Channel Islands Financial Ombudsman

# Consultation Paper 14
# **Proposed new CIFO future funding structure**

Issued: 19 April 2018

## Contents

# A: Executive summary

This consultation paper is the fourth and final stage of a consultation process that was launched in April 2017. It proposes a revised funding structure for the Channel Islands Financial Ombudsman (CIFO) after 31 December 2018, when the current funding structure expires.

The proposed new funding structure has been designed in the light of the helpful views expressed by stakeholders during the three previous stages of the consultation. These have helped to narrow the issues and options, and we are grateful to all those who have contributed to the process.

Stakeholders preferred a funding structure that: is simple and easy to understand; is easy and low-cost to administer; and avoids undue volatility. They were broadly content to continue with:

- a fixed charge (by way of annual levy) to be paid by all FSPs that can be identified from the registers maintained by the Financial Services Commissions [‘FSCs’]; plus
- a user-pays charge (by way of case fees) to be paid by those FSPs about which cases are handled by CIFO.

Stakeholders accepted that a fixed charge payable by all financial services providers [‘FSPs’], whether they have any complaints or not, avoids undue volatility. It also recognises the benefit all FSPs derive from the increased consumer confidence created by the existence of CIFO.

But a majority favoured revising the existing levy system, where the total levy is first divided between the two islands and is then divided among the relevant FSPs within each island. They preferred a structure under which the total levy is just divided among the relevant FSPs in both islands.

Subject to that, stakeholders considered that any levy should continue to be shared according to the basis of the sectors for which registered providers are licensed or registered. They accepted that there is insufficient independent data to enable any levy to be shared by the size or market share of particular sectors or individual registered providers.

Accordingly, this consultation paper proposes a revised new funding structure which combines:

- a fixed charge (by way of annual levy), to be divided among all relevant FSPs in both islands, so that similar FSPs in each island pay the same amount; and
- a user-pays charge (by way of case fees) to be paid by those FSCs about which cases are handled by CIFO.

Some stakeholders raised concerns about case fees increasing beyond the levels that came into effect from 1 April 2018. So this consultation paper seeks further views from stakeholders on the appropriate level for case fees, and hence the proportion of CIFO’s total funding that is raised on a user-pays basis.

The proposed new funding structure retains the following features of the existing structure:

- Division of the levy on the basis of the sector(s) of activity carried out by an FSP.
- Weighting of the total levy raised between banking and non-banking.
- Zero-rating FSPs that are sufficiently unlikely to generate a complaint.

- Lower case fees for FSPs that have paid the levy.

It is proposed to implement the new funding structure from 1 January 2019, without a transition period, subject to completion of the necessary legislative changes.

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# B: This consultation

## 1: Introduction

This consultation paper sets out the preferred option for a new funding structure for CIFO, to take effect from 1 January 2019 when the current funding structure expires. It is the final stage in a wide-ranging review of CIFO's funding structure. There is a summary of the previous stages in section D.

Interested parties – including representative bodies of FSPs, consumer bodies and the Financial Services Commissions – are invited to respond to the proposed new funding structure described in section E and the questions in section F.

In addition to seeking written responses to this consultation paper, CIFO will seek input from stakeholders at public information sessions to be scheduled in Guernsey and Jersey following the publication of this consultation paper and before the consultation closing date.

## 2: How to respond

Please send any responses in writing, by email to consultations@ci-fo.org or by post to Channel Islands Financial Ombudsman, P O Box 114, Jersey, JE4 9QG. **Responses must reach CIFO by no later than 19 June 2018.**

Responses may be published. Any sections that respondents consider to be confidential (for example, because they relate to proprietary information or provide commercially-confidential data) should be clearly marked as such, indicating the reason why they are considered to be confidential. The reason will be taken into account by the Principal Ombudsman in deciding what to publish.

## 3: Next steps after this consultation

Subject to the responses to this consultation, CIFO's board will finalise the proposed funding structure to take effect from 1 January 2019 and seek approval from the States of Guernsey and States of Jersey for any legislative changes required to accommodate the new structure.

Subject to the timely completion of any required legislative changes, levies and case fees for 2019 and subsequent years will be determined based on the new funding structure.

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# C: Current funding structure

## 1: Channel Islands Financial Ombudsman (CIFO)

CIFO is the joint operation of:

- the Office of the Financial Services Ombudsman established by the Financial Services Ombudsman (Jersey) Law 2014[1]; and
- the Office of the Financial Services Ombudsman established by the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014.[2]

CIFO is independent of the States. Working from a shared office in Jersey – with the same board, ombudsman and staff – CIFO resolves complaints about financial services provided in and from Jersey, Guernsey, Alderney and Sark. It started to resolve complaints on 16 November 2015.

## 2: Legislation on funding

CIFO is currently funded by a combination of annual levies and case fees. The amounts of these are set by schemes, published at www.ci-fo.org/resource-room/funding. These schemes are made by CIFO's board, in accordance with a framework established by:

- the Financial Services Ombudsman (Case-fee and Levy) (Jersey) Regulations 2015[3] as amended by the Financial Services Ombudsman (Case-Fee and Levy) (Amendment) (Jersey) Regulations 2016[4]; and
- the Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) Order 2015[5] as amended by the Financial Services Ombudsman (Bailiwick of Guernsey) Law, 2014 (Amendment) Ordinance, 2016[6] and the Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) (Amendment) Order, 2016.[7]

This legislation provides for the cost of CIFO to be shared equally between the two bailiwicks until 31 December 2018.

## 3: Levies

Annual levies are payable by 'registered providers' unless they are 'zero-rated'. Registered providers are those FSPs that are licensed or registered by the FSCs.

The main category of registered providers that may be zero-rated, so that they do not have to pay the levy, are those that (because of the nature of their business) are sufficiently unlikely to have complaints that fall within CIFO's jurisdiction.

A levy is payable per sector of activity for which an FSP is licensed/registered, to reflect that FSPs licensed/registered for multiple sectors derive benefit across a wider range of sectors from the underpinning of consumer confidence provided by CIFO.

The total annual levy is divided equally between the two bailiwicks. Within each bailiwick: half is divided equally among registered providers that hold banking licences; and the other half is divided equally (by sector) among registered providers in each other sector.

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1 www.jerseylaw.je/Law/display.aspx?url=lawsinforce%5chtm%5cLawFiles%5c2014%2fL-14-2014.htm

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

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

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

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

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

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

Because the numbers of registered providers in each sector differ between the two bailiwicks, this means that the levies payable by a registered provider in one bailiwick can be higher or lower than that payable by a similar registered provider in the other bailiwick.

### 4: Case fees

Case fees are payable by all FSPs (whether or not they pay the levy) against which a case is considered by CIFO. FSPs that pay the levy are charged a lower case fee than FSPs that do not pay the levy.

In response to stakeholder views that the user-pays element of CIFO's funding should be increased, case fees have been increased over time. For cases received from 1 April 2018, the case fee is:

- £400 for those FSPs that pay the levy in the relevant category; and
- £900 for other FSPs.

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## D: Review of funding structure

This is the fourth and final stage of the review of CIFO's funding structure.

### 1: First stage, from April 2017

In April 2017 CIFO held meetings with stakeholders, to brief them on CIFO's current funding structure and to help identify their views about the key issues to be addressed. Stakeholders preferred a funding structure that was:

- simple and easy to understand;
- easy and low-cost to administer;
- fair among the bailiwicks, sectors, and individual FSPs;
- reflected the volume of complaints generated; and
- allowed for special circumstances for identified sectors or individual FSPs.

### 2: Second stage, from June 2017

In July 2017, in the light of the earlier discussions, CIFO issued a discussion paper[8] that set out the key issues and a broad range of options for consideration.

Responses did not disclose any inherent or widespread dissatisfaction with the general features of the current CIFO funding structure, but some helpful suggestions concerning future funding structure options were received.

### 3: Third stage, from December 2017

In December 2017, in the light of responses to the discussion paper, CIFO issued a consultation paper[9], which set out a narrower range of favoured options for consideration. Discussions were also held with stakeholders.

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[8] https://www.ci-fo.org/wp-content/uploads/2017/07/170710-DP1-funding-structure.pdf
[9] https://www.ci-fo.org/wp-content/uploads/2017/12/171205-CIFO-CP11-Final-1.pdf

This included consideration of whether the levies should continue to be divided first between the bailiwicks and then among regulated providers (option 1) or whether the levies payable by similar regulated providers should be equalised between the two bailiwicks (option 2).

In their responses:

- Most stakeholders accepted that the existence of CIFO helps to underpin consumer confidence in financial services. This benefits all FSPs, whether they have complaints or not. This shared benefit justifies a proportion of the funding being shared amongst all registered providers, in the form of an annual levy.
- Most stakeholders considered that there is insufficient independent data to enable any levy to be shared according to the size or market share of particular sectors or individual registered providers. Any levy should continue to be shared according to the basis of the sectors for which registered providers are licensed or registered, whilst recognising that most consumers have more interactions with banks than with other sectors. There was an interest expressed in ensuring that non-levy-paying sectors become levy-paying as soon as practicable.
- A majority of stakeholders favoured moving away from the current arrangements under which the total cost is first divided between the two bailiwicks before being shared among the registered providers in each bailiwick. They preferred a structure that would equalise the levy, so that all registered providers in a particular sector would pay the same – irrespective of the FSC by which they are licensed/registered.
- Most stakeholders accepted that case fees provide an easy-to-administer means of including a user-pays aspect to the funding structure. But there were differing views about the proportion of total funding that should come from case fees – an issue to which we return in section E.9.
- Some stakeholders suggested that any changes proposed should be phased in over a few years to avoid undue financial impact on FSPs. Other stakeholders suggested an immediate change to the new funding structure for the sake of clarity, simplicity and lower administrative cost.

### 4: Fourth stage, from April 2018

In the light of these consultations, and having regard to the views expressed by stakeholders, the board of CIFO is now consulting on the proposed new funding structure that is described in section E.

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## E: Proposed new funding structure

The proposed new structure is based on option 2 in the December 2017 consultation paper. It combines an annual levy (equalised between similar providers in each bailiwick) with case fees. A number of details remain to be settled in the light of responses to this consultation.

### 1: Annual levies to be equalised between bailiwicks

We propose a new structure for the annual levies – so that they are equalised between the two bailiwicks.

This means that the total levy would no longer be divided between the two bailiwicks and then among the registered providers in each bailiwick. Instead the total levy would be divided among all the registered providers in both bailiwicks.

This means (for example) that a Jersey bank would pay the same as a similar Guernsey bank, and a Guernsey investment business would pay the same as a similar Jersey investment business.

If an FSP is a registered provider in both bailiwicks, it would (as now) be required to pay the relevant levy in respect of each bailiwick.

This change would require minor changes to the relevant legislation in each bailiwick. We are hopeful that both States will be able to make the necessary changes in time for the new structure to be implemented from 1 January 2019.

If, contrary to our expectation, the States are unable to make the necessary changes in both bailiwicks in time, we would propose to roll forward the current levy arrangements for a year and implement the new structure from 1 January 2020.

## 2: Who pays annual levies

We propose to continue the current structure under which levies are payable by 'registered providers' – FSPs licensed or registered by the FSCs – for each sector in which they are licensed or registered, unless they are 'zero-rated'.

Registered providers are defined in:

- regulation 7(3) of the Financial Services Ombudsman (Case-fee and Levy) (Jersey) Regulations 2015;[10] and
- paragraph 6(3) of the Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) Order 2015.[11]

Broadly these are providers that, in relation to their carrying out financial services within CIFO's jurisdiction[12], are required to register with the Jersey and Guernsey FSCs or are licensed or hold a certificate or permit under the regulatory laws as specified.

CIFO has set the sectors in which levies are charged based on the financial services within CIFO's jurisdiction and also on the availability of data from both regulators. Broadly, the sectors are:

- banking business;
- insurance business, including intermediation;[13]
- money services;[14]
- provision of credit;[15] and

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

[11] www.guernseylegalresources.gg/CHttpHandler.ashx?id=95899&p=0

[12] Defined in article 9 of the Financial Services Ombudsman (Jersey) Law 2014 and section 9 of the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014 and further by the Financial Services Ombudsman (Exempt Business) (Jersey) Order 2014 and the Financial Services Ombudsman (Exempt Business) (Bailiwick of Guernsey) Order 2015, see www.ci-fo.org/resource-room

[13] In the Bailiwick of Guernsey, insurance business in categories 2 and 4 of the Insurance Business (Solvency) Rules 2015 is outside CIFO's jurisdiction and so these insurers are not subject to the levy.

[14] Required even if licensed for banking.

[15] Not required if licensed for banking.

- relevant investment business (split between two categories in Jersey).

They exclude certain activities that are outside CIFO's jurisdiction, such as trust company and fiduciary business and the operation of excluded investment funds (namely, those other than Class A funds in Guernsey and recognized funds in Jersey).

The existing categories of registered providers might be extended by legislation in future, to cover any additional financial services activity that is made subject to licensing or registration. Once both FSCs can provide the necessary data on the pensions sector, a levy will be charged for that business activity.

One stakeholder suggested that an FSP that is not a registered provider should be able to 'opt-in' to paying the levy, and so pay the lower level of case fee. We do not favour such a change. It would introduce unnecessary administrative complexity, and risks 'adverse selection' where only FSPs with lots of upcoming complaints opt-in to pay the levy.

## 3: Zero-rating

We propose to continue the existing structure for zero-rating.

The main category of registered providers that may be zero-rated, so that they do not have to pay the levy, are those that (because of the nature of their business) are sufficiently unlikely to have complaints that fall within CIFO's jurisdiction.

CIFO automatically zero-rates registered providers in respect of the following categories, because it is able to identify them from the records held by the FSCs:

- In Jersey:
  - functionaries of non-recognized funds; and
  - insurance business in Class A.
- In the Bailiwick of Guernsey: insurance managers.

Other registered providers can self-certify[16] for zero-rating if they do not, or are sufficiently unlikely to:

- do business, with eligible complainants; or
- carry on relevant financial services business in or from within either bailiwick.[17]

After public consultation, CIFO has also given automatic zero-ratings to the following providers or categories, because of the particular nature of their businesses:

- In Jersey:
  - Community Savings Limited; and
  - class S general insurance mediation business.
- In the Bailiwick of Guernsey: insurers in categories 5 and 6 of the Insurance Business (Solvency) Rules, 2015.

[16] Following the process, and using the forms, specified at www.ci-fo.org/resource-room/funding.

[17] This includes general partners carrying on the restricted activities of advising, managing or dealing in connection with a category 2 controlled investment under the Protection of Investors (Bailiwick of Guernsey) Law 1987, which are not identifiable from the data provided by Guernsey FSC.

## 4: How the annual levies are divided among registered providers

We propose a modified structure, that eliminates the initial division between bailiwicks. The total levy covering both bailiwicks should be divided among registered providers in a similar way to the current division within each bailiwick:

- Half of the total would be divided equally among the holders of banking licences in both bailiwicks – resulting in individual banking providers in each bailiwick paying the same amount.
- The other half of the total would be divided equally (by each non-banking activity) among regulated providers in both bailiwicks – resulting in individual non-banking providers in each bailiwick paying the same amount per category.

We also propose one supplemental change, in order to be consistent with equalisation of the levies between both bailiwicks. Relevant investment business is currently:

- one sector in the Bailiwick of Guernsey; but
- two sectors in Jersey (functionaries of recognized funds are treated as a separate sector).

We propose to treat the two Jersey investment categories as one. Otherwise, a functionary of a recognized fund in Jersey that also did other relevant investment business would pay double the amount payable by a similar registered provider in the Bailiwick of Guernsey.

## 5: Banking sector issues

We propose to continue the current structure in relation to three issues affecting the banking sector:

- The proportion of the levy allocated to banking:

  The 50% share of the total levy for the banking sector continues the allocation discussed between the States and the industry in 2014 when the funding structure for CIFO was first designed. Discussions with banking-sector representatives suggest they are reconciled to retaining this allocation in return for the retention of a simple and administratively low-cost approach to the allocation of CIFO's operating costs. It also reflects the fact that most consumers have far more interactions with their bank than other providers of financial services – so that banks benefit most from the underpinning of consumer confidence.

- Private banks:

  At an early stage of the consultation process, some private banks raised the suggestion that they could be treated separately from the retail banks. During the subsequent consultation process, CIFO asked the industry for suggestions on how it would be possible to distinguish between types of banks simply, accurately and fairly – because banking licences issued by the FSCs do not distinguish between types of bank. No suggestions were put forward by the industry, so we propose to continue to treat all banking licensees similarly.

- Additional levies for other activities, particularly money service business (MSB):

  Banks that are also active in other sectors also pay the levy for those sectors. For example, a bank that sells insurance also pays an insurance sector levy. One bank suggested that money service business was an integral part of banking and that it should not be required to pay a levy in that category. The regulators in both bailiwicks have established money services as a separate category, and we do not consider there is a compelling case to treat it as different from other additional activities carried out by banks. We also note that not all banks have an MSB licence from their regulator.

## 6: Changes in a regulated provider's status during a financial year

We propose to continue the existing structure for changes to a regulated provider's status during a financial year.

These are designed to avoid administrative complexity by basing the levy on data at one fixed date:

- If an FSP ceases to be a registered provider in a particular category during a financial year, its liability to pay the levy will be reassessed from the beginning of the following financial year.
- If an FSP becomes a registered provider in a category during a financial year, its liability to pay the levy will be reassessed from the beginning of the following financial year (until when it will accrue any cases at the higher rate in that category).
- If an FSP becomes entitled to zero-rating in a particular category during a financial year, its liability to pay the levy will be reassessed from the beginning of the following financial year.

## 7: Impact and transition

We do not propose that there should be a transition period in introducing the new levy structure.

Annex A sets out the levy amounts for 2018 calculated according to the current funding structure, and what they would have been if the proposed new funding structure (equalising amounts between the two bailiwicks) had been in force for 2018. There is a limited difference in the amounts.

This illustration is not necessarily indicative of the actual levies for 2019. The levy amounts in 2019 and beyond will continue to be sensitive to any year-over-year changes in the number of licences issued for various activities on both bailiwicks, and the CIFO's 2017 and 2018 levy calculations benefited from the use of surplus reserves to reduce the amount required from levy income.

## 8: Case fees

We propose to continue the existing structure for the circumstances in which a case fee is payable.

Case fees provide a user-pays charge, so that FSPs which produce more cases for CIFO make a larger contribution to its costs. Amounts received in case fees go to reduce the amount to be raised by the annual levy in the following year.

A case fee is payable by an FSP for each complaint against that FSP which 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.

## 9: Differential case fees

We propose to continue the existing structure under which FSPs that pay the levy in the relevant category (and so have already contributed to CIFO's costs) should pay a lower case fee than those FSPs that do not pay a levy (and so have not contributed to CIFO's costs).

CIFO can only raise a levy from FSPs that it can identify, on the basis of the lists of FSPs licensed/registered by the FSCs that both FSCs are able to provide to CIFO. But there are other FSPs that fall within CIFO's jurisdiction, whose identity is unknown to CIFO until a complaint is received. It is fair that they should pay a higher case fee, to reflect the fact that they have not paid a levy.

## 10: Proportion raised by case fees

We seek further views from stakeholders on the level of case fees, and hence the proportion of CIFO's funding that is raised by case fees.

In response to previously-expressed stakeholder views that the user-pays element of CIFO's funding should be increased, case fees have been increased over time, based on the date CIFO received the complaint:

- Until 31 December 2016: £200 (levy-payers) or £600 (other FSPs);
- From 1 January 2017 to 31 March 2018: £300 (levy-payers) or £750 (other FSPs);
- From 1 April 2018: £400 (levy-payers) or £900 (other FSPs);

The December 2017 consultation paper discussed the option of continuing to raise case fees incrementally. One possibility was to increase the proportion of revenue raised from case fees to 20-25 per cent of total revenue by 2021 – which contemplated a 2021 case fee of £850 for FSPs that paid the levy and £1,350 for other FSPs.

Stakeholder responses were mixed. Although there had been a long-standing preference to increase the proportion of user-pays funding, the amount of the case fees that would be required led to some change in sentiment. Some feared the case-fee impact on an individual FSP of a sudden surge in cases. Others feared that an even higher case fee might encourage some FSPs to act inappropriately and try to supress legitimate complaints.

Whilst CIFO can consult in future on the amount of the case fee, it would prefer – in finalising the proposed new funding structure – to have a clearer view now of stakeholder views on two points:

- What are the appropriate maximum figures for case fees through to 31 December 2021? Should they remain at the current £400/£900 figures? Should they increase incrementally to the £850/£1,350 figures mentioned in the December 2017 consultation paper? Should they be capped at some in-between figures? If so, what figures?
- Should CIFO set a maximum number of cases for which an FSP can be charged case fees in any one financial year, after which any cases would be 'free'. If so, what maximum number? Such a cap would mitigate the financial risk to a smaller FSP, but would run counter to the user-pays principle.

## F: Stakeholder comments sought

Stakeholders are asked to comment on the proposed new funding structure described in section E.

It would be helpful if comments are organised under the sub-headings in section E:

1 Annual levies to be equalised between bailiwicks
2 Who pays annual levies
3 Zero-rating
4 How annual levies are divided among registered providers
5 Banking sector issues
6 Changes in a regulated provider's status during a financial year
7 Impact and transition
8 Case fees
9 Differential case fees
10 Proportion raised by case fees

In relation to the proportion to be raised by case fees, stakeholders are asked to respond to the following questions:

- What are the appropriate figures for case fees through to 31 December 2021? Should they remain at the current £400/£900 figures? Should they increase incrementally to the £850/£1,350 figures mentioned in the December 2017 consultation paper? Should they be capped at some in-between figures? If so, what figures?
- Should CIFO set a maximum number of cases for which an FSP can be charged case fees in any one financial year, after which any cases would be 'free'. If so, what maximum number? Such a cap would mitigate the financial risk to a smaller FSP, but would run counter to the user-pays principle.

## Annex A: Potential impact on levies

As explained in section G.10, this annex shows:

- the 2018 levy amounts calculated under the current funding structure: and
- what the 2018 levy amounts would have been if calculated under the proposed new funding structure (equalising amounts between the two bailiwicks).

| **Current funding structure** | | | | | |
|---|---|---|---|---|---|
| | **Banking** | | **Non-banking** | | **Total** |
| | Guernsey | Jersey | Guernsey | Jersey | |
| Total levy | £163,776 | £163,776 | £163,776 | £163,776 | £655,104 |
| Number of levy-payers | 21 | 25 | 180 | 187 | 413 |
| Actual 2018 levy | £7,799 | £6,551 | £910 | £876 | |

| **Proposed funding structure** | | | |
|---|---|---|---|
| | **Banking** | **Non-banking** | **Total** |
| | Both bailiwicks | Both bailiwicks | |
| Total levy | £327,552 | £327,552 | £655,104 |
| Number of levy-payers | 46 | 367 | 413 |
| Hypothetical 2018 levy | £7,121 | £893 | |

# Annex B: CIFO complaint and case numbers since inception

To help provide context, this Annex shows the total numbers of complaints and cases from 15 November 2015 (when CIFO opened for business) to 31 December 2017, including a breakdown by bailiwick and sector.

The annual and quarterly statistics already published by CIFO[18] show that 2016 and 2017 were very different years in several important respects, including:

- the sectors from which the complaints arose;
- the proportion of complaints falling within CIFO's remit;
- the incidence of 'multiple complaints'.

By 'multiple complaints' we mean more than 10 complaints against the same FSP in respect of the same product or service, the same issues, and in similar circumstances. Multiple complaints can distort the statistics. So we have provided data that includes multiple complaints and data that excludes them.

The volatility of the data from quarter to quarter and from year to year supports the principle of core funding for CIFO by way of levy (reflecting the shared reputational benefit of CIFO) supplemented by a user-pays component provided by case fees.

## 1: Complaints received – by location of FSP

| **Including multiple complaints** | | |
|---|---|---|
| Location | Number | Percentage |
| Jersey | 666 | 34% |
| Guernsey | 1,257 | 64% |
| UK & rest of world | 48 | 2% |
| **Total** | 1,971 | 100% |

| **Excluding multiple complaints** | | |
|---|---|---|
| Location | Number | Percentage |
| Jersey | 596 | 69% |
| Guernsey | 222 | 26% |
| UK & rest of world | 48 | 5% |
| **Total** | 866 | 100% |

## 2: Complaints received – by sector of business activity

| **Including multiple complaints** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Sector | Jersey | | Guernsey | | UK & rest of world | | Total | |
| | Number | Percentage | Number | Percentage | Number | Percentage | Number | Percentage |
| Investment/Funds | 180 | 27% | 464 | 37% | 5 | 10% | 649 | 33% |
| Trust/Fiduciary | 24 | 4% | 539 | 43% | 1 | 2% | 564 | 29% |
| Banking | 362 | 54% | 48 | 4% | 16 | 33% | 426 | 22% |
| Insurance | 32 | 5% | 154 | 12% | 8 | 17% | 194 | 10% |
| Pensions | 19 | 3% | 38 | 3% | 7 | 15% | 64 | 3% |
| Non-Bank Money Services/Credit | 39 | 6% | 7 | 1% | 1 | 2% | 47 | 2% |
| Not Financial Services Related | 10 | 2% | 7 | 1% | 10 | 21% | 27 | 1% |
| **Total** | 666 | 100% | 1257 | 100% | 48 | 100% | 1971 | 100% |

18 www.ci-fo.org/news-publications/statistics

| Excluding multiple complaints | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Sector | Jersey | | Guernsey | | UK & rest of world | | Total | |
| | Number | Percentage | Number | Percentage | Number | Percentage | Number | Percentage |
| Banking | 362 | 61% | 48 | 22% | 16 | 33% | 426 | 49% |
| Investment/Funds | 110 | 18% | 45 | 20% | 5 | 10% | 160 | 18% |
| Insurance | 32 | 5% | 59 | 27% | 8 | 17% | 99 | 11% |
| Pensions | 19 | 3% | 38 | 17% | 7 | 15% | 64 | 7% |
| Non-Bank Money Services/Credit | 39 | 7% | 7 | 3% | 1 | 2% | 47 | 5% |
| Trust/Fiduciary | 24 | 4% | 18 | 8% | 1 | 2% | 43 | 5% |
| Not Financial Services Related | 10 | 2% | 7 | 3% | 10 | 21% | 27 | 3% |
| **Total** | 596 | 100% | 222 | 100% | 48 | 100% | 866 | 100% |

## 3: Complaints received that did not become cases

| Including multiple complaints | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Reason | Jersey | | Guernsey | | UK & rest of world | | Total | |
| | Number | Percentage | Number | Percentage | Number | Percentage | Number | Percentage |
| Rejected as Out of Mandate | 249 | 80% | 1122 | 98% | 36 | 92% | 1407 | 94% |
| Withdrawn by Complainant | 61 | 20% | 22 | 2% | 3 | 8% | 86 | 6% |
| **Total** | 310 | 100% | 1144 | 100% | 39 | 100% | 1493 | 100% |

| Excluding multiple complaints | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Reason | Jersey | | Guernsey | | UK & rest of world | | Total | |
| | Number | Percentage | Number | Percentage | Number | Percentage | Number | Percentage |
| Rejected as Out of Mandate | 242 | 80% | 113 | 84% | 36 | 92% | 391 | 82% |
| Withdrawn by Complainant | 61 | 20% | 22 | 16% | 3 | 8% | 86 | 18% |
| **Total** | 303 | 100% | 135 | 100% | 39 | 100% | 477 | 100% |

## 4: Why complaints did not become cases

| Including multiple complaints | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Reason | Jersey | | Guernsey | | UK & rest of world | | Total | |
| | Number | Percentage | Number | Percentage | Number | Percentage | Number | Percentage |
| Type of Financial Service | 59 | 23% | 998 | 68% | 32 | 73% | 1089 | 62% |
| Time Limit or Other | 190 | 75% | 454 | 31% | 11 | 25% | 655 | 37% |
| Complainant Eligibility | 5 | 2% | 8 | 1% | 1 | 2% | 14 | 1% |
| **Total** | 254 | 100% | 1460 | 100% | 44 | 100% | 1758 | 100% |

| Excluding multiple complaints | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Reason | Jersey | | Guernsey | | UK & rest of world | | Total | |
| | Number | Percentage | Number | Percentage | Number | Percentage | Number | Percentage |
| Time Limit or Other | 183 | 74% | 62 | 48% | 11 | 25% | 256 | 61% |
| Type of Financial Service | 59 | 24% | 58 | 45% | 32 | 73% | 149 | 36% |
| Complainant Eligibility | 5 | 2% | 8 | 6% | 1 | 2% | 14 | 3% |
| **Total** | 247 | 100% | 128 | 100% | 44 | 100% | 419 | 100% |

## 5: Case files opened – by location of FSP

| **Including multiple complaints** | | |
|---|---|---|
| Location | Number | Percentage |
| Jersey | 317 | 74% |
| Guernsey | 109 | 26% |
| **Total** | 426 | 100% |

| **Excluding multiple complaints** | | |
|---|---|---|
| Location | Number | Percentage |
| Jersey | 254 | 75% |
| Guernsey | 83 | 25% |
| **Total** | 337 | 100% |

## 6: Case files opened – by sector of business activity

| **Including multiple complaints** | | | | | | |
|---|---|---|---|---|---|---|
| Sector | Jersey | | Guernsey | | Total | |
| | Number | Percentage | Number | Percentage | Number | Percentage |
| Banking | 162 | 51% | 24 | 22% | 186 | 44% |
| Investment/Funds | 122 | 38% | 9 | 8% | 131 | 31% |
| Insurance | 8 | 3% | 63 | 58% | 71 | 17% |
| Non-Bank Money Services/Credit | 18 | 6% | 2 | 2% | 20 | 5% |
| Pensions | 7 | 2% | 11 | 10% | 18 | 4% |
| **Total** | 317 | 100% | 109 | 100% | 426 | 100% |

| **Excluding multiple complaints** | | | | | | |
|---|---|---|---|---|---|---|
| Sector | Jersey | | Guernsey | | Total | |
| | Number | Percentage | Number | Percentage | Number | Percentage |
| Banking | 162 | 64% | 24 | 29% | 186 | 55% |
| Investment/Funds | 59 | 23% | 9 | 11% | 68 | 20% |
| Insurance | 8 | 3% | 37 | 45% | 45 | 13% |
| Non-Bank Money Services/Credit | 18 | 7% | 2 | 2% | 20 | 6% |
| Pensions | 7 | 3% | 11 | 13% | 18 | 5% |
| **Total** | 254 | 100% | 83 | 100% | 337 | 100% |

## Annex C: Formal Responses to the Consultation Paper CP 11

The Consultation Paper CP 11: CIFO Funding Structure was published on 5 December 2017, with a closing date of 7 February 2018. It was published on the CIFO website, highlighted in a newsletter sent out to all subscribers and notified to contacts at specific organisations representing groups of stakeholders, such as industry associations and consumer groups.

The consultation paper explained the current funding structure and the various complexities associated with it. It set out the general principles for the future funding of CIFO and addressed how the costs might be shared including two specific options arising from the previous discussion paper and stakeholder briefings. Eight formal responses were received from stakeholders, two of which were requested to be treated as confidential.

Apart from the two responses which were requested to be treated as confidential, responses were received from the following entities and you can click through on the link to the actual response:

- Barclays Bank (Jersey and Guernsey)
- Committee for Employment and Social Security, States of Guernsey
- EFG Private Bank (Channel Islands Limited, Jersey Branch), Jersey
- Jersey Bankers Association (JBA), Jersey
- Jersey Personal Finance Society (PFS), Jersey
- Sovereign Trust (Channel Islands), Guernsey

The responses were thoughtful and considered and the time taken by stakeholders to provide this input is much appreciated. Overall, consistent with input received to the discussion paper and in the stakeholder briefings, there was a continued general appreciation of the need to avoid complexity and associated administrative cost in the CIFO funding approach and that all FSPs gain value from CIFO, even when no complaints are generated for investigation by CIFO.

There was not full consensus for any one option going forward, although the majority of responses commenting on the issue (6 of 7) favoured the second option of a level pan-island levy by sector of business activity. One submission was supportive of either option. One was supportive of the second option only if it did not generate additional expense. One respondent noted that the overall modest cost involved to financial services providers made any such change to the current funding structure unnecessary.

As several responses did not directly answer the consultation questions on the other issues raised, a summary is provided below.

Support for the continued allocation to the banking sector of 50% of the levy amount to be raised garnered a range of responses. One respondent supported the continued approach, subject to the application of only one levy rather than multiple levies for other business activities carried on by banks. Another respondent suggested keeping the 50% allocation under review in future given the evolving nature of the sector. One respondent felt that an allocation based on complaint volumes warranted further discussion.

With respect to the treatment of all banks the same for levy purposes, one respondent raised the previously highlighted issue that private banks should be treated separately. Another two respondents saw no justification for doing so with one other stating it would be challenging to distinguish between the different types of banks both practically and with regard to the accrued reputational benefit. Another respondent supported the 50% allocation to banking to be made across all banking licence holders.

With respect to the charging of a separate levy for holders of money service business (MSB) licences, one respondent questioned the merits of charging the separate levy given MSB activities being seen as integral to banking activity, unlike other business activities like insurance or intermediation.

One respondent supported the continued increase to case fees to reflect the work-related aspect. Another expressed concern about fees potentially becoming too high creating an incentive for FSPs to not refer complaints to CIFO. Another respondent supported the current approach to differentiated case fees for non-levy-paying financial services providers. Yet another respondent preferred to see higher levies rather than the significantly increased case fees as proposed in CP 11. One respondent raised the concern regarding the inclusion of new business activities (public sector pensions) in CIFO's remit creating an undue cost burden for the new publicly supported activity should multiple complaints arise and therefore advocated a cap on case fees payable. One respondent noted that the increases in the two different case fees over time since inception have occurred at different rates; the result being that the case fee for levy-paying FSPs have increased more, in percentage terms, than the higher case fee for non-levy-paying FSPs.

One respondent expressed concern over the charging of separate levies for each business activity, particularly if other activities such as pensions or fiduciary were to be added as levy-paying business activities in future.

One respondent expressed support for continuing the current approach to zero-rating. One other said the process should continue but may require revisiting should it arise that a number of FSPs wrongly claim entitlement to zero-rating.