentage of complaints made through CMCs.

3 Survey evidence suggests that the proportion of initial complaints made through claims management companies may be lower than the proportion of complaints to the Ombudsman.³¹ We therefore estimated the turnover of claims management companies on the assumption that 31% of initial complaints are made through claims management companies, and that 75% of complaints are resolved at the initial stage. **Figure 19** on page 54 shows the range of estimates that result from adopting this assumption.

31 ComRes, *Payment protection insurance research: Analytical Report*, November 2015.

Figure 18

Estimated claims management company turnover from payment protection insurance

Assuming an average 28% claims management company charge rate, the turnover from PPI is £4.2 billion

Monthly PPI payouts (FCA website)	2011-12 (£m)	2012-13 (£m)	2013-14 (£m)	2014-15 (£m)	2015-16 (£m)
April	28.6	572.0	424.0	410.3	410.1
May	39.8	735.3	422.0	407.4	390.4
June	66.4	614.6	498.0	390.3	406.7
July	103.2	512.3	528.0	383.2	327.9
August	244.5	601.4	446.0	312.8	300.5
September	225.3	516.4	444.0	353.8	329.7
October	321.9	578.2	524.0	391.1	366.0
November	464.4	410.8	425.0	349.0	393.8
December	535.5	360.1	324.0	408.6	
January	405.4	439.3	389.2	424.5	
February	473.1	409.0	329.5	361.0	
March	501.6	375.9	349.8	399.1	
Total redress	3,409,700,000	6,125,300,000	5,103,500,000	4,591,100,000	2,925,100,000
Percentage made through CMCs ¹	69%	57%	72%	79%	69%
CMC charge rate ²	28%	28%	28%	28%	28%
CMC turnover ³	658,754,040	977,597,880	1,028,865,600	1,015,551,320	567,176,890
Total CMC turnover					4,247,945,730

Notes

1 Percentage of complaints made using CMCs. These figures come from the Ombudsman's annual reports and are related only to PPI. For 2015-16, we assumed the proportion was 69% (the average proportion between 2011-12 and 2014-15), since this has not yet been published by the Ombudsman.

Source: National Audit Office analysis of the Ombudsman's and Financial Conduct Authority's data

Figure 19

Estimated claims management company turnover from PPI,
assuming lower use of CMCs at initial stage

The estimated turnover range under these assumptions is £2.2 billion to £3 billion

Assumed CMC charge rate (%)	Estimated CMC turnover, assuming that 31% of initial complaints come through CMCs (£)
25	2,235,944,109
28	2,504,257,403
33	2,951,446,224

Source: National Audit Office analysis of the Financial Conduct Authority's and the Ombudsman's data using assumptions based on ComRes, *Payment protection insurance research: Analytical Report*, November 2015

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