Channel Islands Financial Ombudsman

Discussion Paper
CIFO Funding Structure

Issued: 11 July 2017

Contents

A: This discussion paper

The Channel Islands Financial Ombudsman (CIFO) is paid for by providers of financial services that fall within its jurisdiction. The existing funding structure runs through to 31 December 2018.

This discussion paper highlights the current approach to funding CIFO's operation and the various complexities associated with the current funding approach. The paper addresses how the costs may be shared between Jersey and Guernsey, between financial sectors (e.g., banking, investments, insurance, pensions, etc.), or even between individual financial services providers (FSPs). Some specific issues are included that have arisen during the initial period of CIFO's mandate since commencement of operation in November 2015. Some others have been raised by stakeholders for consideration.

This discussion paper is part of a multi-phase consultation on CIFO's future funding structure from 1 January 2019 onwards, see section C. You are invited to respond with specific comments and suggestions that you would like to see considered.

B: How to respond

Please send any comments and suggestions in writing – by email to consultations@ci-fo.org or by post to Channel Islands Financial Ombudsman, P O Box 114, Jersey, JE4 4QG. Responses should reach us by no later than Monday 11 September 2017.

To help you structure your comments and suggestions, this discussion paper contains a list of specific questions. You are not required to answer all of them if your views are confined to particular aspects. You can add any additional comments and suggestions.

Your response may be published. If you consider any part of your response to be confidential (for example, because it relates to security systems or provides commercially-confidential data), please mark it clearly and say why you consider it confidential. This will be taken into account by the Principal Ombudsman in deciding what to publish.

C: Funding review consultation process

The existing funding structure runs through to 31 December 2018. This discussion paper is part of a multi-phase consultation on the funding structure that will apply from 1 January 2019 onwards.

Earlier in 2017, CIFO held workshops for stakeholders in Guernsey and in Jersey, to seek their comments on the existing funding structure and their suggestions for the future. The useful feedback obtained has helped to inform this discussion paper.

During 2017, and based on this discussion paper, CIFO will be consulting stakeholders on the broad principles that it should adopt in designing the funding structure that will apply from 1 January 2019. Intentionally, this is before CIFO starts publishing island-specific data, after 1 January 2018 (see section H), to help stakeholders discuss the best approach objectively on the basis of what is practicable and fair – and reduce any temptation to back-calculate from the data on the basis of self-interest.

During 2018, CIFO will continue the consultation with stakeholders on the basis of the principles that emerge from the current discussion, and informed by complaint data for more than two years of CIFO's operations.

This should enable CIFO to implement an updated funding structure from 1 January 2019, after any necessary legislative changes.

D: Role of CIFO

CIFO is the joint operation of the statutory Office of the Financial Services Ombudsman in Jersey and the statutory Office of the Financial Services Ombudsman in Guernsey (the OFSOs). They are independent of the States.

CIFO resolves complaints against FSPs – independently, fairly, effectively, promptly, with minimum formality and so as to offer a more accessible alternative to court proceedings.

The joint operation covers complaints about financial services provided in and from Jersey, Guernsey, Alderney and Sark. Working from a shared office in Jersey – with the same board, ombudsman and staff – CIFO started resolving complaints on 16 November 2015.

E: Relevant law

The OFSOs were established by the:

- Financial Services Ombudsman (Jersey) Law 2014[1]; and
- Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014[2] as amended by the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014 (Amendment) Ordinance 2016 (together the Ombudsman Laws).[3]

The financial services covered by the OFSOs are defined by the:

- Financial Services Ombudsman (Exempt Business) (Jersey) Order 2014[4] as amended by the Financial Services Ombudsman (Exempt Business) (Amendment) (Jersey) Order 2015;[5] and
- Financial Services Ombudsman (Exempt Business) (Bailiwick of Guernsey) Order 2015.

The funding structure is set by the:

- Financial Services Ombudsman (Case-Fee and Levy) (Jersey) Regulations 2015[6] as amended by the Financial Services Ombudsman (Case-Fee and Levy) (Amendment) (Jersey) Regulations 2016[7]
- Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) Order 2015[8] as amended by the Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) (Amendment) Order, 2016.[9]

These provide for the levies and case fees payable by FSPs to be set in schemes made by the OFSOs. The current levy and fees schemes[10] are the:

- Financial Services Ombudsman Levy Scheme (Jersey) 2017;
- Financial Services Ombudsman Fee Scheme (Jersey) 2017;
- Financial Services Ombudsman Levy Scheme (Bailiwick of Guernsey) 2017; and
- Financial Services Ombudsman Fee Scheme (Bailiwick of Guernsey) 2017.

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1 www.jerseylaw.je/laws/enacted/Pages/L-14-2014.aspx

2 www.guernseylegalresources.gg/article/156922/Financial-Services-Ombudsman-Bailiwick-of-Guernsey-Law-2014-Amendment-Ordinance-2016

3 www.guernseylegalresources.gg/article/115617/Financial-Services-Ombudsman-Bailiwick-of-Guernsey-Law-2014

4 www.jerseylaw.je/Law/display.aspx?url=lawsinforce%5chtm%5cROFiles%5cR%26OYear2014%2fR%26O-158-2014.htm

5 www.jerseylaw.je/Law/display.aspx?url=lawsinforce%5chtm%5cROFiles%5cR%26OYear2015%2fR%26O-087-2015.htm

6 www.jerseylaw.je/law/display.aspx?url=LawsInForce\htm\ROFiles%5cR%26OYear2015%2fR%26O-009-2015.htm

7 www.jerseylaw.je/laws/enacted/Pages/RO-117-2016.aspx

8 www.guernseylegalresources.gg/CHttpHandler.ashx?id=95899&p=0

9 www.guernseylegalresources.gg/article/156055/No-44---The-Financial-Services-Ombudsman-Case-Fee-and-Levies-Bailiwick-of-Guernsey-Amendment-Order-2016

10 www.ci-fo.org/resource-room/funding/current-schemes-notes

F: Current funding of CIFO

The current funding model is set by the CIFO board and broadly follows that proposed in the autumn of 2014 by a joint consultation document from the States of Guernsey and States of Jersey.[11] The necessary legal structure to support the model was later extended through to 31 December 2018.

This section summarises the current CIFO funding model. More information is available in the levy schemes and explanatory notes published on CIFO's website.[12]

The funding to cover CIFO's operating costs is provided by FSPs in the form of annual levies. No fees are paid by complainants who escalate their complaints to CIFO for review. Under the Memorandum of Understanding between the States of Jersey and States of Guernsey, the total amount required to be raised in levies each year is raised equally from each island and all the costs of operating the two OFSOs are shared equally.

Case fees are payable by FSPs for any complaint about them referred to CIFO, whether upheld or not. But the majority of CIFO's funding comes from annual levies, payable by 'registered providers' as defined in the Financial Services Ombudsman (Case-Fee and Levy) (Jersey) Regulations 2015 and the Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) Order 2015. Broadly these are providers that carry out financial services within CIFO's jurisdiction and are required to register with the Jersey and Guernsey Financial Services Commissions ("the Commissions") or to be licensed or hold a certificate or permit under the various regulatory laws. To facilitate issuance of annual levy notices, the Commissions provide CIFO with the data on registered providers.

The annual levy due from a registered provider is calculated on a per licence or sector of activity basis. The total levy is first split equally between the two islands, so that 50% is payable by registered providers in Guernsey and 50% is payable by registered providers in Jersey.

Within each island, half of its share (equal to 25% of the total levy) is shared equally among banks in respect of their deposit-taking licence. The other half (also 25% of the total levy) is shared equally among registered providers in all the other sectors of activity. This includes banks for activities other than deposit-taking.

A financial services provider will pay a levy for each sector that they operate within, so, for example, a bank will pay the banking sector levy, currently £6,454 in Guernsey or £5,342 in Jersey, plus an additional levy of £807 (Guernsey) or £794 (Jersey) for each other sector they operate within.

The allocation of a larger share of CIFO's levy requirement to banks was based on the assumption that, as bank accounts are the most common type of financial service and involve multiple transactions, banks had the potential to generate more complaints than other FSPs. This assumption was informed by the experience of other financial ombudsman schemes and the Commissions.

Registered providers can claim zero-rating, exempting them from paying the levy, if they could not or are sufficiently unlikely to generate eligible complaints. This is done by

[11] https://www.gov.je/government/consultations/pages/ofsofunding.aspx

[12] https://www.ci-fo.org/resource-room/funding/current-schemes-notes/

certifying that they are not involved in activities in or from within the Channel Islands that are covered by CIFO or do not have any customers who fall within the definition of those eligible to complain to CIFO.

The levy payable by similar FSPs may differ from one island to the other. That is because of differing numbers of registered providers in each island and differing numbers of registered providers that have zero-rated.

FSPs that do not pay a levy pay a higher case fee (e.g., there is no levy for providers in the pension sector as these FSPs could not be identified by both Commissions when CIFO's initial funding structure was set). Currently case fees are:

- £300 for FSPs that pay the levy; and
- £750 for FSPs that do not pay the levy.

Case fees do not vary with outcome, in keeping with the practice at many other financial ombudsman schemes to avoid the potential for financial considerations to influence the ombudsman's independence. Case fees currently produce about 8% of CIFOs total income, and the levies about 92%. So the approximate distribution of total income is:

- 8% from case fees;
- 23% from the banking sector in Jersey;
- 23% from other sectors in Jersey;
- 23% from the banking sector in Guernsey; and
- 23% from other sectors in Guernsey.

G: Existing complications

The current funding structure has several complications, and imposes a significant administrative burden on CIFO as a small organisation, which is necessarily reflected in CIFO's overheads. This section highlights some of the more notable ones.

Registered providers

The types of financial services covered by CIFO's remit and provided to eligible complainants do not align exactly with the registration and licensing categories used by the Commissions. So CIFO has to carry out a significant degree of data reconciliation and analysis to identify and remove providers that could not generate eligible complaints and have zero-rated in each sector. This also requires FSPs to consider their eligibility for zero-rating.

Even if CIFO's budget were to be unchanged year over year, changes in the number of FSPs each year, the number of licences they hold, and the number claiming zero-rating will affect the amount of the annual levy for the rest.

Zero-rating

Given the lack of relevant information on the specific business activities of individual financial services providers, much effort was required for the first annual levy in 2015 (on the part of both CIFO and industry) to have all registered providers consider whether they could generate eligible complaints and therefore whether or not they were liable for CIFO's levies. Since that initial levy in 2015, CIFO has rolled forward zero-rating status from the previous year and FSPs need to satisfy themselves each year that they continue to qualify for zero-rating. Each year, new market entrants have to consider their status.

Zero-ratings are claimed by FSPs on a self-certification basis. While there is no evidence that any FSPs have, thus far, wrongly claimed zero-rating, the question arises as to how often an FSP's zero-rating should be refreshed? It has also arisen that some FSPs that can claim zero-rating do not do so in a timely way, despite repeat communications from CIFO – creating additional uncertainty and an administrative burden for CIFO.

FSPs that start or cease business in a sector mid-year

If a provider changes its registered provider status or eligibility for zero-rating after the data pull from the Commissions in January each year, this will not result in an adjustment of the levy payable for that year. So if a provider ceases to be licensed in a sector or expands into another sector after January 2017 it will not affect their levy payment, either upward or downward, for 2017. This is for simplicity and to keep administrative costs low. For example, if a provider was not a registered provider in any of the sectors in which a levy is payable in January 2017 but subsequently became so, no levy for 2017 would be payable but the case fee for any complaints referred to CIFO in 2017 would be payable at the higher amount charged to non-levy paying providers. The provider would be picked up in the lists of registered providers for the 2018 levy round and become a levy payer for 2018. Conversely, if a provider ceased to be a registered provider in a sector for which a levy is payable after January 2017, no adjustment to the 2017 levy would be made but case fees for any complaints referred to CIFO in 2017 would be payable at the lower case fee amount charged to levy paying providers.

FSP insolvencies

In terms of recovery of case fees payable, a rush of complaints to CIFO against a particular FSP may be connected with wider events that lead to the FSP's insolvency. In such circumstances, CIFO may not be able to recover any case fees relating to those complaints; nor will that FSP be there to pay a future levy. In such circumstances, the cost of the CIFO capacity utilised to review that FSP's complaints would be borne indirectly by other providers.

H: Complaint data

CIFO publishes complaint statistics quarterly[13] and in its annual report[14] showing numbers of complaints and cases analysed by financial sector. The data are not currently analysed or published by island, nor do they identify individual FSPs.

After 1 January 2018, CIFO will start publishing island-specific data, including a breakdown by island of the key data that CIFO has published since it opened for business on 16 November 2015.

Final decisions made by the ombudsman after 1 January 2018 will identify the FSP concerned and data on these final decisions will be published. The Ombudsman Laws do not

[13] https://www.ci-fo.org/news-publications/statistics/
[14] https://www.ci-fo.org/news-publications/annual-report/

currently allow CIFO to publish data that identifies FSPs in the larger number of cases that are resolved by mediation.

I: General principles

There are several general principles which bear noting in connection with the funding of a financial ombudsman scheme. In this section, we note some of the more important ones.

The funding structure of CIFO can be described as a zero-sum game. The total amount to be raised to cover CIFO's budget in a given year remains the same regardless of how it is allocated amongst providers. So, if someone pays less, it means that someone else has to pay more.

All of the costs of CIFO's operation are covered by FSPs. To align to international good practice and to avoid creating any barriers to access for consumers, complainants do not pay to refer a complaint to CIFO.

A principal rationale for the creation of the OFSOs was to enhance the international reputation of the two international financial centres. In the recent stakeholder presentations, there was general support from industry stakeholders who attended that all FSPs should make some contribution to CIFO's funding regardless of complaint volumes.

Flat levies can:

- reflect the reputational benefit that the islands and individual FSPs derive from the increase in consumer trust and confidence generated by the existence of a financial ombudsman scheme;
- give FSPs a degree of stability and predictability in the amount payable, enabling them to budget ahead (although less so if levies paid are themselves varied by historical complaint volume experience);
- reflect the workload which those FSPs generate for CIFO; and
- give CIFO a reasonable degree of certainty about the amount of funding it will receive.

Case fees payable by FSPs for complaints referred to CIFO can:

- reflect the workload which those FSPs generate for CIFO (usually payable irrespective of the outcome of the complaint); but
- create a degree of volatility in the amounts which will be payable by FSPs, making it more difficult for them to budget ahead, and can present significant cost pressures for an FSP in a multiple complaint situation; and
- create a significant degree of uncertainty for CIFO about the amount of funding it will receive.

Arguably, options for the future funding structure of CIFO should:

- be straightforward to understand;
- be simple to assess and collect (in order to minimise the administrative burden and cost allocated to FSPs);
- have regard to what information is already available from the Commissions;
- ensure adequate funding for CIFO;

- be fair to FSPs;
- provide predictability and stability for CIFO and FSPs; and
- not encourage conduct which could serve to undermine effective complaint handling or compromise CIFO's independence.

Q1: Are these the right general principles?

J: Possible variables which could be used in sharing CIFO costs

CIFO's funding is currently simple: costs to an FSP are based on one or both of a flat case fee for each complaint received and a flat levy for each sector of financial services activity. At island level, the income required is currently split equally between the islands.

Counting relevant FSPs liable to pay the levy currently involves CIFO: obtaining data from the Commissions about registered providers; excluding those that have previously certified for zero-rating; and then inviting new FSPs to consider their status.

Some potential suggestions relating to the future funding structure might also involve:

- assessing the size or market share of FSPs, sectors or the islands (market basis); or
- assessing the CIFO workload created by FSPs, sectors or the islands (volume basis).

Size or market share of FSPs could break down into three variables:

- Customer measures: such as number of accounts or policy-holders;
- Staff measures: such as headcount of all or specific types of staff;
- Value of activity: such as amounts held on deposit, investment assets under management, premium income, turnover.

J1: Assessing size or market share of FSPs or sectors

Any suggestion to weight the funding structure among FSPs according to size or market share would require the availability of validated public data by which CIFO could establish and compare size or market share.

In some countries, for example, the amount payable by banks is weighted according to number of accounts or the amount of their capital, and the amount payable by insurers is weighted according to numbers of policies or premium income.

But where would the relevant information come from in the Channel Islands? The Commissions are able to provide data to CIFO for the purpose of CIFO's funding but their data may not be equally available for all sectors and may not align well to the categories of business activity subject to CIFO's remit.

Two other issues also arise. Unless sectors are dealt with separately, how do you compare FSPs in one sector with FSPs in another (for example, how many bank accounts equal how many insurance policies)? And for FSPs that operate in more than one island and/or also in the UK, can any consolidated data be separated by island?

Mindful of these various issues, any change in the funding structure that involves comparing the size or market share of FSPs, sectors, or the islands would need to consider:

- what criteria for size or market share would be used in each sector;
- how size or market share could be compared across sectors;
- where the data will come from and whether it is in a suitable form;
- whether or not it is confidential;
- if it is not from an official source like the Commissions, how it is to be validated;
- the complexity of creating such a system, whether it would increase fairness and whether it is worth it compared to the relative low value of CIFO levy amounts; and,
- what any additional administration would cost, and who would pay.

Q2: How could size or market share be measured within categories of FSPs and across categories of FSPs?

Q3: How could the necessary data be obtained and validated, what would this cost and who would pay?

J2: Assessing the CIFO workload caused by FSPs or sectors

The data published by CIFO each quarter[15] and in CIFO's annual reports[16] shows the numbers of complaints received, and the number of those that are eligible (i.e. within CIFO's remit) which are termed case files. CIFO has quarterly complaint and case file data starting from Q1 of 2016 which can be broken out by island, by sector, and by individual FSP (although the FSP complaint data cannot be shared publicly) or any combination of these three factors.

Currently, a case fee is payable for each complaint against a FSP that is referred to CIFO, unless, in the opinion of an ombudsman:

- on receipt of the complaint, it is apparent that it is not eligible or should be rejected; or
- at any time, the complaint is rejected as frivolous or vexatious.

CIFO has received a large number of complaints where a case fee was not payable as it was readily apparent that they were not eligible or should be rejected. Such complaints nevertheless generate a significant amount of work for CIFO as the complaint is reviewed against CIFO's mandate and complainants are informed, often eliciting an intense and repeated complainant response. General enquiries made to CIFO before a complaint is submitted do not currently incur any fee.

Any proposal to give extra weight to workload in the funding structure would need to consider whether to use the same definition as that currently used for case fees and whether to give all complaints the same weight.

Alternatively, workload might be assessed so as to more accurately reflect the workload caused by the particular complaint – for example, by a sliding scale of case fees according to the stage of the CIFO process that a complaint reaches before being resolved (from initial enquiry through early resolution, or ultimately to final determination). This can become complicated, especially on top of a case fee regime already split for levy and non-levy payers.

[15] www.ci-fo.org/news-publications/statistics/
[16] https://www.ci-fo.org/news-publications/annual-report/

K: Sharing costs between the islands

At present, the total levy income to be raised is shared 50/50 between the two islands, irrespective of the number of complaints received from each island. This was the initial sharing arrangement agreed between the States and put into the legislation before CIFO was created. In terms of the cost of operating the office, there is shared infrastructure and significant work involved in liaising with a similar range of stakeholders in each island which is broadly equal. As the costs of CIFO are shared equally between the OFSOs, this arrangement means that a FSP in one island may pay a different levy from a similar FSP in the other island because of differences in the numbers of FSPs in each and no account is taken of the ratio of complaints between the islands.

An alternative would be first to divide the total levy income required by CIFO amongst all registered providers liable for the levy in both islands. This would have the advantage that an FSP in one island would pay the same levy as a similar FSP in the other island. Effectively this would be splitting the levy income required between the islands on a size basis (i.e. the number of registered providers in each island).

Alternatives or options for the current 50/50 split for levy income required are:

- Continue to split between the islands 50:50;
- Split based on 'size' (e.g. number of levy-payers in each island or registered providers);
- Split based on workload produced in each island (over what period/variability etc).

Q4: On what basis should the total levy be shared between the two islands?

The discussion above addresses the levy income required and options to vary the allocation. From a cost perspective, the two islands compete with one another as international financial centres of equal standing, and the relevant legislation requires CIFO to set separate annual budgets for each island – currently these are each 50% of the total CIFO annual budget. Our current working assumption is that the total costs of CIFO would continue to be shared first between the islands with any variability, if desired, introduced through the allocation of levy income required – but we would welcome views.

Q5: Should the costs of CIFO be shared between the two islands equally or on some other basis – in which case, on what basis and using what data?

L: Sharing costs between FSPs

Currently:

- Within each island, half of its share (25% of the total levy) is shared equally among banks. The other half (25% of the total levy) is shared equally among the other regulated providers plus banks for their activities other than deposit-taking.
- FSPs can claim exemption from paying the levy by certifying that they are not involved in activities covered by CIFO or do not have any customers who fall within the definition of those eligible to complain to CIFO.

The proportion allocated to the banking sub-sector was based on the presumption that banking complaints would predominate.

At the stakeholder briefing sessions held in April 2017, banking industry representatives in both islands indicated their understanding and acceptance of the current approach; but some individual banking sector FSPs (mainly non-high street) questioned the treatment of private banks the same as retail clearers.

Given the significant proportion of CIFO's funding that comes from banks under the current structure, downward revisions to this allocation would have a significant impact on the costs to be allocated to non-bank FSPs.

Q6: How should the levy income to be raised be split across the sectors? Should there be different bases of levy allocation within sectors (e.g., retail banks versus private banks; large FSPs versus small FSPs)?

Q7: Should all FSPs be treated the same across all sectors? If not, on what basis (and using what data) should they be divided? How should any resulting reductions in levy payable by some FSPs be redistributed amongst other FSPs?

L1: Case fees or weighting levy for workload

Some stakeholders have expressed interest in moving towards a more volume-driven cost allocation (described as 'user pays') on the basis that FSPs which generate large complaint volumes should bear a greater share of CIFO's cost.

Other stakeholders have expressed a preference for year-on-year stability and predictability of CIFO-related costs. They question whether the perceived greater fairness of volume-driven cost allocation is more important to individual FSPs than stable and predictable year-on-year CIFO-related costs.

Some stakeholders have noted that all FSPs (and each island) receive a reputational benefit from enhanced customer confidence resulting from the existence of CIFO. And the FSPs generating the most complaints may tend to be those about to become insolvent, which will no longer be there to pay the costs they have created.

Currently, case fees payable by FSPs already provide a modest element of user-pays funding (8% of total revenue). The proportion of user-pays funding could be increased by:

- increasing case fees;
- weighting the levy for a sector (wholly or partly) according to proportion of CIFO's workload generated by that sector;
- weighting the levy for an FSP (wholly or partly) according to proportion of CIFO's workload generated by that FSP; or
- discount the levy for FSPs with low complaint volumes.

If case fees became too high, this might tempt individual FSPs to suppress referral of complaints to CIFO. In addition, volume-driven weighting of the levy for individual FSPs might create a significant (or possibly prohibitive) additional cost.

A discount would risk a significant revenue shortfall for CIFO, because complaints are concentrated in a smaller number of FSPs, unless CIFO were to set the initial levy at a higher rate than would otherwise be the case.

Q8: Should there be a greater volume-driven component in allocating CIFO's costs – and, if so, what proportion should it be?

Q9: If the levy were (wholly or partly) weighted according to workload, should case fees be eliminated for levy-payers?

L2: Basis of division of levy

Division of the total levy required among FSPs could be by:

- sector, as now (broadly based on registration or licence category with the Commissions);
- sub-sector (i.e. a split of existing sectors such as banking into private banks and retail clearers); or
- individual FSP.

Division of the levy among sectors (or sub-sectors) and/or by FSPs within a sector (or sub-sector) could be:

- as now;
- equal;
- proportionate to CIFO's past workload (note section J2);
- proportionate to CIFO's expected future workload (note section J2);
- proportionate to size (note section J1); or
- proportionate to market share (note section J1).

Q10: Should the cost of CIFO be shared among relevant FSPs by sector (as now), sub-sector or individual FSP? If by sub-sector, how would the sub-sectors be defined and where would the data come from?

Q11: Should the cost of CIFO be shared among sectors (or sub-sectors) as now, equally or proportionately (in which case, proportionate to what)?

Q12: Should the cost of CIFO be shared among FSPs within sectors (or sub-sectors) equally or proportionately (in which case, proportionate to what)?

Q13: Given the complexity of proposed alternatives and the zero-sum game nature of any revision to the current funding model, is the status quo as generally set out in the 2017 levy and case fee schemes a viable approach to retain as CIFO's funding model for the period beyond 1 January 2019?

M: Transition

If the new funding structure is significantly different from the existing one, it could produce significant changes in the contributions required from different FSPs. If this is the case, FSPs may need time to adapt to the new level of cost. This would suggest that any significant change should be phased over a transitional period of three to five years.

Q14: Should there be a transitional period? If so, how long?

N: International points of reference

There is a wide range of funding models in use by financial ombudsman schemes around the world.

UK - Financial Ombudsman Service: Annual levy based on a complex formula which differentiates by sub-sector and other factors.
www.financial-ombudsman.org.uk/faq/businesses/funding.html

Ireland - Financial Services Ombudsman Bureau: Annual levy set by regulation with a different calculation for each sector. Some have a levy per customer or other variable with a minimum levy payable. Others pay a flat rate levy.
https://www.financialombudsman.ie/about-us/funding.asp

Canada - Ombudsman for Banking Services and Investments (OBSI): Annual fees for banks based on proportional share of Canadian domestic bank assets. Annual fees for investment firms determined by various means not specified in publicly-available material.
www.obsi.ca/en/about-us/governance/financials/operational-funding

Australia – Financial Ombudsman Service: Annual levy based on size of FSP relative to other FSPs.
www.fos.org.au/members/annual-assessment/

Please note that all four of these financial ombudsman schemes are large in comparison with CIFO, with significant administrative resources. And in the UK, all FSPs covered by the compulsory jurisdiction are regulated and the ombudsman levy is collected by the Financial Conduct Authority on behalf of the UK Financial Ombudsman Service (UK FOS).