



Channel Islands
**Financial
Ombudsman**

ANNUAL REPORT 2018

Fairness of outcome and fairness of process...



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SUBMISSION LETTER **CHANNEL ISLANDS FINANCIAL OMBUDSMAN**

Senator Lyndon Farnham
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Minister for Economic Development, Tourism, Sport & Culture
Government of Jersey
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JE2 3RR

Deputy Charles Parkinson
President
Committee for Economic Development
States of Guernsey
Market Building
P O Box 451
Fountain Street
St Peter Port
Guernsey
GY1 3GX

Dear Minister and President

As you know, the Channel Islands Financial Ombudsman is the joint operation of the Office of the Financial Services Ombudsman established by law in the Bailiwick of Guernsey and the Office of the Financial Services Ombudsman established by law in Jersey.

On behalf of the directors, I am pleased to submit the report and accounts for 2018. These take the form of a shared report accompanied by separate accounts, which include a division of overall overheads in accordance with the memorandum of understanding between you.

The report and accounts are submitted under section 1(c) of Schedule 2 of the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014 and article 1(c) of Schedule 2 of the Financial Services Ombudsman (Jersey) Law 2014.

Yours sincerely

David Thomas
Chairman

HEADLINES

CHANNEL ISLANDS FINANCIAL OMBUDSMAN

- 75% of case files successfully resolved through informal mediation rather than through an Ombudsman decision (25%)
- 58% of case files resolved in the customer's favour, 35% in favour of the financial services provider (FSP), and 7% were withdrawn
- Average amount of compensation awarded was £13,231
- Though the number of complaints received moderated, a larger proportion were within CIFO's mandate, so case files increased by 21%
- Case file inventory under review steadily increasing as incoming complaint volumes exceed case review capacity
- Additional capacity added to address case review workload and leverage complaint information for stakeholder benefit
- Revised CIFO funding structure approved following extensive consultation process
- In the first judicial review of a CIFO binding decision the Jersey Royal Court found that the Ombudsman's decision was sound in both substance and process

MESSAGE FROM THE CHAIRMAN

David Thomas



This is the report of the Channel Islands Financial Ombudsman (CIFO) for the calendar year 2018, which is our third full year since we opened for business on 16 November 2015. The board of directors provides oversight and protects the independence of the operation.

CIFO is the joint operation of independent financial ombudsman bodies established by law in Jersey and the Bailiwick of Guernsey. We resolve financial services complaints - fairly and impartially - as an informal alternative to the courts.

This helps to support public confidence in financial services, within the Channel Islands and internationally. It also means that we are an impartial source of information about issues which arise from complaints referred to us.

After an extensive multi-stage public consultation, the board adopted a new funding structure for CIFO, equalising the levies paid by like categories of financial services providers (banks and non-banks) across the islands.

The change requires legislation from the States of Guernsey and the States of Jersey. Subject to this, we plan to implement the new funding structure from January 2020.

The board also continued its rolling quarterly review of each aspect of CIFO's operation against international good practices - to ensure that CIFO's remit and operations continue to be fit for purpose and to meet the objectives of its important public interest mandate.

Mid-way through 2018, the board assessed CIFO's workload against the demonstrated capacity of the staff, and the efficiency gains achieved since commencement of operations in November 2015.

The board concluded that additional resources were required. In order to tackle the increasing workload, the number of case handlers was increased from three to four, and plans were launched to enhance CIFO's ability to share information.

Feedback to consumers, industry, regulators, governments and the general public on themes from CIFO's complaint resolution work helps to encourage improvements in market practice, regulation, and legislation.

These, in turn, help to avoid future complaints and thereby ease the demand on CIFO's small team. Such feedback also increases the transparency of the operation, a key priority that the board of directors has demonstrated since the outset.

As part of that transparency, and continuing the practice of previous years, we will convene public meetings in Guernsey and Jersey in the summer in order to discuss this report with stakeholders and answer any questions.

In 2018 CIFO faced its first court challenge since it commenced operations in 2015. A mortgage broker asked the Jersey Royal Court to overturn a binding decision made against it by the Ombudsman. In early 2019 the Royal Court rejected all five of the grounds raised by the mortgage broker and dismissed the case. The Court's judgment [\[see here\]](#) found that the Ombudsman's decision was sound in both substance and process.

I am grateful to the other members of the board for their work and commitment. Their original terms of office expired during 2018. The States of Guernsey and States of Jersey reappointed all of them for further terms, staggered to ease the introduction of new directors in the future.

They and I thank the Principal Ombudsman and all the members of the CIFO team for their continuing hard work in resolving complaints and continuing to develop CIFO to effectively serve the distinctive needs of the Channel Islands and their domestic and international financial services consumers and providers.

MESSAGE FROM THE PRINCIPAL OMBUDSMAN & CHIEF EXECUTIVE

Douglas Melville



While the word “interesting” can be so easily overused, especially given the remarkable political and economic developments on the international and European scenes, I feel confident in saying that 2018 was an interesting year for CIFO. In some ways, despite the many possibilities for distraction offered by external events, our third full year of operation was more inward focused as the CIFO team dealt with operational pressures, extensive stakeholder consultations, staff transitions and our first legal challenge.

Overall, the themes arising from the complaints received in 2018 were similar in most respects to the themes seen in 2017 with banking complaints continuing to be the most prevalent and poor administration and delay, account closures and transaction errors the most common specific issues. There were a few notable additions this year. Investment complaints involving structured products that began to mature in 2018 point to a possible future spike in complaints about the suitability of these sometimes-complex investment products for the investors who were sold them. We understand that many more of these types of investments are scheduled to mature starting in 2019. Pension transfers have also arisen as a challenging area of complaints mirroring the significant attention such issues have attracted in the UK recently. The different legal and

regulatory framework applicable to pension transfers in the Channel Islands resulted in a number of complex complaints that highlighted for CIFO some wide-ranging issues regarding the varying duties of Financial Services Providers (FSPs) and the inherent conflicts of interest facing some parties in this area of business. This is compounded by the fact that the transfers usually involve FSPs from various different jurisdictions with different regulatory requirements regarding disclosure, particularly involving fees and charges.

From an operational perspective, the CIFO team continued to face significant operating pressures. A 21% increase in case files compounded the already challenging situation of accumulated case file inventory from previous periods and several ongoing mass complaint situations. We worked with several of the larger financial services providers subject to CIFO's remit to explore alternative means of resolving complaints to increase our efficiency. Following a detailed assessment of our historical complaint volumes and various efforts made previously to increase our efficiency, CIFO's board of directors concluded that additional case handling capacity was required and a fourth case handler was added to the team in late Q3. This welcome addition will also be supplemented by an additional resource to enable CIFO to harness the information from the complaints handled to-date to better inform all stakeholders and promote both earlier resolution and, perhaps even more importantly, avoidance of future complaints.

While all stakeholders have an interest in CIFO's performance of its role, the independence of the office is carefully protected by our Guernsey and Jersey legislation and by our board of directors. As all stakeholders would reasonably expect, there is a keen focus on accountability. The board continued its quarterly review of CIFO benchmarked against various themes embodying international good practice. This keeps the office focused on the various key attributes of an effective financial Ombudsman scheme. The board holds management accountable for the effectiveness of the operation and for the prudent use of financial resources, but it also ensures that the office has sufficient resources to meet the demands of the mandate. This year saw extensive board and management consideration of this important balance. This same accountability for the effective performance of CIFO's statutory remit applies to the decisions made on individual complaints. While there is no appeal from a binding final decision of the Ombudsman, the statutory powers vested in CIFO to effectively resolve complaints are appropriately subject to review by the courts to ensure that our decisions are being made consistent with those laws and with general principles of procedural fairness. It was always inevitable that a CIFO decision would be challenged at some point. It was therefore not surprising

to the staff when the first legal challenge arose in 2018 in the form of a judicial review. It was also not surprising that the challenge came from a relatively small financial services provider operating in an unregulated area of financial services business. Larger regulated FSPs, especially those with UK connections, tend to be more familiar with the role, processes, and basis for decisions of a financial ombudsman as distinct from the courts. The legal challenge impacted tremendously upon our small office as we prepared our case for hearing before the Jersey Royal Court. We nevertheless welcomed the opportunity to be held publicly accountable for our performance of this fundamental part of our role, both in terms of the substance of our decision-making and the process by which we make decisions. The judicial review also provided an opportunity for CIFO to advocate for the benefits of extending the complainant confidentiality that we apply to our process through to the Jersey Royal Court's processes as well. We were pleased that the Court agreed and extended the confidentiality protection over the complainants' identities.

Given the issues CIFO has observed through this particular case and others, we note with some anticipation the activity underway in the Channel Islands to initiate regulation of lending and credit, and pension transfers and pensions more generally. As applicable regulation is one of the factors to be considered by CIFO in reaching a conclusion on what would be fair and reasonable in the circumstances in response to a complaint, it will assist CIFO's mandate greatly to have such clarity of market conduct expectations firmly established in the Channel Islands. The potential benefits for financial consumer protection are equally clear.

To my colleagues on CIFO's team, I must acknowledge that it was not only an interesting, but also a challenging year. Just as we secured board approval for an increase in our case handling and information management capacity, we were confronted by our first legal challenge. The outcome, while certainly validating of our work, came at a significant cost to our team by delaying the addition of extra staff capacity. It also came at a cost to those complainants whose files could not be resolved as quickly by our office as we would have wished while some members of the team were diverted to prepare our legal submissions.

As with any new small business, it is never just about running an existing operation. We continue to simultaneously combine the building and refining of the infrastructure, policies and procedures of our fledgling office with resolving the large number of consumer complaints that find their way to us on a daily basis. Along the way, we also face some unwelcome surprises that need to be addressed. It has been a year beset by various obstacles, but our small team can be justly proud of our continued progress and our efforts to deal effectively with increasing case file volumes, multiple complaint situations, the conclusion of the review of CIFO's funding structure and our first legal challenge.

We look forward to being joined by new colleagues who will help us continue to focus inward on the maturation of our internal processes and systems, and outward sharing of the learnings that can be derived from the 2,500 complaints that have been referred to our office for review in our first three years of operation. This added capacity will also enable the rest of the team to focus on the sizable inventory of case files awaiting review.

At the best of times, complaint handling is difficult work that involves a complex mix of empathy, patience, tenacity and analytical rigour in a high-volume environment. Circumstances have forced many on the CIFO team to deal with an increased workload, take on additional duties to cover for staff vacancies, contend with the unanticipated load of a legal challenge, and yet continue to reach fair and reasonable decisions on a large number of customer complaints. The quality of our decisions and the validation of our work inherent in the recent court decision are evidence that they have met the challenges of 2018 with distinction and I am very grateful to everyone on the team for their collective and individual contributions. With the strengthened team we will assemble in 2019, we can look forward to increasing our capacity to resolve complaints, to further mature the office and continue to tackle with integrity the important public interest mandate we serve.

YEAR IN REVIEW 2018

OPERATIONS

Our third full year of operation saw the volume of complaints ease compared with 2017 but, as we had also experienced in 2017, there was again a year-on-year increase in the proportion of complaints that fell within CIFO's remit thereby becoming cases for review by CIFO staff. The lower complaint volumes this year were offset by a significant increase (up 43% year-on-year) in the proportion of complaints which fell within CIFO's remit compared with 2017. As a result, the total case load faced by the office was up 21% year-on-year. As predicted in the 2017 Annual Report, the processing and assessment against CIFO's mandate of all complaints on-hand in Q4 of 2017 added significantly to the case file inventory at the start of 2018. This combination of factors further stretched our case handling capacity and led to increasing inventories of case files awaiting review with a corresponding impact upon timeframes for case file completion.

Since commencing operation in November of 2015, CIFO has been a lean operation. When planning the initial resourcing of the office, it was not possible to predict with any certainty what the likely volume of referred complaints would be. CIFO's board of directors therefore kept the required capacity of the office under review and awaited clarity on complaint volume trends and the implications for CIFO's workload to avoid adding capacity prematurely to CIFO's expense base. This approach minimised the funding required to be raised through levies on financial services providers in the Channel Islands, though at the risk of under-resourcing case handling should significant complaint and case file volumes materialise.

In its 2018 mid-year review of CIFO's operation, CIFO's board of directors noted that CIFO's workload had grown steadily since commencement of operations in late 2015 with a mixture of single complaints alongside numerous large multiple complaint situations. On the positive side, financial services providers (FSPs) have been settling many complaints themselves, especially as they become familiar with CIFO and the office's approach to resolving complaints. The result is that those complaints that are unresolved and referred to CIFO are increasingly becoming more complex. Some have also proven contentious as the potential customer compensation to be paid threatened the financial viability of the FSPs concerned.

In each case we engage with, we are having to be ever-mindful of the possibility of our actions being subject to legal challenge. This is no longer merely a hypothetical consideration. 2018 saw CIFO's first refusal by an FSP to compensate a consumer following a binding compensation award from the Ombudsman. CIFO had to take the matter to court to enforce payment. This year also saw CIFO threatened with judicial review by two FSPs. The threat of court action in one instance was abandoned by the FSP at the last minute. The other proceeded to legal action (see page 11). There is also the prospect of additional judicial reviews given the nature of some of the multiple complaint situations that are reviewed by the office. The impact of all of the above on CIFO capacity has been considerable. In response to the above-noted challenges, CIFO's board of directors decided to invest in additional staff capacity in mid-2018 including an additional 33% of dedicated case handling capacity, equivalent to one additional full-time-equivalent team member.



Other efforts to tackle the case file inventory are ongoing and include experimentation with joint case file review sessions with individual FSPs with whom CIFO has significant numbers of outstanding case files. Both CIFO staff and complaint handling teams in the relevant FSPs have found these joint work sessions useful to focus on outstanding case files and required information but limited staff capacity remained an operational impediment.

In certain circumstances, CIFO has engaged outside case handling expertise to supplement the capacity and experience of the CIFO team. This can bring additional expertise valuable to resolving specific types of complaints. CIFO experimented with this approach on several case files in 2018 to good effect and the office continues to assemble a roster of potential case handlers which can be called upon should the need arise.

Following a recent CIFO outreach to industry stakeholders, discussions with some industry representatives are planned for Q2 of 2019 to explore further process optimisation options likely to focus on up-front identification of early complaint resolution opportunities and easier means of FSPs sharing their file information with CIFO in electronic form. In addition, changes to CIFO's internal systems are being introduced gradually in phases to increase efficiency, facilitate ongoing communication with complainants, and automate certain administrative tasks to reduce, where practicable, the load on case handling staff and free up additional capacity for core case file review activity.

We continue to apply a first-in, first-out (FIFO) approach to prioritising case files for case handler review barring any exceptional complainant circumstances that warrant immediate escalation of a specific complaint. The one circumstance where we consistently deviate from a FIFO approach is with multiple complaint situations. We have several such mass complaints under review where a significant number of individual complaints have arrived over a period of time and where CIFO's understanding of the broader circumstances underlying the complaints evolves as more complainants come forward contributing additional evidence and context. In these situations, CIFO strives to batch all the complaints together and provide a decision for the entire batch at once to avoid creating any unintended preferences, especially in situations where the FSP's resources available to pay out compensation may be limited.

In another first for CIFO, 2018 saw CIFO charge a financial services provider for the incremental costs CIFO incurred to engage an independent expert to advise the Ombudsman on certain technical aspects of a complaint where there was a dispute and conflicting views regarding a medical diagnosis. A provision in CIFO's legislation permits CIFO to recover extraordinary investigative costs from the FSP, in addition to the compensation award payable to the complainant, where in the view of the Ombudsman the conduct of the FSP added unnecessary cost to the investigation of the complaint.

COMPLAINT STATISTICS

Starting in 2018, we provided quarterly complaint statistics on an island-specific basis showing the distinct complaint experience in Jersey and the Bailiwick of Guernsey (including the islands of Alderney and Sark). We also published a report showing island-specific complaint statistics reflecting the complete period of operation back to CIFO's inception in November 2015. This information can be found on [CIFO's website](#).

STAKEHOLDER OUTREACH

During 2018 our stakeholder outreach was largely focused on two key areas, the annual meetings in Guernsey and Jersey following the publication of our 2017 Annual Report and the stakeholder consultations on the future funding structure of CIFO described in more detail below.

We engage with community stakeholders across Jersey and Guernsey speaking to groups and sharing the learnings from our complaint resolution work. Our efforts have evolved to help stakeholders both in industry and the community ensure that consumer issues are fairly and impartially resolved in a timely and efficient manner. We are also sharing our insights to help raise the general level of consumer awareness in the hope of averting future disputes and unnecessary financial loss.

As noted above, we also continue to engage with industry to identify themes emerging from our complaint work and to identify means of working together to increase the efficiency of the overall complaint handling process. In particular, CIFO's board of directors extended an open invitation to stakeholders for suggestions on how the complaint handling process could be improved. Notwithstanding the limited input received to date, the board is always appreciative of suggestions for improvements and new approaches consistent with CIFO's statutory remit.

The local news media in the Channel Islands have been very responsive and effective at leveraging the information CIFO publishes to inform local residents about our mandate and about the issues we see that give rise to financial consumer disputes. Our messages about how to avoid potential problems are particularly useful and media coverage has provided the means to effectively and inexpensively reach the broader community. CIFO will continue to contribute to raising the general level of financial consumer awareness and financial literacy in the Channel Islands in partnership with other community stakeholders. The addition of dedicated staff capacity to information and outreach starting in Q2 of 2019 will enable CIFO to publish more information about complaints and decisions and thereby increase our capacity to educate all stakeholders with a view to avoiding future complaints. As in health care, crisis avoidance is the most attractive and cost-effective means of serving the public interest.



FUNDING

In 2018, CIFO completed the fourth and final stage of an extensive consultation process that was launched in April 2017 to determine a new funding scheme for CIFO. A strong consensus emerged amongst stakeholders across both Jersey and Guernsey on the main aspects of a new funding structure. As a result, CIFO's board of directors approved a new scheme which, once the necessary legislation is approved by the legislatures in Jersey and Guernsey, will take effect from 1 January 2020. Details of the new funding structure can be [seen here](#).

Under the new funding structure, CIFO will adopt a new approach for the annual levies. Levies will be equalised between the two bailiwicks of Jersey and Guernsey. The total levy will be divided among all the registered FSPs in both bailiwicks. For example, a Jersey bank will pay the same as a similar Guernsey bank, and a Guernsey investment business will pay the same as a similar Jersey investment business. If a FSP is a registered provider in both bailiwicks, it will (as now) be required to pay the relevant levy in respect of each bailiwick. The case fees payable for each complaint reviewed by CIFO are unchanged and will continue to provide a "user-pays" element to CIFO's funding structure. The amount of case fee payable will remain under review going forward with any changes subject to prior stakeholder consultation.

While the consultation process was extensive and represented a significant effort on the part of CIFO's board and staff, we were pleased with the outcome and the degree of industry stakeholder consensus for the changes which form the key elements of the new funding structure. The active engagement of so many representatives from industry throughout the multi-stage consultation process was greatly appreciated.

OFFICE INFRASTRUCTURE DEVELOPMENT

Other operational initiatives undertaken in 2018 included continued enhancements to our complaint management system (CMS) to better align the system to our maturing business requirements and preparations for the coming into force of the new General Data Protection Regulation (GDPR) on 25 May 2018. We completed our internal work on cybersecurity receiving our Cyber Essentials information security certification and will submit to a final audit in 2019 to achieve our Cyber Essentials Plus certification, a level of cybersecurity normally associated with regulators and major financial services providers.

POLICY ISSUES ARISING

We are continually assessing the complaints referred to CIFO to identify policy issues arising that would be of interest to regulators and other agencies or that could affect the effectiveness of CIFO's mandate. We also escalate issues on a regular basis to CIFO's board of directors and, where appropriate, to both regulators and governments in Jersey and Guernsey.

During the year, CIFO came across websites and customer-facing documentation from Channel Islands-based financial services providers that did not appropriately signpost customers with unresolved complaints to CIFO. The effectiveness of any financial sector complaint handling system depends upon financial services providers appropriately disclosing their internal complaint handling processes as well as the availability of customer recourse to CIFO for unresolved complaints. This signposting includes providing CIFO's contact details. The failure to appropriately disclose information to consumers was raised with the financial services providers concerned and the shortcomings were addressed in all cases. The issue of outdated or missing referral information for unresolved complaints was also raised with the appropriate industry associations and financial services providers in Jersey and Guernsey and with the regulators in both jurisdictions.

We note the plans of governments and regulators in both Guernsey and Jersey to regulate non-bank lending and credit. As we reported in 2017 as well, CIFO's observations drawn from complaints in this currently unregulated area of financial services suggest that regulation will be a welcome addition to this area of business and will hopefully establish clear market conduct expectations for all types of market participants that will improve financial consumer protection and provide a useful benchmark that CIFO can take into account in determining fair and reasonable outcomes for lending and credit complaints.

In 2018, for the first time, non-payment of a CIFO award for compensation was a deliberate choice of the FSP prompting CIFO to initiate legal proceedings to enforce payment. In this instance, just before the court hearing to enforce payment, the financial services provider sought leave from the Jersey Royal Court to have CIFO's decision judicially reviewed. The incremental cost of enforcing payment of CIFO binding decisions is unbudgeted and unfairly imposes an incremental shared cost on all financial services providers subject to CIFO's remit. This is an issue which will be considered in the context of future changes, subject to stakeholder consultation, to CIFO's levy and case fee schemes.

FIRST JUDICIAL REVIEW OF CIFO

In mid-2018, a Jersey mortgage broker brought a judicial review action before the Jersey Royal Court in an attempt to overturn a binding decision of the Ombudsman. The hearing was held on 19 February 2019 and the Court dismissed the action in a decision released on 25 March 2019.

This was the first judicial review of CIFO since it began operations in November of 2015. The Court found that the Ombudsman's decision was sound in terms of both substance and process. The Court rejected all five of the grounds raised by the mortgage broker and dismissed the case. The Act of Royal Court can be [seen here](#) and the full judgment can be [seen here](#).

In deciding the [complaint](#), the Ombudsman had concluded that the mortgage loan the broker had arranged for the complainants from a private lender was unsuitable; it was much more costly than what should have been available from a conventional mortgage lender. The Ombudsman therefore directed the mortgage broker to compensate the complainants for losses totalling over £60,000. The mortgage broker refused to pay the compensation and later brought a legal action to challenge the Ombudsman's decision. CIFO is assisting the complainants to take steps to compel the mortgage broker to pay the compensation to the complainants that the Ombudsman awarded in the binding final decision. CIFO is also seeking to recover its legal costs in the case so that industry levy payers are not affected by this significant unbudgeted expense.

The operational impact of the judicial review on a small team cannot be overstated. Several CIFO staff had a significant portion of their time impacted by the court action for a period of six months.



LOOKING AHEAD TO 2019

Our top priorities for 2019 are to address the complaints already with our office and tackle new complaints referred to CIFO this year in the shortest time possible. Reinforced by the additional case handling capacity introduced in late 2018, we will focus our efforts on reducing the inventory of case files already in process and those awaiting review.

Notwithstanding the primary focus on complaint handling, we look forward with anticipation to welcoming two new members of the CIFO team in 2019, one filling a vacant role focused on our financial accounting and internal systems, the other in a new role focused on complaint information and stakeholder outreach. With the move to a new funding structure for CIFO planned for 1 January 2020, there will be incremental effort involved in preparation for the transition and in realigning internal and external financial reporting subsequent to the change. The new information officer will enable CIFO to better harness the significant learnings from the over 2,500 complaints that CIFO has had referred since the office commenced operation in November of 2015. Continuing to populate the publicly accessible database with Ombudsman decision and case studies will be a priority for this new role and will help consumers and financial services providers to anticipate CIFO's views on various types of complaints. This will enable earlier internal decisions to be taken by FSPs on customer complaints with full knowledge of CIFO's likely approach based on decisions made by the office on past complaints of a similar nature. In this way, more complaints can be resolved without requiring CIFO's involvement.

In 2019, we anticipate the completion of legislative changes to enable the publication of summary complaint statistics on a FSP-named basis. Subject to final legislative approval, we anticipate commencing publication of summary complaint statistics with the 2019 CIFO annual report to be published in the summer of 2020.

In Q4 of 2018, we had hoped to relocate within our current building to new premises that would enable the entire CIFO team to once again be co-located bringing the benefit of continuous informal discussion on case files as the team seeks to accelerate resolutions while maintaining the quality and consistency of our decisions. Our relocation plan was delayed due to schedule changes affecting the availability of the proposed space. We now anticipate moving our team to new premises at the end of Q2 2019.

Finally, starting in Q2 of 2019 we look forward to working with policy and legal advisors in the Jersey and Guernsey governments to implement a number of legislative changes to address identified challenges affecting CIFO. After three full years of operation, CIFO has learned where opportunities lie to enhance our effectiveness through such areas as, for example, inter-agency information sharing. While CIFO operates independently, there are many opportunities for cooperation where bodies can more effectively support each other and where specific legislative changes could enhance CIFO's ability to perform its important public interest mandate. The on-going steadfast support of both governments during CIFO's initial period of development has been critical and is greatly appreciated.

COMPLAINT STATISTICS 2018

This presentation of CIFO's complaint statistics represents the third full calendar year of operation for CIFO and supplements the quarterly complaint statistics regularly published by CIFO on our website.

The volume of complaints received by CIFO in 2018 was lower than in 2017 and yet this was once again offset by a significant increase (up 43% year-on-year) in the proportion of complaints which fell within CIFO's remit compared to 2017. This meant the workload faced by CIFO staff of new in-mandate case files to review was up 21% in 2018 over that faced in 2017.

Starting in 2018, we provided quarterly complaint statistics on an island-specific basis showing the distinct complaint experience in Jersey and the Bailiwick of Guernsey (including the islands of Alderney and Sark). We also published a report showing island-specific complaint statistics reflecting the complete period of operation back to CIFO's inception in November 2015. This information can be found on [CIFO's website](#).

Compared with the quarterly statistics published for 2018, data have been updated as classification of a complaint can change during its life cycle and there is an ongoing effort made to review and refine the accuracy of complaint data which can lead to minor post-period adjustments.



2018 COMPLAINT STATISTICS SUMMARY



248

Opening Complaints on Hand



434

Complaints Received

Stage 2

Stage 2 Initial Review as at 31 December 2018

0 49

Awaiting customer documents/ consent

Complaints under initial review

Rejected as out of mandate

Appears within mandate

Total Rejections as out of mandate

Withdrawn by complainant

Stage 3

FSP Document Request as at 31 December 2018

0 47

Waiting for documents from FSP

Pending further review against mandate

Rejected as out of mandate

Within mandate

216

18

Case Fee Payable

Stage 4 Open Case Files as at 31 December 2018

7

Under 30 days

15

30-60

20

61-90

186

Over 90

Closed Case Files

86

Mediated

29

Decided

9

Withdrawn



324

Closing Complaints on Hand

2018 COMPLAINT STATISTICS ANALYSIS

Table 1: **Complaints Received - Location of Financial Services Provider**

Jersey	258	59%
Guernsey	120	28%
UK & Rest of World	56	13%
Grand Total	434	100%

This section of the 2018 statistics analysis provides detailed information concerning all complaints about a financial services provider that have been received by CIFO whether or not they are ultimately deemed to fall within CIFO's statutory mandate.

Of the 434 complaints received by CIFO in 2018, 378 (87%) were against financial services providers operating in or from within the Channel Islands, 59% in Jersey and 28% in Guernsey. 56 (13%) operated in or from the UK or rest of the world. When CIFO receives a complaint against a financial services provider operating outside the Channel Islands, it will be referred to the most appropriate financial ombudsman service or regulator within that jurisdiction.

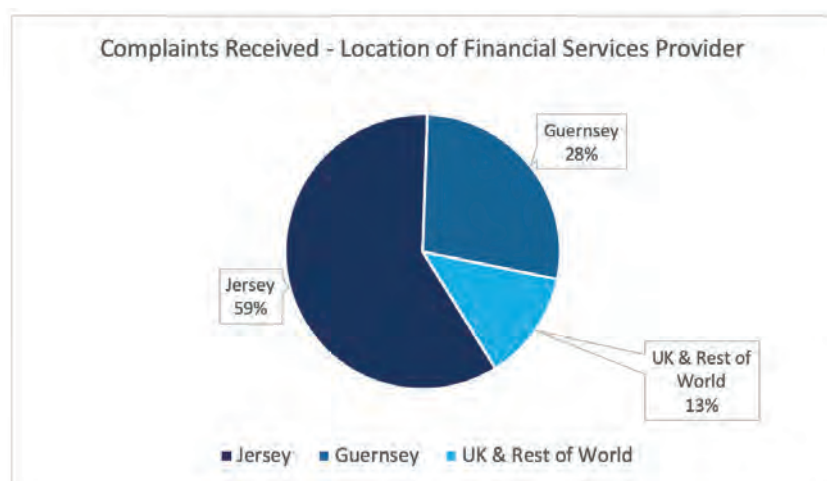


Table 2: **Complaints Received - Location of Complainants**

Jersey	108	25%
Guernsey	45	10%
UK & Rest of World	281	65%
Grand Total	434	100%

CIFO reviews complaints about financial services provided in or from the Channel Islands. The complainants can be from anywhere in the world. Of the 434 complaints received by CIFO in 2018, 153 (35%) were from complainants residing in the Channel Islands, 25% in Jersey and 10% in Guernsey. 281 (65%) were from complainants residing outside the Channel Islands in the UK or rest of the world.

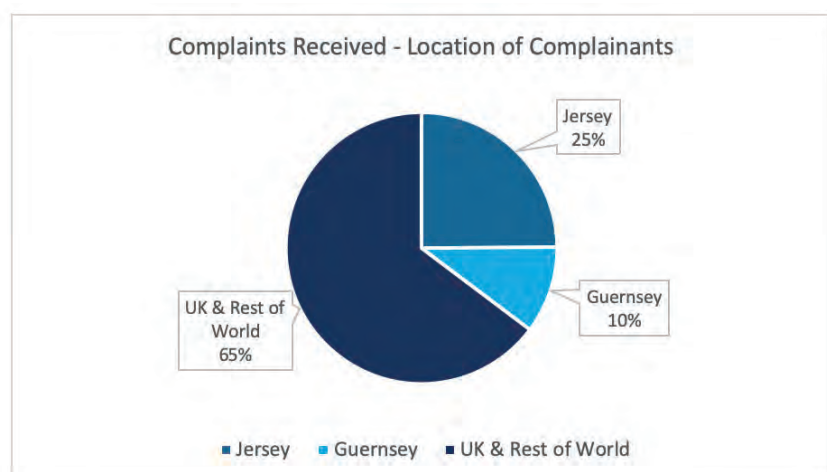


Table 3: **Complaints Received - Type and Origin of Complainant**

	Jersey		Guernsey		UK & Rest of World		Total	
Consumer	97	90%	43	96%	272	97%	412	95%
Microenterprise	8	7%	1	2%	5	2%	14	3%
Trustee	1	1%	1	2%	4	1%	6	1%
Charity	2	2%	0	0%	0	0%	2	0%
Other	0	0%	0	0%	0	0%	0	0%
Grand Total	108	100%	45	100%	281	100%	434	100%

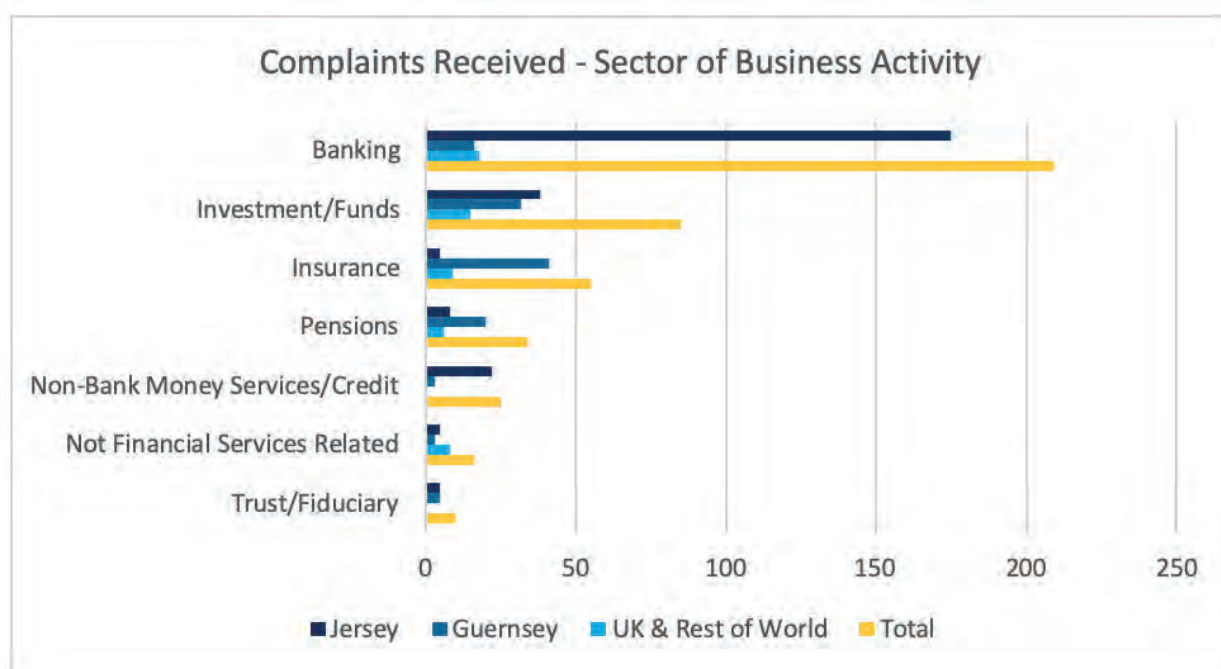
Of the 434 complaints received by CIFO in 2018, 412 (95%) were from consumers. Only 14 (3%) were from microenterprises, with 6 from trustees and 2 from charities. The proportions were not significantly different for Jersey, Guernsey, and the UK & rest of the world although Jersey had the highest proportion of microenterprise complainants at 7%.



Table 4: **Complaints Received - Sector of Business Activity**

	Jersey		Guernsey		UK & Rest of World		Total	
Banking	175	68%	16	13%	18	32%	209	48%
Investment/Funds	38	15%	32	27%	15	27%	85	20%
Insurance	5	2%	41	34%	9	16%	55	13%
Pensions	8	3%	20	17%	6	11%	34	8%
Non-Bank Money Services/Credit	22	9%	3	3%	0	0%	25	6%
Not Financial Services Related	5	2%	3	3%	8	14%	16	4%
Trust/Fiduciary	5	2%	5	4%	0	0%	10	2%
Grand Total	258	100%	120	100%	56	100%	434	100%

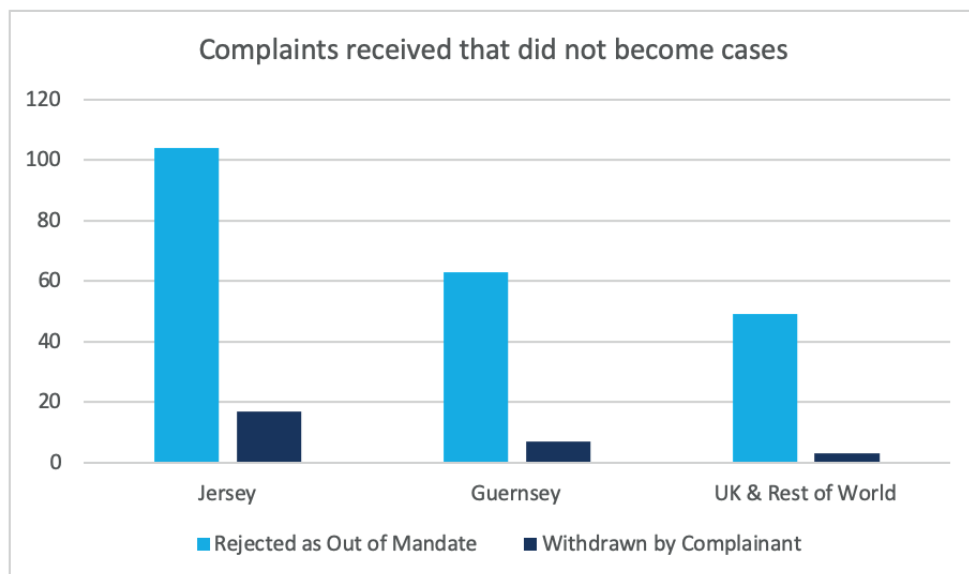
The columns in Tables 4, 5 and 6 show the location from where the financial services were provided.



Of the 434 complaints received by CIFO in 2018, 48% related to the banking sector. The proportions by location varied widely with Jersey having 68% of complaints from the banking sector while Guernsey had only 13%. This contrasts significantly with the third most prevalent sector, insurance, which accounted for 13% of the overall total - which was 34% of the complaints in Guernsey but only 2% in Jersey. Of the other complaints, 20% related to the investment/funds sector, 8% to the pensions sector, 6% to the non-bank money services/credit sector, and 2% to the trust/fiduciary sector. The remaining 4% of complaints related to business that was not related to financial services.

Table 5: **Complaints Received but not resolved by CIFO**

	Jersey		Guernsey		UK & Rest of World		Total	
Rejected as Out of Mandate	104	86%	63	90%	49	94%	216	89%
Withdrawn by Complainant	17	14%	7	10%	3	6%	27	11%
Grand Total	121	100%	70	100%	52	100%	243	100%



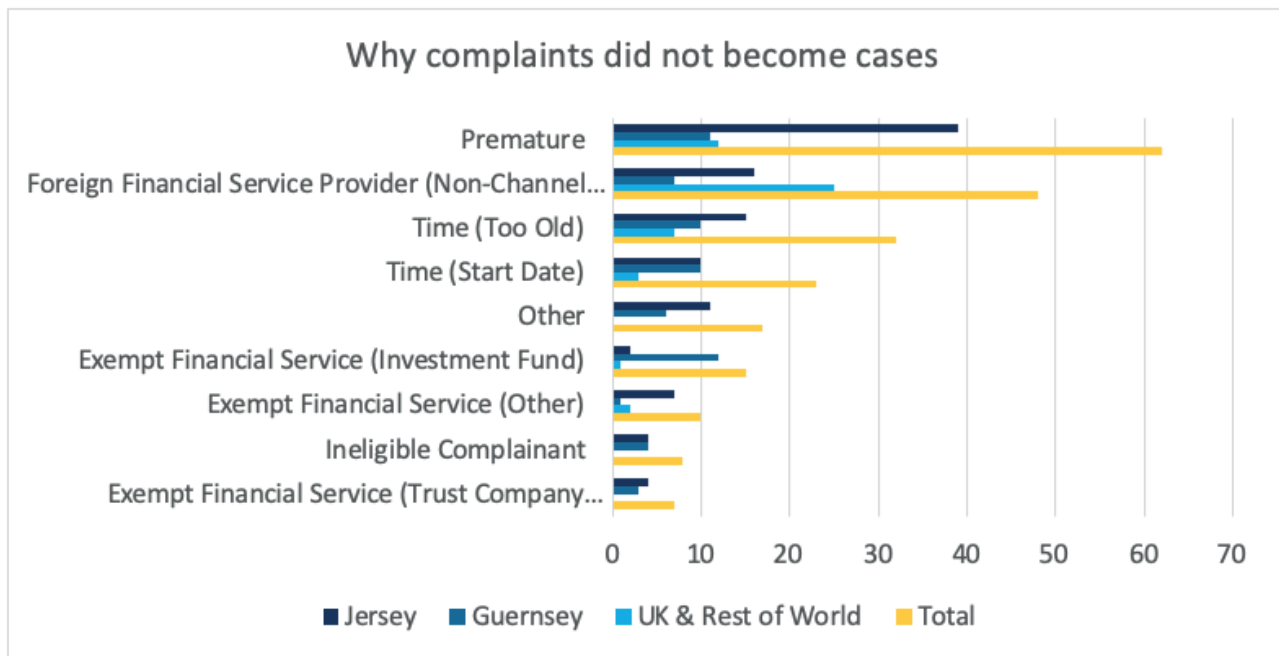
Of the 434 complaints received by CIFO in 2018, 243 complaints (54%) did not become case files. Of those 243 complaints, 89% were rejected as falling outside of CIFO's statutory mandate. 11% were withdrawn by the complainant. The proportions were similar between Jersey and Guernsey with Guernsey having a slightly higher proportion (90% compared with 86% for Jersey) of complaints rejected as out of mandate. Jersey had a higher proportion of withdrawn complaints (14% compared with 10% for Guernsey).



Table 6: **Why complaints did not become cases**

	Jersey		Guernsey		UK & Rest of World		Total	
Premature	39	36%	11	17%	12	24%	62	28%
Foreign Financial Service Provider (Non-Channel Islands)	16	15%	7	11%	25	50%	48	22%
Time (Too Old)	15	14%	10	16%	7	14%	32	14%
Time (Start Date)	10	9%	10	16%	3	6%	23	10%
Other	11	10%	6	9%	0	0%	17	8%
Exempt Financial Service (Investment Fund)	2	2%	12	19%	1	2%	15	7%
Exempt Financial Service (Other)	7	6%	1	2%	2	4%	10	5%
Ineligible Complainant	4	4%	4	6%	0	0%	8	4%
Exempt Financial Service (Trust Company Business / Fiduciary)	4	4%	3	5%	0	0%	7	3%
Grand Total	108	100%	64	100%	50	100%	222	100%

*Please note some complaints may have been out of mandate for more than one reason



Of the 243 complaints that did not become case files, 36% (most of which were from Jersey) were rejected because they were premature complaints where the FSP had not yet been provided with an opportunity to resolve the complaint or where the complainant's loss had not yet crystallised to establish a fair amount of compensation. Timing of the complaint, whether the complaint being too old or arising from before the statutory start times set for ClFO's mandate in each island, was the reason for rejection in 24% of complaints.

Table 7: **Case Files Opened - Location of Financial Services Provider**

Jersey	181	76%
Guernsey	58	24%
Total	239	100%

Of the 239 case files opened in 2018, 181 (76%) were about FSPs from Jersey and 58 (24%) were about FSPs from Guernsey. A case file is a complaint that appears to be in mandate at the point of initial intake screening.

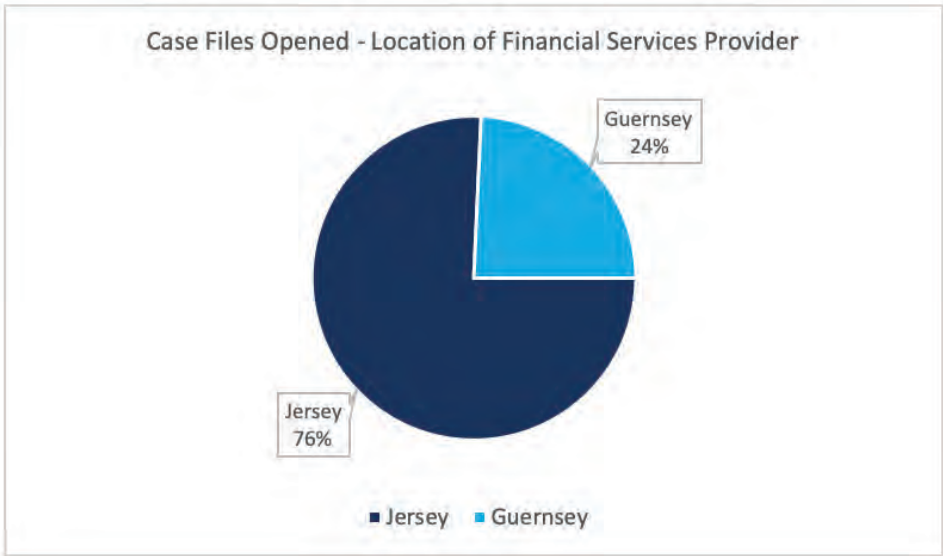


Table 8: **Case Files Opened - Location of Complainants**

Jersey	65	27%
Guernsey	21	9%
UK & Rest of World	153	64%
Total	239	100%

Of the 239 case files opened in 2018, 65 (27%) were from residents of Jersey, 21 (9%) were from residents of Guernsey, and 153 (64%) were from residents of the UK or rest of the world.

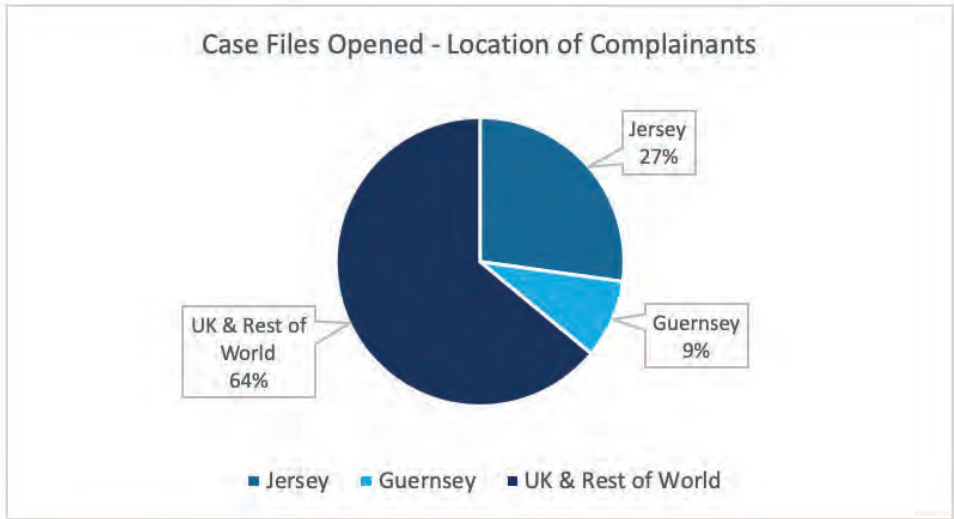
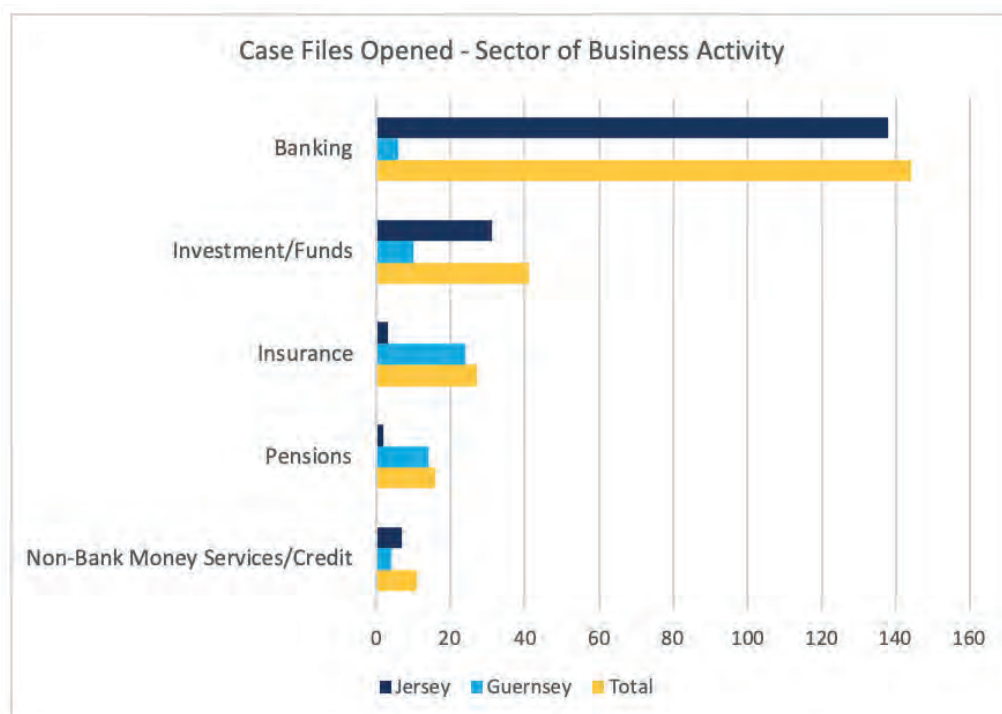


Table 9: **Case Files Opened - Sector of Business Activity**

	Jersey		Guernsey		Total	
Banking	138	76%	6	10%	144	60%
Investment/Funds	31	17%	10	17%	41	17%
Insurance	3	2%	24	41%	27	11%
Pensions	2	1%	14	24%	16	7%
Non-Bank Money Services/Credit	7	4%	4	7%	11	5%
Grand Total	181	100%	58	100%	239	100%

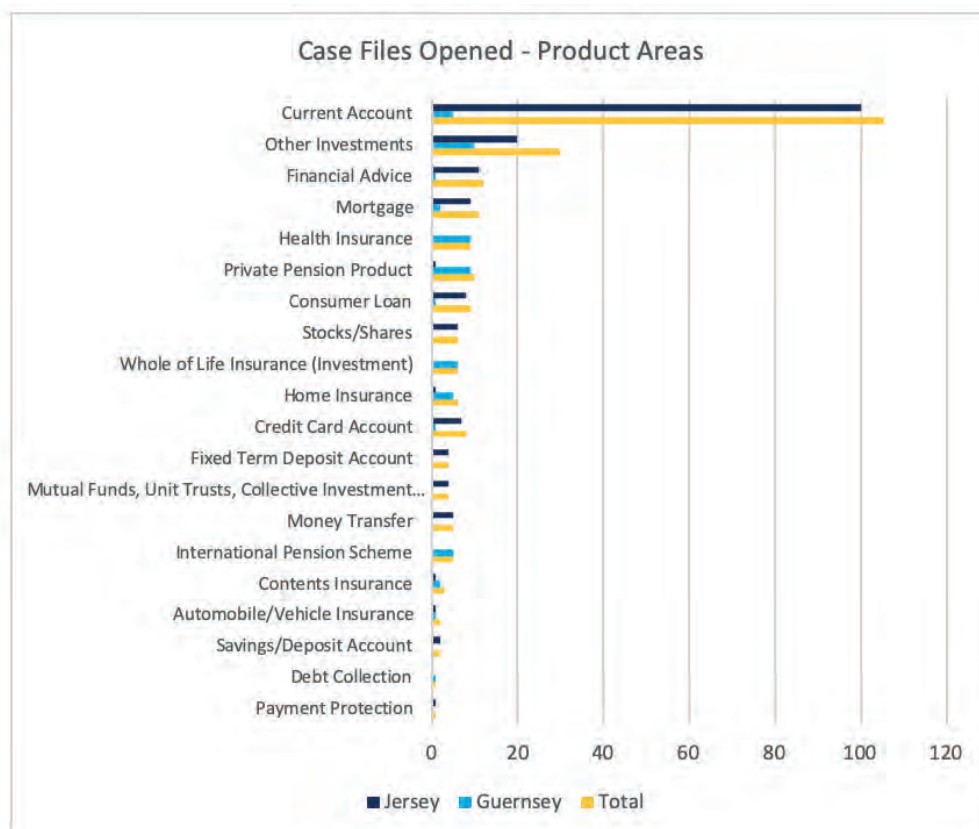


Over half of 239 case files opened in 2018 related to the banking sector (60%). This proportion varied significantly between Jersey and Guernsey with banking comprising 76% of opened case files in Jersey but only 10% of opened case files in Guernsey. In contrast, the insurance sector accounted for 11% of all opened case files but was 41% of opened case files in Guernsey and only 2% in Jersey. The investment/funds sector was 17% of all opened case files and was split equally with 17% of opened case files in both Jersey and Guernsey.

The columns in Tables 9, 10, 11, 12 and 13 show the location from where the financial services were provided.

Table 10: Case Files Opened - Product Areas

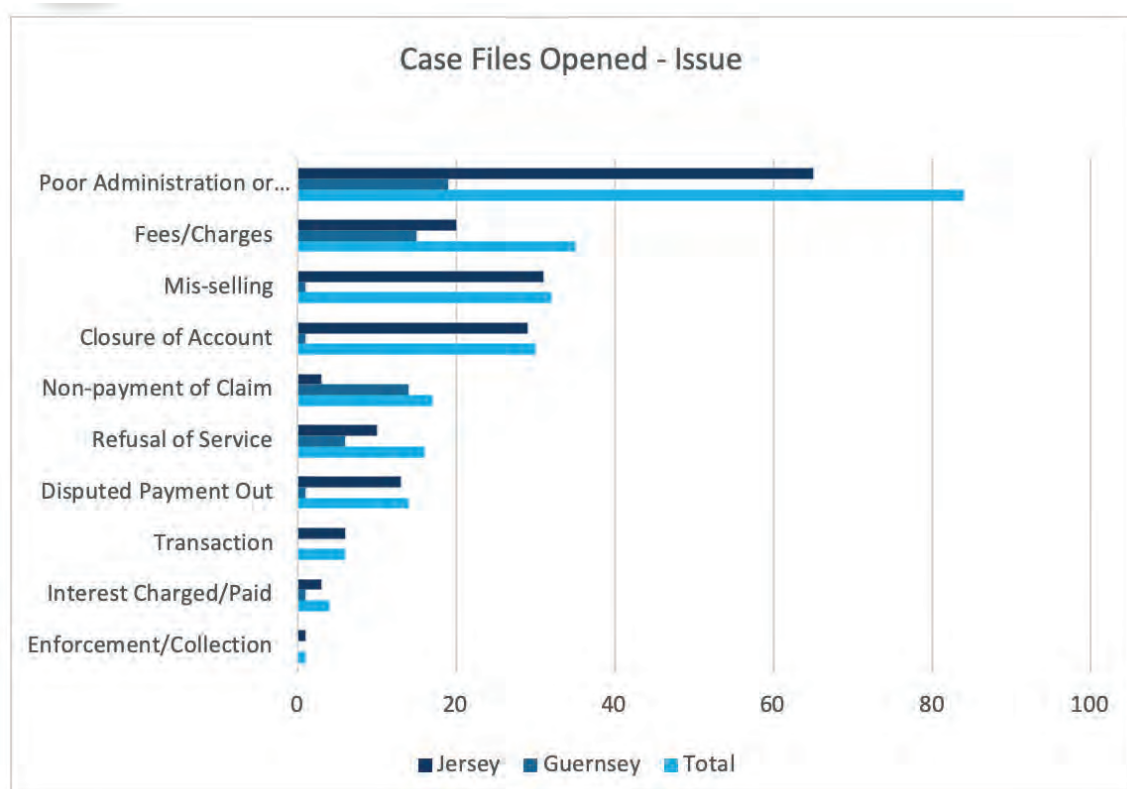
	Jersey		Guernsey		Total	
Current Account	100	55%	5	9%	105	44%
Other Investments	20	11%	10	17%	30	13%
Financial Advice	11	6%	1	2%	12	5%
Mortgage	9	5%	2	3%	11	5%
Health Insurance	0	0%	9	16%	9	4%
Private Pension Product	1	1%	9	16%	10	4%
Consumer Loan	8	4%	1	2%	9	4%
Stocks/Shares	6	3%	0	0%	6	3%
Whole of Life Insurance (Investment)	0	0%	6	10%	6	3%
Home Insurance	1	1%	5	9%	6	3%
Credit Card Account	7	4%	1	2%	8	3%
Fixed Term Deposit Account	4	2%	0	0%	4	2%
Mutual funds, Unit Trusts, Collective Investment Schemes	4	2%	0	0%	4	2%
Money Transfer	5	3%	0	0%	5	2%
International Pension Scheme	0	0%	5	9%	5	2%
Contents Insurance	1	1%	2	3%	3	1%
Automobile/Vehicle Insurance	1	1%	1	2%	2	1%
Savings/Deposit Account	2	1%	0	0%	2	1%
Debt Collection	0	0%	1	2%	1	0%
Payment Protection	1	1%	0	0%	1	0%
Grand Total	181	100%	58	100%	239	100%



Of the 239 case files opened in 2018, 105 (44%) related to current accounts and 30 (13%) related to miscellaneous investments other than those already categorised. No other single product area comprised more than 10% of the total.

Table 11: **Case Files Opened - Issue**

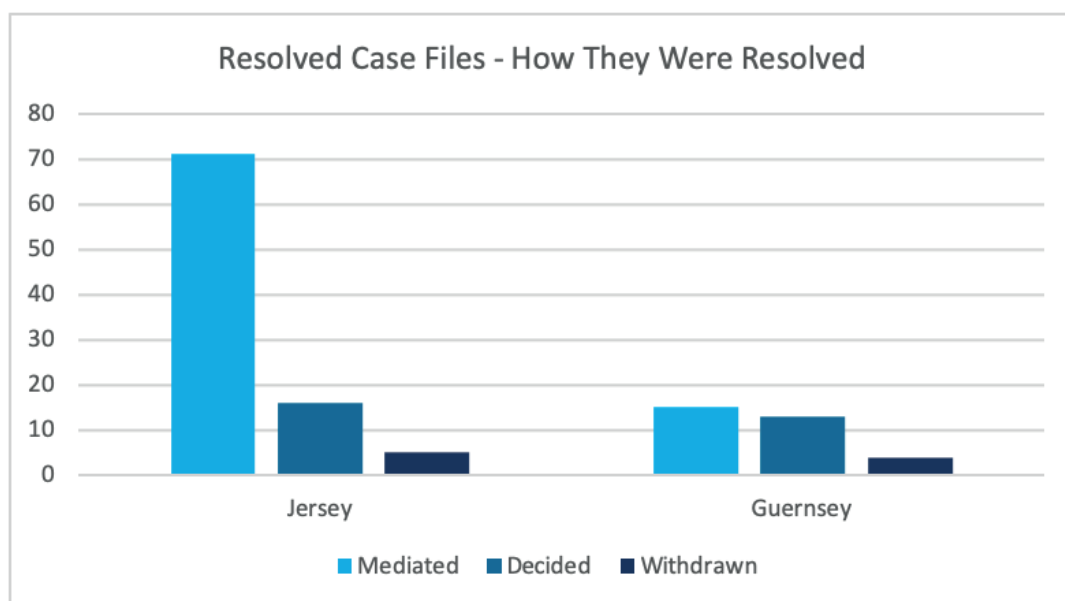
	Jersey		Guernsey		Total	
Poor Administration or Delay	65	36%	19	33%	84	35%
Fees/Charges	20	11%	15	26%	35	15%
Mis-selling	31	17%	1	2%	32	13%
Closure of Account	29	16%	1	2%	30	13%
Non-Payment of Claim	3	2%	14	24%	17	7%
Refusal of Service	10	6%	6	10%	16	7%
Disputed Payment Out	13	7%	1	2%	14	6%
Transaction	6	3%	0	0%	6	3%
Interest charged/Paid	3	2%	1	2%	4	2%
Enforcement/Collection	1	1%	0	0%	1	0%
Grand Total	181	100%	58	100%	239	100%



The most common issue in the 239 case files opened in 2018 was poor administration or delay with 84 (35%). Fees/charges was the second most common issue with 35 (15%) and arose across a wide range of products. Mis-selling was the third most common issue coinciding with the high proportion of complaints relating to other types of investments in Table 10.

Table 12: **Resolved Case Files - How They Were Resolved**

	Jersey		Guernsey		Total	
Mediated	71	77%	15	47%	86	69%
Decided	16	17%	13	41%	29	23%
Withdrawn	5	5%	4	13%	9	7%
Grand Total	92	100%	32	100%	124	100%



In 2018, CIFO opened 239 case files and successfully closed 124. Of the 124, over two thirds (69%) were resolved informally through mediated settlements. Only 29 (23%) case files proceeded to the end of CIFO's process and required an Ombudsman decision to resolve. The remaining 9 (7%) were withdrawn by the complainant after the complaint was opened as a case file.

Table 13: **Resolved Case Files by Outcome**

	Jersey		Guernsey		Total	
Case Files Resolved in Favour of Complainant for More Compensation than Previously Offered by FSP	35	38%	11	34%	46	37%
Case Files Resolved in Favour of Complainant for Same or Less Compensation than Previously Offered by FSP	23	25%	3	9%	26	21%
Case Files Resolved in Favour of FSP	29	32%	14	44%	43	35%
Case Files Withdrawn by Complainant	5	5%	4	13%	9	7%
Total	92	100%	32	100%	124	100%

Of the 124 case files closed in 2018, 46 case files (37%) were resolved in favour of the complainant for more compensation than previously offered by the FSP. This figure did not differ significantly by island with Jersey at 38% and Guernsey at 34%. 26 case files (21%) were resolved in favour of the complainant, but for the same or less compensation than previously offered by the FSP. 43 case files (35%) were resolved in favour of the FSP.

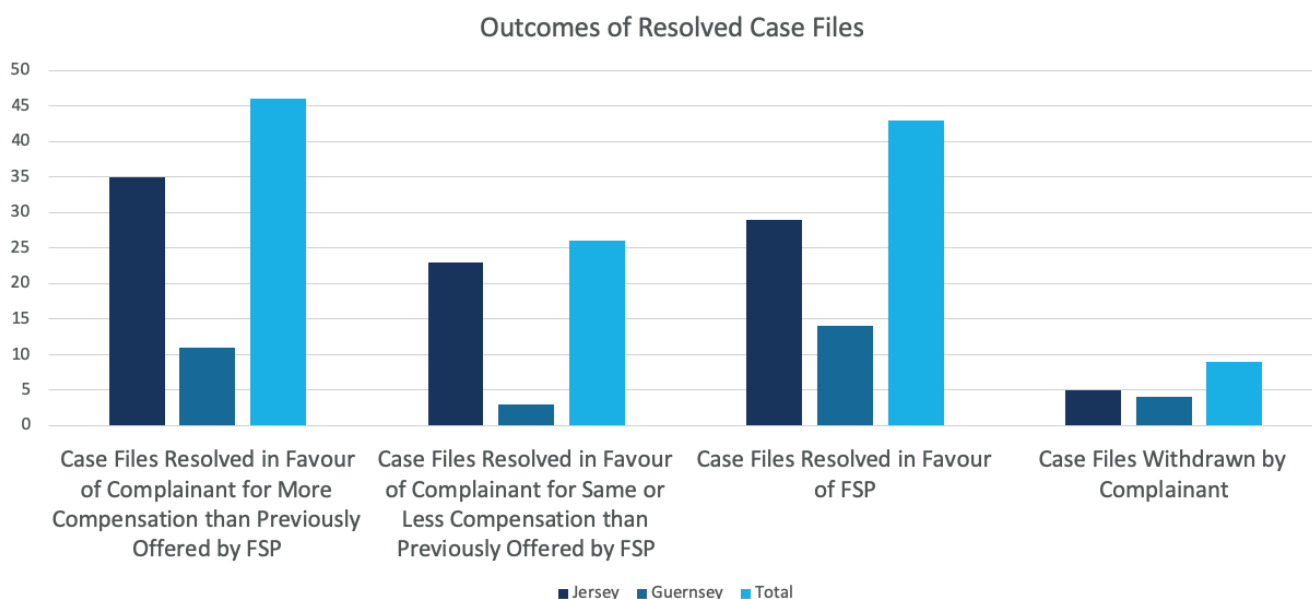
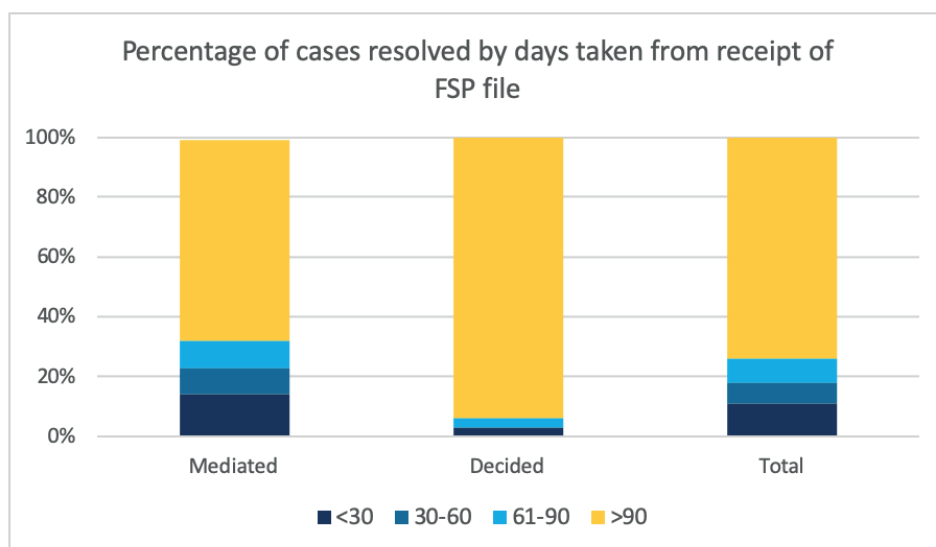


Table 14: **Percentage of cases resolved by days taken from receipt of FSP file**

Percentage of cases resolved by days taken	Mediated	Decided	Total
<30	14%	3%	11%
30-60	9%	0%	7%
61-90	9%	3%	8%
>90	67%	94%	74%
Total	100%	100%	100%



The time taken is measured from the date of receipt of the documentation from the financial services provider. The graph shows the mediated case files separately from the determined case files and shows the breakdown of the proportions concluded in under 30 days from receipt of the FSP's file, 30-60 days, 61-90 days, and over 90 days.

32% of case files closed through mediated settlements in 2018 were closed in less than 90 days. This was true for only 6% of Ombudsman decision.

Table 15: **Amounts of compensation awarded up to statutory limit of £150,000**

Maximum	£150,000.00
Average	£13,231.48
Median	£575.00
Minimum	£21.92

Of the case files that were resolved in favour of the complainant and involved financial compensation, the largest award for compensation was £150,000. The average award of compensation was £13,231.48 with the median amount £575. The lowest amount awarded was £21.92.

ANNEXES

ANNEXES TO THE ANNUAL REPORT 2018

Channel Islands Financial Ombudsman



ANNEX 1

OUR STAFF

Our staff – with a wide variety of experience and training in financial services, law, finance, law enforcement, consumer research and policy, dispute resolution and regulatory compliance – review and investigate unresolved complaints about financial services providers (FSPs) in or from the Channel Islands.

Douglas Melville

Principal Ombudsman & Chief Executive

Sophie Watkins

Manager, Administration & Stakeholder Relations

Julia Dandurand

Legal Intern

Dominic Hind

Case Handler & Operations Analyst

Richard Langlois

Case Handler

Oana Lupu

Case File Administrator

Natalie Mooney

Case Handler

Lara Morand

Legal Intern

Heather Rushton

Administration Officer

Ross Symes

Case Handler



Back row: Julia Dandurand, Ross Symes, Richard Langlois, Dominic Hind, Natalie Mooney. Front row: Oana Lupu, Sophie Watkins, Douglas Melville, Heather Rushton, Lara Morand.

ANNEX 2

GOVERNANCE, ACCOUNTABILITY AND TRANSPARENCY

When combining an important public interest mandate with a strict need for independence, it is particularly important to demonstrate accountability and transparency. CIFO has already taken several steps to ensure that we are accountable for our performance of this role and to drive our commitment to continuous improvement.

CIFO Board Review

In Q4 of 2017, when CIFO had been open for business for two years, the board of directors started a rolling review of CIFO's operations. This review continued through 2018. At each quarterly CIFO board meeting, part of the strategy discussion time was devoted to conducting a review of CIFO's operation against one of the fundamental principles for effective financial ombudsman schemes set out by the International Network of Financial Services Ombudsman Schemes (INFO Network). Thus far, CIFO has been found by the board to be generally consistent with the fundamental principles and those few opportunities for enhancement that were identified will be implemented by management as resources permit. The board of directors will complete its review in early 2019 and consider next steps. These fundamental principles can be [seen here](#).

Making such ongoing reviews a part of CIFO's governance culture ensures that we stay focused not only on the high-level purpose of CIFO's mandate, but also on the various operational aspects which are critical to ensuring our service is effective, responsive, and continuously improving.

Transparency of Governance

CIFO remains committed to the continued transparency of our operation. The expenses of the chairman and directors as well as those of the Principal Ombudsman are posted to [CIFO's website](#). Chairman and director remuneration and attendance record at board of director meetings is provided in this annual report. Minutes of board of directors meetings are posted on [CIFO's website](#).

We were pleased that the governments of both Jersey and Guernsey renewed their support for CIFO and their faith in its current governance by reappointing the chair and directors in January of 2018 for various staggered terms that will enable an orderly rotation to new directors in future thereby refreshing the governance of CIFO with new perspectives on both our public interest mandate and on excellence in transparency and governance.

Transparency of Operations

In addition to the provision of this annual report and audited financial statements, CIFO publishes a range of information on its website including board minutes, newsletters, and details of CIFO's funding and legislation. CIFO also now publishes final Ombudsman decisions on its [website](#). We are primarily focused on the timely resolution of the complaint files currently in our office, but the publication of more Ombudsman decisions on CIFO's website will be a priority for 2019 with the addition of an information officer to the CIFO team. With this added staff capacity, we also plan to publish more case studies. We have included eleven case studies in this annual report that illustrate well the range of complaints we deal with and the approach CIFO takes to achieving fair and reasonable outcomes in each unique circumstance.

CIFO is continuing its practice of publishing quarterly complaint statistics and, starting in Q1 of 2018, provided separate complaint statistics for each of Jersey and Guernsey. With the addition of the information officer, publication of decision will commence in earnest by mid-2019. Decisions of complaints referred to CIFO on or after 1 January 2018 will be on an FSP-named basis. Complainants' names are not published. With the Q1 2018 legislative change in Jersey, and similar legislation pending in Guernsey, CIFO will be enabled to publish summary complaint statistics on a FSP-named basis going forward. Once the legislative change is made in Guernsey, CIFO will add this new level of reporting to our demonstrated commitment to full transparency in CIFO's operations.

THE FOUR MEMBERS OF THE CIFO BOARD OF DIRECTORS ARE:



Left to right: John Mills, Deborah Guillou, David Thomas & John Curran.

David Thomas (chairman) is also a member of the Regulatory Board of the worldwide Association of Chartered Certified Accountants. He was formerly: a lawyer in private practice and a member of the Council of the Law Society (England and Wales); Banking Ombudsman (UK); principal ombudsman with the Financial Ombudsman Service (UK); and a director of the Legal Ombudsman (England and Wales). He has advised on financial consumer protection in more than 30 countries.

Deborah Guillou is a qualified accountant and chief executive of the Medical Specialist Group in Guernsey. She was formerly: head of Generali International; chief financial officer of Generali Worldwide Insurance; a senior finance manager at Investec Asset Management; finance director at Guernsey Electricity; and an accountant with Fairbairn International.

John Mills CBE was formerly a senior civil servant in the UK and in Jersey. He was lately a board member of the Jersey Financial Services Commission and vice chairman of the Port of London Authority. He is currently deputy chairman of Ports of Jersey Ltd. In 2017 he was appointed as Jersey's first Charity Commissioner. In an honorary capacity he is a member of the boards of both public sector pension funds in Jersey, the Public Employees Pension Fund and the Teachers Superannuation Fund. He chairs the former's investment committee, which oversees the management of the fund's assets of some £2.4 billion.

John Curran is a member of the board of the Channel Islands Competition & Regulatory Authorities and of the Guernsey Data Protection Authority. He is also a non-voting member of the States of Guernsey Transport Licensing Authority and chairman of Guernsey Mind. He was formerly: the chief executive of the Channel Islands Competition & Regulatory Authorities; director general of the Office of Utility Regulation (Guernsey); and manager of the Operations Division of the Commission for Communications Regulation (Ireland).



Attendance at Board Meetings

Regular in-person meetings of the board of directors were scheduled throughout 2018. No additional meetings by conference call were required during the year. Where possible and appropriate to minimise cost and maximise director attendance, stakeholder meetings such as the annual general meeting of stakeholders and meetings with the Guernsey and Jersey governments were scheduled to coincide with regularly scheduled board of directors meetings.

DIRECTORS' ATTENDANCE AT 2018 BOARD MEETINGS

	No. of meetings held	No. of meetings attended	No. of meetings absent	Attendance rate
David Thomas (Chair)	4	4	0	100%
Deborah Guillou	4	4	0	100%
John Mills	4	4	0	100%
John Curran	4	3	1	75%

DIRECTOR REMUNERATION 2018

David Thomas (Chair)	£24,000
Deborah Guillou	£6,000
John Mills	£6,000
John Curran	£6,000



ANNEX 3

WHO WE ARE

The Channel Islands Financial Ombudsman (CIFO) is the independent dispute-resolution service for unresolved complaints involving financial services provided in or from the Channel Islands of Jersey, Guernsey, Alderney and Sark. Complaints can be brought by any individual consumers and small businesses from anywhere in the world, plus certain Channel Islands charities.

CIFO is a joint operation of two statutory ombudsman roles, established in law by the Financial Services Ombudsman (Jersey) Law 2014 and the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014, jointly operating under the name Channel Islands Financial Ombudsman. CIFO operates from

a single office in Jersey with one set of staff and the same board members overseeing the two statutory roles. The States of Jersey and States of Guernsey jointly appointed the Board of Directors and the Board appointed the Principal Ombudsman and Chief Executive. The office commenced operation on 16 November 2015.

The primary role of CIFO is to resolve complaints about financial services provided in or from the Channel Islands. It resolves complaints against financial services providers – independently, fairly, effectively, promptly, with minimum formality and so as to offer a more accessible alternative to court proceedings. This helps to underpin confidence in the finance sectors of Jersey and Guernsey, both locally and internationally.

OUR MANDATE

The scope or mandate of the Channel Islands Financial Ombudsman is set in the primary laws and supporting secondary legislation in Jersey and the Bailiwick of Guernsey. CIFO can only investigate complaints that meet certain conditions relating to the person bringing the complaint, the type of financial service complained about and the timing conditions. The table on the following page summarises the mandate according to the location from where the financial services were provided. Please note that this is a summary and the full detail is provided in the legislation viewable on our website.



Service provided in / from	Guernsey, Alderney and Sark	Jersey
Complainants	<ol style="list-style-type: none"> 1. Must be a consumer or microenterprise (anywhere in the world) or a Channel Islands small charity; 2. Must not be a financial services provider; 3. Must have been a client or had another specified relationship with the financial services provider. 	
Financial Services	<p>The complaint must relate to an action (or failure to act) by a person while carrying out relevant financial services business, in or from within the location. Relevant financial services business covers:</p> <ol style="list-style-type: none"> 1. Banking 2. Money service business 3. Insurance, excepting commercial reinsurance; 4. Investment funds: activities relating only to Class A collective investment schemes and not other collective investment schemes; 5. Investment services such as advising, managing or dealing in Class A funds and other investments such as stocks and shares; 6. Pensions. Exemption for pension business carried on in relation to an occupational pension scheme, where the employer does not do any other pensions business; 7. Credit. Exclusions for informal store credit; debt-advice from a third party such as the Citizens Advice Bureau; point-of-sale credit intermediaries that are not financial services entities; 8. Related (or ancillary) services provided by the same financial services provider; 9. Providing advice or introductions to the areas above. <p>Fiduciary / trust company business is exempt unless it relates to one of the areas above</p>	
Timing	<ol style="list-style-type: none"> 1. 'Starting point': the act or omission that led to the complaint must not be before 2 July 2013; 2. The financial services provider must have already had a reasonable opportunity to resolve the complaint (a maximum of 3 months); 3. The complainant must refer the complaint to CIFO by the later of: <ol style="list-style-type: none"> a. 6 years from the act/omission; or b. 2 years after complainant should have known he/she had reason to complain 4. The complainant must also refer the complaint to CIFO within 6 months of receiving the financial services provider's decision on the complaint if the financial services provider met certain conditions in handling the complaint. 	<ol style="list-style-type: none"> 1. 'Starting point': the act or omission that led to the complaint must not be before 1 January 2010;



ANNEX 4

HOW WE WORK

When we receive a complaint, our team looks at the information provided to make sure it falls within our remit (see our process on page 36). For instance, the FSP has to fall within CIFO's remit as set out by law in both Jersey and Guernsey. A summary of CIFO's remit is set out in the table on page 11. We also look for a final answer from the FSP to the consumer, which allows us to start our review knowing the positions of both parties.

During an investigation, we gather information from both parties and review the facts of the case. We make decisions based on what's fair to both the consumer and the FSP, taking into account general principles of good financial services and business practices, the law, regulatory policies and guidance, and any applicable professional body, standards, codes of practice, or codes of conduct. If we believe that the facts of the case do not warrant further review, we will let the consumer know quickly. We always make sure that we explain our reasons, just as we do when we are determining that compensation is appropriate.

If we determine that compensation is owed to the consumer, we try to resolve the

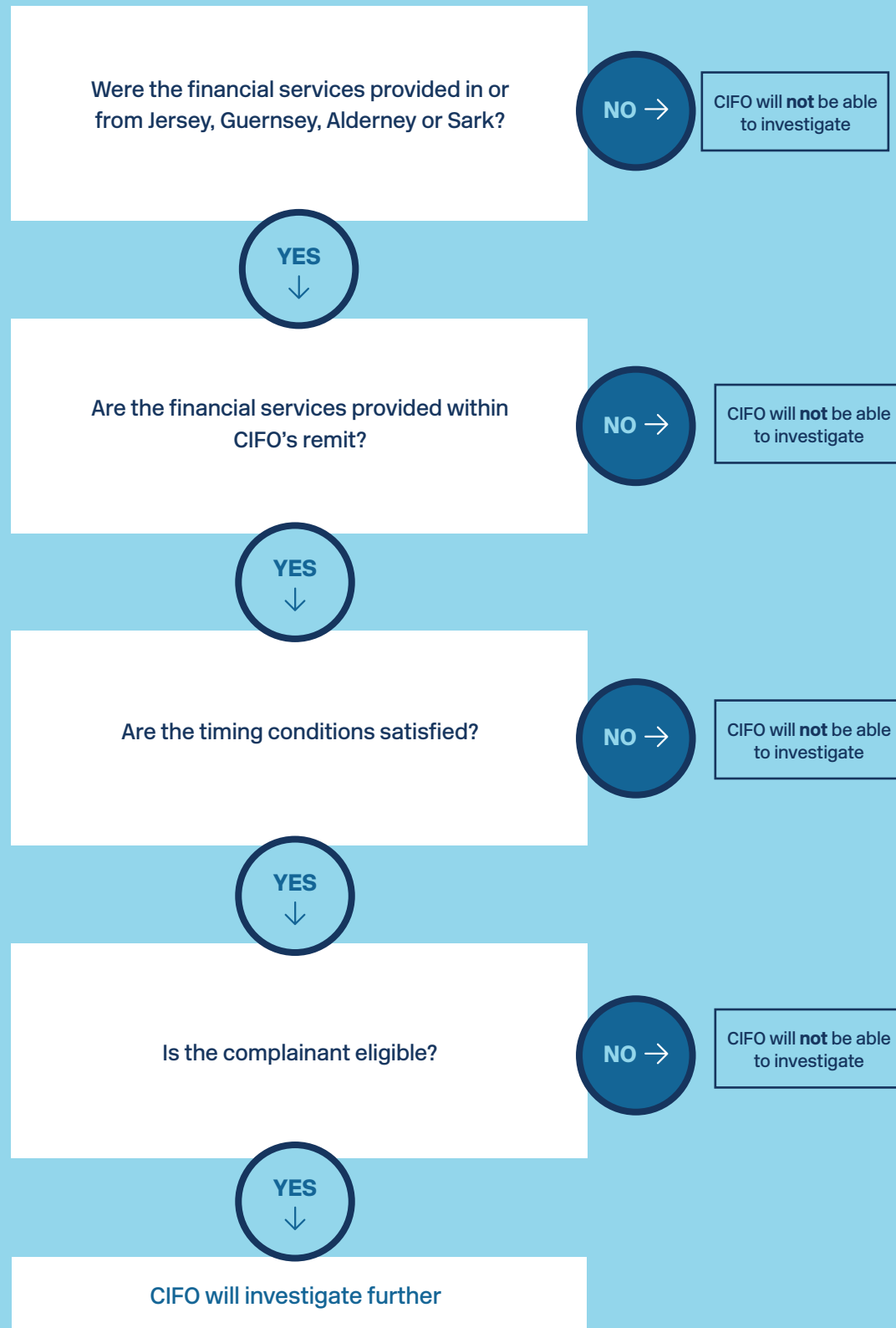
dispute through a facilitated settlement between the consumer and FSP that aims to address the complaint quickly with a fair outcome to both parties.

If we are unable to facilitate a settlement but we continue to believe the consumer should be compensated, we will complete our investigation and make a decision. Our decision, if accepted by the consumer, becomes binding upon the FSP.

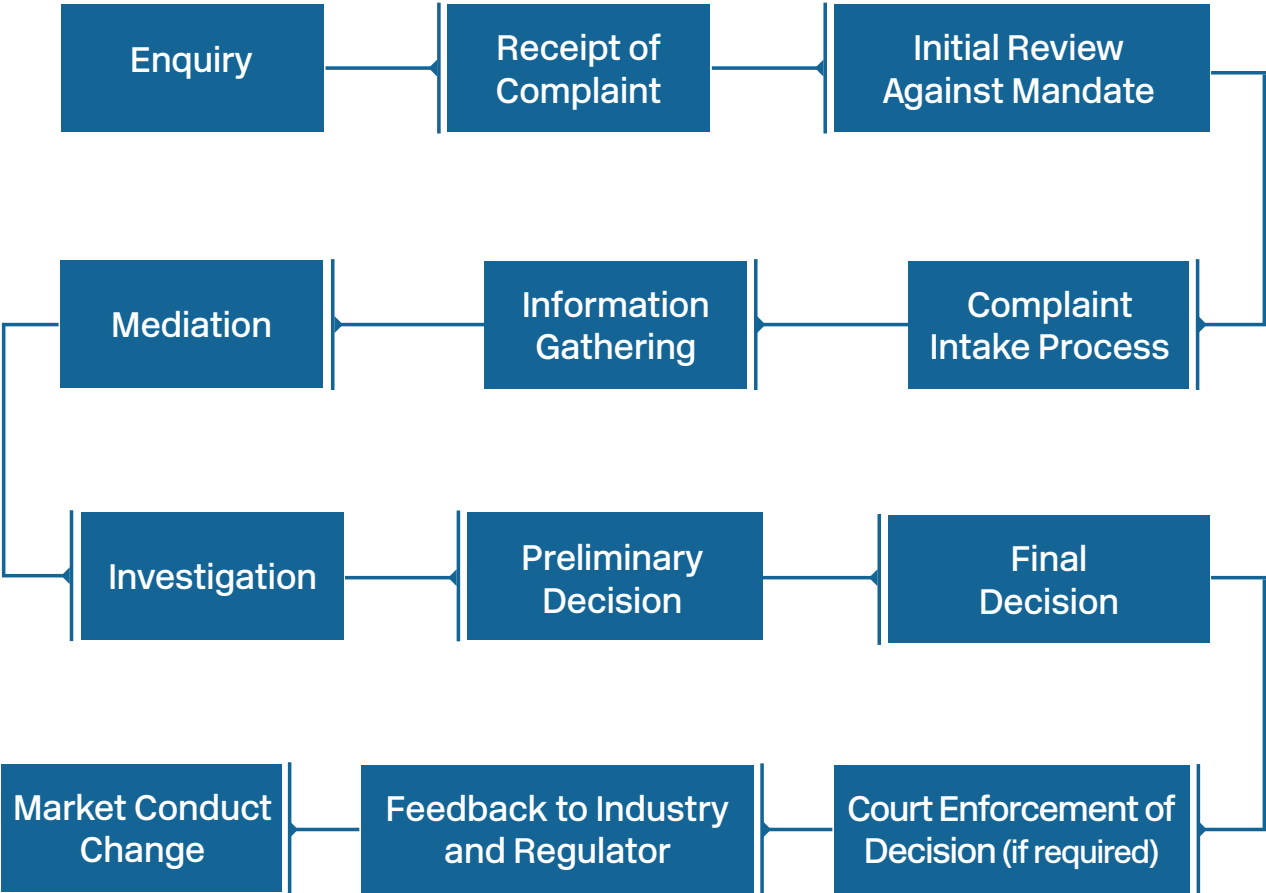
We can require that FSPs pay compensation to the consumer of up to £150,000. We may also determine that compensation for inconvenience is appropriate in the specific circumstances. In some instances, non-financial actions such as correcting a credit reporting agency record may be appropriate.

Neither a court nor a regulator, CIFO does not fine or discipline FSPs or individuals working within the financial sector. While we do not handle matters that have already been through a court or an arbitration, if a client does not accept our conclusions, they are free to pursue their case through other processes including the legal system, subject to statutory limitation periods.

A SUMMARY OF HOW WE DETERMINE IF A COMPLAINT IS WITHIN CIFO'S MANDATE



THE PROCESS
FROM ENQUIRY THROUGH TO FINAL DECISION



ANNEX 5

CASE STUDIES

The case studies presented in this report and published on CIFO's website are intended to illustrate the type of complaints handled and the approach taken to resolve them. The case studies are based on actual CIFO case files. Some specific details may be altered to protect confidentiality.



Case Study #1

BANKING

UNFORESEEN CHARGES ON FOREIGN CHEQUE

This complaint relates to charges taken from proceeds of a foreign draft sent on “collection”. The complainant’s family property in Spain was sold and he received his share totalling EUR 657,233 in the form of a bank draft held by his lawyer in Malaga, Spain.

The complainant wished the money to be deposited in Spain. The complainant’s Jersey bank instructed him to have his solicitor send the cheque to the bank in Spain along with a covering letter and advised him what the bank’s charges would be for crediting the cheque. It is important to note that at this stage the Jersey bank did not mention the likelihood of any other charges being applied such as agent’s or correspondent charges.

The complainant sent the draft with a covering letter and a copy of the deed of sale to evidence the origin of the funds. Upon receipt, the Jersey bank processed the bank draft for “collection”. Here, “collection” would mean the clearing process for a foreign cheque or bank draft drawn on a bank in another country. The bank draft was sent to the Spanish bank to confirm that it was in order and to send payment. The Spanish bank would then send the proceeds to the Jersey bank. Agent charges would be taken by the Spanish bank for its part in the payment clearing process. The cleared proceeds were received by the Jersey bank and deposited into the Complainant’s account in Jersey. An amount of EUR 5,267 had been deducted from the final proceeds amount as “agent’s charges”. The complainant did not understand or expect such a charge.

The Jersey bank tried to reconcile this amount and provided the details of its fees for the transaction. The Jersey bank only took EUR 119.03 which was only 0.2% of the total fee amount charged. The Jersey bank confirmed that many banks will charge significant

Themes

- Foreign deposit transaction
- Customer service
- Undisclosed fees and charges
- Reliance upon verbal representations made by bank staff

fees for processing cheques and bank drafts and advised the complainant to contact the issuing Spanish bank. The Jersey bank did not provide any other information or explanation.

The key issue related to what the complainant had been told by his Jersey bank to expect in terms of fees and charges for the transaction. When the complainant requested information and advice from his Jersey bank, they provided him with their cost associated with the cheque collection process. However, they did not mention that there would likely be additional fees taken by the correspondent or agent bank. Had the Complainant been made aware of such fees, he could have made alternative arrangements that would very likely have cost him significantly less.

CIFO concluded that the complainant had been provided with a tariff of fees by his Jersey bank but that he was not made aware before the transaction was started, either by mail or during his telephone conversation with bank staff, that there could be agent’s charges for the processing of the cheque in Spain. Jersey bank staff were aware of the high fees charged by some Spanish banks for such services. As the complainant had relied upon the incomplete advice of his Jersey bank, CIFO decided that the Jersey bank should compensate him for the unanticipated charge of EUR 5,267.

Case Study #2

BANKING

UNAUTHORISED OVERDRAFT CHARGES AFTER A DEBIT PAYMENT THAT COULD NOT BE CANCELLED

This complaint relates to an unauthorised overdraft after the complainant cancelled her overdraft facility, thinking this would block a debit card payment she had already made that she did not want to have taken from her current account.

During the summer of 2017, the complainant visited a medical centre for a Botox treatment. After being in pain for a few days, she realised she was not satisfied with the treatment and did not want the £1,000 payment for the Botox treatment to go through. She contacted the bank to ask for the payment to be cancelled. The bank told her that it was not possible as it was a debit payment which had already been made. She was advised that the best way to deal with the payment would be to challenge it after it had gone through using the chargeback process. The complainant persisted and asked the bank employee whether, if she cancelled her overdraft facility and removed her funds held in the account, would the payment still go through. The employee confirmed that this approach could achieve her objective by causing the payment to be rejected due to a lack of funds, so the complainant proceeded to cancel her overdraft facility and transferred all of the funds from her current account into a separate savings account.

The following day, the complainant was notified by the bank that she would be charged regarding her unauthorised overdraft and she realised the £1,000 debit payment to the medical centre had gone through. The complainant told the bank about the previous advice given to her to close her overdraft facility. The bank said this was not appropriate advice and confirmed that the payment would go through even with a cancelled overdraft facility because the debit payment had been authorised by her in the

Themes

- Attempt to thwart authorised debit card payment
- Unauthorised overdraft
- Refund of overdraft charges
- Complainant contribution to own loss

first instance. Given the provision of inappropriate advice, the bank offered to refund the unauthorised overdraft charges and advised her that she should move her funds from the savings account back to her current account to clear the overdraft so that no more overdraft charges would be incurred

CIFO spoke to the bank and the complainant. We also listened to the two phone calls between the complainant and the bank. We agreed that the advice given on the first call was inappropriate and misleading and that the complainant should be refunded the overdraft charges incurred from the first phone call up to the second phone call during which she was offered what the Ombudsman agreed was a fair and reasonable solution to remedy the unauthorised overdraft. The overdraft fees incurred after the second call were the complainant's responsibility as she refused to accept that she was responsible for having made the debit payment and for not agreeing to pursue the normal processes available to her to challenge the service provided to her by the medical centre. Her attempt to disrupt the previously authorised payment, albeit with the acquiescence of the bank staff person on the call, and her subsequent refusal to cover the unauthorised overdraft, were not reasonable.

Case Study #3

INVESTMENT

MISINFORMATION DELAYS SALE OF INVESTMENT

This complaint relates to a delay in the sale of an investment causing a loss which could have been avoided if the bank's instructions to the customer to provide required personal information had been clearer.

The complainant held a significant investment with a bank and decided to sell a portion of it. However, the customer's information on file at the bank was out of date and the bank refused to execute the transaction until the complainants had updated their personal information and provided relevant documents.

The complainants promptly provided the required documents but the transaction was refused again because the documents provided were not certified copies. The complainants duly provided certified copies of the required documents but complained that the bank had not specified this requirement for certified copies in the original letter. In the time they had taken to resolve the matter and execute the transaction, the value of the investment had fallen so the complainants were forced to sell their investment shares at a lower price causing a significant loss.

Themes

- Investment
- Sale of investment
- Delayed transaction causing loss including investment loss
- Loss of use of funds and inconvenience

CIFO reviewed the correspondence and agreed that the bank had not clearly asked for the documents to be certified. CIFO therefore recommended that the bank calculate the price of the shares if they have been sold when the complainants provided the original uncertified documents and compensate the complainants for the difference in value.

In addition, CIFO concluded the bank should compensate the complainants for the delay in receiving their funds and for the inconvenience caused. The bank agreed and the complainants accepted a total amount of £17,423 in compensation.

Case Study #4

BANKING/CREDIT

REFUSAL TO RENEW A LOAN BASED ON ALLEGED FAILURE TO KEEP RECORD

This complaint relates to the renewal of a loan application which the complainant had taken out in 2008, and which was subsequently rejected for renewal or extension six years later.

In 2008, the complainant entered into a loan agreement with the Bank secured against his property. The loan was contracted on a five-year full repayment term. In 2012, the complainant held a meeting with two employees of the bank regarding the loan. The complainant believed that all parties at the meeting agreed that the loan would be extended when the five-year term expired. An initial one-year extension was given.

In March 2014, the Bank advised him that the loan would not be renewed or further extended. However, it agreed to work out a repayment plan with the complainant. In February 2016, the complainant reached out to the Bank and asked to review and vary the previously agreed repayment plan. The Bank issued a document to the complainant stating that four payments should be made in December of the next four years, leaving the last payment at December 2018. The Bank made clear that no payment should have to be made after that date. The document sent to the complainant included the sentence: “your home is at risk If you do not keep up repayments on a mortgage or other loan secured on it”. Between February and November 2016, the complainant contacted the Bank multiple times in order to re-arrange the payment schedule as he could not afford the repayments. As the last request to modify the terms was refused, the complainant contacted the Bank to raise a formal complaint.

The complainant was not satisfied with the Bank’s final response and came to CIFO for investigation. He explained that he was unhappy with the Bank for not keeping records of meetings, for acting improperly as a responsible lender and for allegedly threatening him

Themes

- Loan renewal
- Lack of binding contract
- Contract terms

by saying that his home was at risk in the document issued in February 2016. He pointed out that this situation had compelled him to change lenders and incurred a loss of £20,000 plus higher interest charges.

The CIFO case handler recommended the complaint not be upheld. He explained in his recommendation that the Bank was under no obligation to extend the loan or continuously agree to change the terms of the repayment schedule as no formal contract was made as a result of the 2012 meeting. He also noted that the phrase “your home is at risk if you do not keep up repayments on a mortgage or other loans secured on it” was a legal requirement set out by the regulator of the relevant jurisdiction, which is imposed on every loan quotation. The case handler therefore concluded that there was no threat and that the Bank had not acted unreasonably by not acting on what the complainant believed was an undocumented agreement to extend the loan back in 2012. The case handler also concluded that the bank’s decision not to extend the loan is a commercial one and that it is not CIFO’s role to intervene in a financial services providers’ commercial judgement.

As the complainant was not happy with the case handler’s findings, he requested his complaint to be escalated to the Ombudsman for review. The Ombudsman conducted his own review and decided not to uphold the complaint on the same bases as those previously identified by the case handler.

Case Study #5

BANKING/CREDIT

SECTION 75 CCA PROTECTION ON CREDIT CARDS AND THE VISA CHARGEBACK SCHEME

This complaint relates to the implications of the choice of payment type and a delay in raising the complaint on the customer's ability to recover payment made for a purchase from a firm that subsequently went bankrupt.

The complainant ordered a wedding dress from a Parisian wedding dress designer. However, the company went bankrupt before the dress could be delivered.

Because the complainant used her debit card, she was not automatically protected by section 75 of the UK's Consumer Credit Act (CCA) which allows customers to request a reimbursement from their bank of eligible credit card purchases if a breach of contract has been made by the retailer.

However, some debit cards are protected by the Visa chargeback scheme if the bank subscribes to it. A chargeback is a reversal of a transaction with the merchant in accordance with the payment scheme rules. In this case, her bank subscribed to this protection for customer purchases made with its Visa debit cards so the issue then became whether a chargeback would be possible under the Visa payment scheme rules.

Visa sets different time limits depending on the circumstances of the chargeback. The complainant's case fell under section 13.1 of the Visa rules, which is 'Services Not Provided or Merchandise Not

Themes

- UK CCA section 75 protection for breach of contract
- Chargebacks on credit and debit cards
- Applicable time limits

Received'. In these cases, there is a 120-day time limit which does not necessarily begin from the date of the original transaction, but may occur within the following two-time limits:

- 120 calendar days from the last date the cardholder expected to receive merchandise or services.
- 120 calendar days from the date the cardholder was told that the merchandise or services won't be provided.

Both of these 120 calendar day time limits are overruled by an overall 540-day maximum which runs from the date of the original transaction. The complainant bought the dress in December 2015 which would mean that she had until June 2017 to initiate the chargeback. However, the complainant made the request on 6th June 2018 which was out of time under the Visa rules. As a result, the bank could no longer initiate a chargeback on behalf of its customer.

CIFO therefore concluded the bank has made no error and did not have to reimburse the complainant for the cost of the undelivered dress.

Case Study #6

BANKING

ADVANCE NOTIFICATION OF BANK ACCOUNT CLOSURE

This complaint relates to a failure to provide adequate notice of closure of a customer account and imposition of an onerous process to retrieve the customer's funds from a bank suspense account after the customer's account had been closed.

In July 2016, the bank decided to end its banking relationship with the complainant. It sent him multiple letters from July to October 2016 to notify him of this decision and gave him a 60-day period to make alternative banking arrangements. The account was subsequently closed; however, the complainant claimed he did not receive the bank's advance notification letters.

Once aware of the account closure, the complainant contacted the bank and requested the bank contact bank B to perform a transfer of his remaining funds held in the bank's suspense account to his account with bank B. The bank was not prepared to do this and asked the complainant to fill in a fund-release form so that his funds could be released from the bank's suspense account.

The complainant complained to the bank about the decision to end the banking relationship and argued that he should have been notified of such an important decision via means other than by post. He also expressed his dissatisfaction with the bank's refusal to contact bank B to organise the transfer of his funds. The bank did not uphold his complaint on the basis that it had the right to end banking relationships without explaining why and that this decision was communicated to the customer using the contact details held on file.

The complainant then contacted CIFO. The CIFO case handler partly upheld the complaint. He acknowledged that the decision to end the banking relationship was a legitimate exercise of the bank's commercial judgement. He also acknowledged that, while the process to release the customer's funds from the suspense account could be costly and inconvenient, it was nevertheless the only way to get the complainant's money back while protecting both the bank and the customer from potentially fraudulent activity. The case handler considered the fact that

Themes

- Bank decision to end banking relationship; Communication methods
- Basis of Ombudsman decision where regulatory obligations arguably met by financial services provider
- Ombudsman decision refused so not binding on FSP

the bank had only tried to contact the complainant about the proposed account closure via post, and by no other means of communication. He concluded that because the bank had already communicated with the customer for different banking services via telephone, it was reasonable to expect the bank to have used alternative means of communication at its disposal to advise the customer of the account closure which was a matter of significant importance. The case handler concluded that the complainant should receive £100 in compensation for inconvenience caused.

Neither the complainant nor the bank accepted this decision, which was escalated to the Ombudsman for review. The bank submitted a statement from the Financial Services Commission of the relevant jurisdiction that its account closure process was not objected to by the regulator. After conducting his own review, the Ombudsman agreed with the case handler's conclusions. He added that the Financial Service Commission's statement on the matter was not determinative in this case. CIFO's role is to resolve complaints based on what would be fair and reasonable in each case. While regulatory or legal rules are factors which the Ombudsman will take into consideration, the Ombudsman's statutory remit is to determine what would be fair and reasonable in the circumstances.

The complainant was awarded £100 in compensation for distress and inconvenience, the same amount as what the bank had already offered. The complainant did not accept the Ombudsman's final decision. The Ombudsman's decision was therefore not binding upon the bank.

Case Study #7

BANKING/INVESTMENT

BLOCKED ACCOUNT DUE TO MISSING PERSONAL INFORMATION

This complaint relates to an investment account held by the complainant with a bank. The complainant had put her name along with her husband's name on the account after her aunt had deceased. She had then put her sole name on the account. In 2015, the bank changed administrators which required a transfer of all customer information already held on file.

The complainant contacted the bank in 2017 to enquire about making a transfer of funds. After receipt of the request, the bank realised the complainant's personal information ("know your client" or KYC information) was out of date. Her passport had expired, and it did not contain proof of her current address. The bank therefore sent a first request to the customer asking for copies of documents showing this required information. The complainant responded, arguing that this information had already been provided previously when she changed the name of the account holder from her deceased aunt's name to those of her and her husband. This did not meet the bank's requirement.

As the requested KYC information was not provided, the bank blocked her account. The complainant complained and the bank did not uphold her complaint. The bank explained that it was a regulatory requirement for it to update the complainant's KYC information by obtaining the requested documents.

The complainant contacted CIFO. While CIFO recognised that the bank had to hold up-to-date information in order to meet its regulatory requirements, it appeared that in this case the complainant was vulnerable and unable to meet the bank's request.

Themes

- Know your client information (KYC)
- Regulatory requirement to maintain valid customer information
- Blocked account
- Reasonable accommodation of vulnerable customer
- Mediated resolution

The complainant had given proof of address using a utility bill but was left with an invalid passport and therefore invalid identity proof. The bank explained that what could be accepted as appropriate proof of identity would be a driving licence or current passport. The complainant explained to CIFO that she did not hold a driving licence as she no longer drove, and she did not renew her passport because she was in poor health and had no interest in travelling anymore. Her poor health also made it difficult for her to go through the process to obtain photos and complete the required paperwork to renew her passport.

CIFO then considered multiple options. CIFO first offered to the bank that they reconsider their response and offer the complainant £300 compensation, £200 for the distress and inconvenience and £100 for the cost of obtaining a new passport that she did not need for her own purposes. However, after a few conversations with the bank, it was agreed that the bank would make an exception in this case and the expired passport would be accepted as valid proof of identity.

The complainant's account was unblocked and she accepted the bank's offer of £200 for the stress and inconvenience caused.

Case Study #8

BANKING/CREDIT

MIS-SELLING OF MORTGAGE BASED ON ALLEGED FALSE ADVERTISING

This complaint relates to a bank account application which was completed by the complainant in order to be able to access the residential mortgage products that he thought he would be eligible for based on his understanding from the bank's website.

In December 2016, the complainant visited the bank's website and believed that, if he took an account with this Bank, he would be able to access 90% Loan-to-Value (LTV) residential mortgages in the UK. Attracted by this mortgage product, he applied for an account with the bank.

In January 2017, the complainant applied for a 90% LTV residential mortgage but the application was refused. Confused by this rejection, he contacted the bank who explained that the product he had applied for (a 90% LTV residential mortgage) was not available to expatriate customers, and that it only offered 75% LTV residential mortgages to expatriate customers like him. The complainant formally complained to the bank, but his complaint was not upheld.

The complainant came to CIFO and raised a formal complaint against the bank based on two issues. The first was an alleged mis-sale of the bank account which he says he had opened solely on the basis of being able to access the 90% LTV residential mortgage. The second was based on alleged false advertising by the bank regarding the mortgage products available to its expatriate customers.

The CIFO case handler conducted an historical audit of the relevant bank's webpage. After reviewing 22 historical versions of the page, the case handler found no trace of a 90% LTV residential mortgage being advertised for the bank's expatriate customers,

Themes

- Mortgage rates
- Bank account application
- Mis-selling
- Online false advertising
- Historical website review

only the 75% LTV product was found. Furthermore, it transpired from the audit that the complainant was mistaken as to which bank entity was offering the 90% LTV product. It was only available for customers of the UK bank and not the international bank serving expatriate customers. Also, after reviewing the complainant's account application form, the case handler noticed that, while the customer was given the opportunity to specify that the purpose for applying for the account was to access the 90% LTV residential mortgage using the "other" box for "purpose of the account", he had selected the "main banking relationship" box. The case handler therefore concluded that there had been neither mis-selling nor false advertising and did not uphold the complaint.

After receipt of the recommendation, the complainant asked for the complaint to be escalated to the Ombudsman, saying that the case handler's findings were based on an analysis of the wrong webpage. After further investigation, the Ombudsman concluded that the case handler had conducted a thorough investigation using the technology available to review historical versions of commercial websites and that his conclusions were correct.

The complainant had been mistaken and his complaint was not upheld.

Case Study #9

VEHICLE INSURANCE

VEHICLE INSURANCE CLAIM REJECTED BASED ON INCORRECT FINDING OF UNROADWORTHINESS

This complaint relates to an insurance company's refusal to cover the cost to repair a motorhome damaged in an accident due to the local garage claiming it was not roadworthy thereby invalidating the coverage.

In 2014, a car driven by a third party skidded onto the complainants' driveway and hit their motorhome, damaging the side panel. The complainants raised a claim to cover the cost of repairs with their insurance company. The insurance company asked for garage A's expert to examine the damage. Garage A's expert concluded that the vehicle was not roadworthy based on the condition of the chassis. The insurance company therefore decided to reject the claim based on the term of the policy stating that claims will not be accepted if the vehicle is not kept in a roadworthy condition.

The insurance company also advised the complainants that they could get in contact with the local government department of motor vehicles (DMV) in order for them to confirm the motorhome's roadworthiness. The local DMV subsequently advised the complainants that this is not a service they provide to the public.

Adding to the complainants' burden arising from the refusal of the claim, the complainants were left without options to repair their motorhome. They were advised to take the motorhome to a UK motorhome specialist as none could be found on the island where they lived. However, as the motorhome was no longer insured as a result of the insurance company's decision, they could not legally take the vehicle out of their driveway. The cost to tow the motorhome to the UK on the ferry was prohibitive. The motorhome therefore sat in the complainants' driveway for a couple of years before a complaint was made to the insurer, and rejected, and the matter was then finally referred to CIFO.

As the case involved specific technical questions regarding the roadworthiness of the motorhome at the time of the accident, CIFO staff went to visit the complainants to see the motorhome and employed an independent expert from garage B to inspect to assess the motorhome's condition. The garage B independent expert concluded that the vehicle was indeed no longer roadworthy, but based on different reasons to those originally given by the insurance company which had

Themes

- Vehicle insurance claim
- Independent expert opinion
- CIFO field examination
- Mediated resolution

relied upon garage A's expert opinion immediately following the accident. The parts of the motorhome cited by garage A's expert four years previously were considered fine upon close inspection even after four years had elapsed. The reasons given by garage A's expert were found to have been not credible and the current condition that made the motorhome not roadworthy was due to the time that had elapsed since the accident with the motorhome sitting unused in the driveway in a damp seaside climate. The conclusion was that the motorhome was indeed roadworthy at the time of the accident. Therefore, the conclusion was that the insurance claim should have been paid.

After CIFO shared its views with both parties, the insurance company agreed that its previous decision was wrong in terms of the elements that were described as leading to the conclusion that the vehicle was unroadworthy. The insurance company subsequently advised CIFO that it would conduct a valuation of the motorhome using an independent insurance adjuster, and depending on the findings, they would then make an appropriate offer to settle the complaint for the total loss claimed.

After the valuation, it was concluded that the vehicle should be written off and that the insurance company would pay the complainants £16,000 for the motorhome. CIFO received examples from the complainants of different price quotations for comparable motorhomes and we conducted our own online research. These indicated that the value of a comparable motorhome to replace the damaged one four years later would be substantially greater than the £16,000 offered by the insurance company.

A comparison was then made of the complainants' research, the insurance company's research and CIFO's own research and a final settlement amount of £27,500 was agreed by the insurance company. After further communication, the insurance company offered a total repayment of £27,800 plus an additional £300 in compensation for distress and inconvenience.

This final offer to settle obtained after extensive mediation by CIFO was made to the complainants, who accepted it.



Case Study #10

HEALTH INSURANCE

REJECTION OF INSURANCE CLAIM

This complaint relates to a mother's claim for cover of medical expenses for her son's eye condition which was rejected by her private medical insurance company.

In December 2015, the complainant's 2½ year-old son was diagnosed with accommodative esotropia (squint) in his left eye. In July 2016, the insurance company rejected the complainant's claim to cover the medical expenses for her son's treatment on the basis that his illness was "congenital". The insurance company defined "congenital" to be a "condition recognised at birth, or that it is believed to have been present since birth even if not immediately evident at the time of birth, whether inherited or caused by an environmental factor".

In order to investigate the insurance company's findings, CIFO hired an independent medical expert in ophthalmology. The independent expert concluded that the child's condition was not congenital as it was not present at birth and would not have been detectable, even had there been any screenings done at birth. The independent expert also considered the definition of the word "developmental" in the company's policy rules. He argued that the word was being misused and wrote: "if a child develops any illness or disease at any point after being born, it is (by definition) not in keeping with normal development. The definition can therefore be (inappropriately) applied to include anything that develops". In the final decision from the Ombudsman, it was also noted that the company's use of the word "belief" (as per the definition of congenital above) was inappropriate in

Themes

- Medical insurance
- Exclusion clauses
- Independent expert report
- FSP liability for extraordinary CIFO investigation costs

the circumstances. It was evident that the company had based its belief of the congenital aspect of the condition on Google searches, which was found to be inappropriate.

The insurance company was therefore required to pay for the medical expenses in relation to the child's condition and to pay compensation for stress and inconvenience caused to the complainant and her family. The total amount payable was £2,995.55. For the first time since its inception, CIFO also recognised that an insurance company's conduct throughout the investigation had been such that CIFO had to incur additional costs, namely the engagement of an independent medical expert and of a UK ombudsman insurance specialist. The Ombudsman concluded that in accordance with article 17(1)(a) of the Financial Services Ombudsman (Jersey) Law 2014, the insurance company was also required to reimburse the incremental costs CIFO incurred in resolving this complaint, which amounted to £3,425.

The insurance company was therefore ordered to pay a total amount of £6,420.55.

Case Study #11

HEALTH INSURANCE

TERMINATION OF GROUP HEALTH INSURANCE PURCHASED BY A TRUST

This complaint relates to the cancellation of a group insurance plan arranged through an off-shore trust for expatriate employees of a Japanese company when the plan members were no longer employed by the company.

A trust was established in the Cayman Islands on 21 September 2001. The trust beneficiaries were expatriate employees of a Japanese financial institution. In October 2001, the trust purchased a group health insurance policy for the benefit of its members and their dependents.

On 25 August 2016, the insurer advised the trust that they would be terminating the group policy.

The insurer had become aware that the 47 remaining members of the trust were no longer employed by the Japanese Financial Institution, and so concluded that they were ineligible for continued group plan coverage.

The trust disputed the impending termination of the policy arguing that continued employment with the Japanese financial institution was never a pre-requisite for group insurance plan membership. The trust asserted on behalf of the beneficiaries that the policy was always intended to be portable in order to ensure that members continued to receive cover after they left the Japanese financial institution or retired.

In the provisional assessment, the CIFO case handler recommended the complaint not be upheld based on two key grounds:

1. That the trust was a means by which the Japanese financial institution could obtain a group medical insurance policy for its non-Japanese employees; and,
2. That the trustee was aware, or ought to have been aware, that the group insurance policy was not portable and would not cover the members when they left the Japanese financial institution or retired.

The trustee asked for a review of the case handler's conclusion by the Ombudsman. The Ombudsman considered that, while there was some persuasive

Themes

- Off-shore trust
- Group health insurance
- Effect of local insurance legislation; Cancellation of group policy
- CIFO decision based on balance of probabilities

evidence which supported these two grounds, the evidence was circumstantial and not conclusive because the Japanese financial institution had not been named in the insurance policy and related documentation.

Where evidence is missing, incomplete, or conflicting, CIFO will apply the balance of probabilities test in order to reach a decision which is fair and reasonable in the circumstances.

The balance of probabilities test is a judgment as to which version of the facts is more likely than not to be true taking into account all the circumstances of the case and the available evidence. The Ombudsman does not need to be satisfied 'beyond a reasonable doubt', which is a higher threshold generally reserved for criminal matters.

In insurance matters, it is often helpful to look at the wording of the policy itself when considering what would be fair and reasonable in the circumstances. CIFO considered that the trust purchased a group policy from the insurer which was intended for employers and their employees. Eligibility for this policy required members to be active employees of the employer, working a minimum of 30 hours a week.

The trustees were not themselves policyholders, but CIFO could not conclude that they were the employer. On balance, the Ombudsman considered that the Japanese financial institution was the employer under the group plan. Therefore, CIFO found that in order to have remained eligible for coverage, members of the Trust must have been active employees of the Japanese Financial Institution working a minimum of 30 hours a week.

CIFO found that Japanese insurance regulations prevented the Japanese financial institution from contracting with the insurer directly and necessitated the use of the Trustees to act as the policyholder in their stead.

CIFO therefore decided that this group insurance contract did not prevent the insurer from terminating coverage once members had left employment with the Japanese financial institution or retired.

Case Study #12

PENSION

UNAUTHORISED PENSION PAYMENT TO FRAUDSTERS

This complaint concerned losses from a pension plan administered by a Guernsey trust company that had funds withdrawn fraudulently on two separate occasions.

In March and April 2015, the trust company was tricked into making two payments from Mr P's pension fund to fraudsters who had hacked the complainant's email account. Both times, the trust company received an email from Mr P's email address, and subsequently received by post signed written requests to withdraw funds that were later found to have been forged. The fraud was only revealed on 1 June 2015.

The representatives of the complainant suggested that the trust company had been grossly negligent. The trust company denied it had been grossly negligent (gross negligence was the legal test to establish liability under Guernsey law) and claimed that, in allowing his email account to be hacked, the complainant should bear some responsibility. When the complaint was not upheld by the trust company, the complaint was referred to CIFO seeking refund of the two fraudulent withdrawals and compensation for the alleged negligent transfer of his pension funds.

CIFO decided that the complaint should be upheld as the trust company had not acted reasonably according to the standard expected in that industry. The Ombudsman pointed out in the final decision that, while noting the test for liability in local law, CIFO applies a broader fairness and reasonability test and that, in these circumstances, the complaint should be upheld.

CIFO concluded that it would not be fair and reasonable for the complainant to have to suffer the losses incurred as the trust company had not taken sufficient care in acting on the fraudulent withdrawal requests.

Themes

- Pension
- Trust company
- Administrative error
- Fraud
- Trustee responsibilities
- Fair and reasonable basis for CIFO decision

CIFO considered that there were several unusual aspects to the fraudsters' withdrawal requests that should have raised the trust company's suspicions: the different bank accounts, the different content of the emails, and the nature of the withdrawals showed discrepancies when compared to the complainant's usual withdrawal requests and communication patterns. In addition, in discussions that occurred shortly before the fraudulent transactions, the complainant had confirmed to the trust company that he did not wish to make any withdrawals. Given a 2015 warning about such scams issued by the relevant financial regulator, the trust company should have been on guard and called the complainant to verify the withdrawals so as to apply a reasonable standard of due diligence when handling the pension funds of an individual. CIFO thought that the fraud could have been prevented had the trust company called the complainant, especially when it had already used that method of communication with him in the past. There was no evidence that the complainant had contributed to the fraud by allowing his email account to be hacked.

The trust company was made to pay a total of £124,418, which included a refund of the fraudulent payments and 8% interest on the funds fraudulently taken from the pension fund to the date of resolution of the complaint.

ANNEX 6

INSIGHT INTO OUR APPROACH

CIFO APPROACH TO ACCOUNT CLOSURES

One of the most common types of complaint CIFO has encountered in the past couple of years is closure of a customer's account by an FSP due to failure to provide requested personal information.

It is acknowledged that FSPs have a regulatory obligation to know their customers and maintain records containing identity and residency information on them. Several large FSPs have been engaged in large scale "remediation" activities where letters were mailed to large numbers of customers seeking updated information. In some cases, customers who had failed to provide the requested information found their accounts closed and, in some cases with more onerous processes required before accounts could be reopened, or new accounts established.

In some of the complaints we reviewed, it was clear that the FSP was dealing with a large-scale effort to update information on a large number of customers at the same time. Mass mailings of letters requesting information by a set date, failing which accounts would be closed. In most cases, the advance warning provided in the letters was reasonable and provided ample time for the customer to provide the requested information or make alternative arrangements to move their business.

The problems occurred when non-response to a mailing resulted in another letter being sent, and sometimes even a third, to the same customer address requesting the same information. Customers claimed to have not received the letters from their FSP and were unaware of any issue until they found themselves unable to access or use their account. CIFO is mindful of a number of possible reasons for the non-response by a customer that prompts the FSP to close the account. These include:

- some customers may not respond to the FSP even if they received the letter for various personal reasons, some reasonable, some not;
- some customers have moved and may not have informed their FSP;
- letters can be stolen, misdelivered or lost;
- addresses on file with the FSP may be incomplete, incorrect, out of date, or otherwise corrupted.

Particularly when a large number of letters are being mailed, it would be reasonable to expect that such issues as those noted above could result in a small proportion of customers not responding to the request for information. FSPs cannot generally prove receipt of letters sent to customers. Given the importance of a customer's account to their ability to conduct their personal financial affairs and the potentially significant impact that an unanticipated account closure can have, the question CIFO will consider is whether the FSP acted reasonably before closing the customer's account. While CIFO will always consider each complaint on its merits, CIFO is minded to view an account closure due to customer non-response as not being reasonable if the only means of contacting the customer was repeated letters posted to the customer's address on file. Where an FSP has additional customer contact information and the ability to contact a customer through such channels as a telephone number or email address, then CIFO is unlikely to consider it fair and reasonable for the FSP to close an account unless two different channels were attempted to contact the customer before the closure. So to be clear, if no response is received to the FSP's letters sent, then attempts to reach the customer either by telephone or email would be expected in advance, where alternative contact details are held on file, providing a reasonable notice before an account was closed.

In a similar light, FSP requests for proof of identity and residency in forms that are difficult for a customer to provide given their unique circumstances would not likely be viewed as fair and reasonable. For example, asking a long-term customer with outdated but valid information on file, who is elderly and not mobile, who neither drives nor travels, to obtain a new passport or driver's licence as proof of their identity is not likely to be viewed as fair and reasonable. FSPs (individual FSPs as well as those which are part of larger groups) interpret regulatory requirements to identify and verify their customers and develop compliance programs to ensure on a consistent basis that they know their customers. CIFO would expect a certain degree of flexibility and accommodation within a FSP's policies, procedures and compliance programs, especially in situations of customer vulnerability, to accommodate a different approach to identifying and verifying their customer where unique circumstances warrant.

ANNEX 6 (CONT.)

INSIGHT INTO OUR APPROACH

FAIRNESS AND REASONABILITY

BASIS OF CIFO DECISIONS

There are several important characteristics that distinguish a financial ombudsman scheme from other forms of dispute resolution, including the courts. In most cases, CIFO will mediate the dispute between the parties and, if both agree with CIFO's non-binding assessment of the complaint, the matter is resolved. Where one or both parties seek to have the matter determined by the Ombudsman, a binding final decision is then made in accordance with the laws that govern CIFO's remit.

Under the laws, the Ombudsman, when determining a complaint, must do so by reference to what is in his opinion fair and reasonable in all the circumstances of the case. In reaching that conclusion regarding a fair and reasonable outcome, the Ombudsman must take into particular account:

- the relevant law;
- any relevant direction, code of practice, guidance, or other rule or standard, issued by or on behalf of the Commission;
- any similar instrument issued by any other body if the Ombudsman considers it relevant to the complaint; and,
- what the Ombudsman considers to have been relevant good industry practice at the time of the act to which the complaint relates.

CIFO's legislation is clear. The primary consideration in making a final decision of any complaint is what would be fair and reasonable under the circumstances. Laws and regulations must be taken into account (i.e., considered) by the Ombudsman in making a final decision. But where such laws or regulations are inconsistent with what the Ombudsman considers would be a fair and reasonable outcome to a complaint, the fairness and reasonability test is the primary consideration.

A good example of this can be seen in case study #12 in this year's annual report. In this case which involved fraudulent withdrawals from a customer's pension plan, the Guernsey-based trust company sought to avoid responsibility for the significant losses based on the provision in Guernsey law that limited the trust company's liability except in cases of gross negligence, a high legal threshold to meet. The trust company believed that the Ombudsman could only award compensation if there was a finding of gross negligence in accordance with Guernsey law. The Ombudsman, taking note of the overall circumstances of the complaint in the context of the law, regulatory requirements and codes, and industry practice, concluded that it would be fair and reasonable to award compensation in this case.

The implications of this approach for FSPs are clear. Adherence to legal and regulatory requirements is important but will not always be determinative of the outcome of CIFO's review of a complaint depending on the unique circumstances. The fairness and reasonability test embedded in CIFO's laws can and should take into account broader considerations. FSPs would do well to consider in their internal complaint handling processes with this broader test in mind. FSPs may wish to consult the model complaint-handling procedure for financial services providers CIFO published in 2015 [\[see here\]](#).

An assessment of a complaint involving an FSP's conduct is not limited to its compliance with law and regulations, but rather how it met the broader test of fairness and reasonability in the circumstances; a test that we can all seek to apply to the unique circumstances of individual complaints.

ANNEX 7

INTERNATIONAL ENGAGEMENT

Given the international nature of the financial services sector in the Channel Islands, it is appropriate that CIFO has formed relationships with various international bodies active in the area of ombudsman practice, dispute resolution, and financial services.

The International Network of Financial Services Ombudsman Schemes (INFO Network)

CIFO continues to be an active member of the INFO Network whose membership includes about 60 financial sector bodies around the world engaged in dispute resolution for financial services consumers. The INFO Network focuses on professional development and mutual support amongst member schemes. Details on the network can be seen [here](#).

EU Financial Dispute Resolution Network (FIN-NET)

FIN-NET is the European Union's network of financial dispute resolution schemes and helps consumers resolve cross-border complaints involving financial services. Details on the network can be seen [here](#).

While the Channel Islands are not members of the European Union (EU), the importance of the European market for the Channel Islands' financial sectors, the extensive regulatory framework being established for the provision of financial services into the EU, and the proportion of complainants referred to CIFO who are resident outside the Channel Islands, make this EU body highly relevant for CIFO. As one of three Official Observers and Affiliate Members of the FIN-NET network (the other two being the Swiss Banking Ombudsman and the Swiss Ombudsman of Private Insurance and of Suva), CIFO attends the semi-annual meetings of FIN-NET. CIFO is also in touch with individual FIN-NET member schemes periodically to refer complaints better resolved by those schemes and to accept referrals of complaints from FIN NET member schemes that fall within CIFO's remit to resolve.

Ombudsman Association (OA)

In 2016, shortly after commencing operations, CIFO became a member of the Ombudsman Association (the OA, formerly the British and Irish Ombudsman Association or BIOA) which represents both public

and private sector ombudsman schemes in the United Kingdom, Ireland, and Britain's Crown Dependencies and Overseas Territories. Details on this association can be seen [here](#).

This professional body of ombudsman practitioners seeks to promote and support the development of ombudsman schemes and provides opportunities to engage in professional development and policy advocacy in the area of dispute resolution. Through this body, financial sector ombudsman schemes interact with other ombudsman practitioners involved in dispute resolution across a broad range of sectors where alternative dispute resolution offers a compelling value proposition to society.

At the OA's annual general meeting in 2018, the Principal Ombudsman was elected by the OA membership to the executive committee which serves as the governing body for the association and makes decisions regarding adherence to established membership requirements for member ombudsman schemes. In 2019, the OA will convert to a not-for-profit company limited by guarantee. At that point the OA executive committee will become the OA's board of directors, and current executive committee members its directors.

UK Financial Ombudsman Service (UK FOS)

Given the close relationship between the Channel Islands and the UK and the fact that many financial services providers in the Channel Islands are branches or subsidiaries of UK-based providers, it is not unexpected that UK changes to financial sector regulations and financial dispute resolution are followed closely by CIFO. In 2018, the UK regulator consulted on proposals for change to the mandate of UK FOS to increase the limit on compensation awards to £350,000 and to broaden the scope of small business complainants eligible to refer complaints for review. Both of these proposals, the [limit increase](#) and the broadening of [eligible business complainants](#) were recently put into effect by the UK regulator.

As the scope of CIFO's remit is kept under continual review of the governments of Jersey and Guernsey, CIFO drew both of these significant new developments to their attention.



APPENDIX

APPENDIX 1
**2018 AUDITED
FINANCIAL
STATEMENTS**

Office of the Financial Services Ombudsman (Jersey)



OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

OFSO INFORMATION

Directors	David Thomas - Chairman John Curran Deborah Guillou John Mills
Administration office	Channel Islands Financial Ombudsman No 3 The Forum Grenville Street St. Helier Jersey JE4 9QG
Independent auditors	KPMG Channel Islands Limited 37 Esplanade St. Helier Jersey JE4 8WQ
Principal Ombudsman	Douglas Melville

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**CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

The Chairman presents his statement for the year.

The Channel Islands Financial Ombudsman (CIFO) is the joint operation of the Office of the Financial Services Ombudsman (OFSO) established by the Financial Services Ombudsman (Jersey) Law 2014 and the equivalent body established by law in the Bailiwick of Guernsey. The OFSO's financial statements reflect the fact that it is part of the joint operation.

In particular, a Memorandum of Understanding between the States of Jersey and the States of Guernsey provides that the operating expenses of the joint operation are to be divided equally between the two bodies until the end of 2019. These shared operating expenses are raised by levies, currently divided equally between the financial sector in each Bailiwick, supplemented by case fees. This has meant that the actual levy paid by a financial services provider differs depending on the Bailiwick in which it is located, because of different numbers of providers in each. The Board concluded its wide-ranging and multi-stage review of the funding model in 2018 and decided to adopt a new structure for the annual levies. This is broadly based on the existing model of a fixed charge (by way of annual levy) to be divided among all relevant providers in both islands and a user-pays charge (by way of case fees) to be paid by those providers about which cases are handled by CIFO. But the new structure will use a different method to divide the total levy amount so that the levy charged to individual providers will not differ depending on the island in which they are based. Due to the States' resources required to develop the necessary changes to legislation to implement the new structure, it will be put in place for 2020.

The OFSO Board seeks to maintain an operating reserve sufficient to allow for unforeseeable volatility in complaint numbers and to cover operating costs until the next set of levy payments are received towards the middle of the following year. This is reflected in the accumulated surplus at the end of 2018.

Maintenance of a prudent reserve helps the OFSO Board to smooth fluctuations from year to year, by increasing or reducing reserves accordingly. For 2018 the Board again planned a reduction in reserves, by budgeting for a deficit between revenue and expenditure. The deficit in the accounts is broadly in line with the budget.

Expenditure increased in 2018, mainly due to increased staff costs to assist with the consistent volume of complaints; as well as increased case-related costs and outsourced accountancy costs.

[Original signed on 25 April 2019]

David Thomas
Chairman

25 April 2019

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors present their report and the financial statements for the year ended 31 December 2018.

Directors' responsibilities statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

The Financial Services Ombudsman (Jersey) Law 2014 requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and applicable law.

Under the Financial Services Ombudsman (Jersey) Law 2014 the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Office of the Financial Ombudsman ("OFSO") and of the profit or loss of the OFSO for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess OFSO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- use the going concern basis of accounting unless they either intend to liquidate the OFSO or to cease operations, or have no realistic alternative but to do so; and
- submit the accounts and report to the Minister for Economic Development, Tourism, Sport and Culture (the 'Minister') not later than 4 months after the end of each financial year.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the OFSO's transactions and disclose with reasonable accuracy at any time the financial position of the OFSO and enable them to ensure that the financial statements comply with the Financial Services Ombudsman (Jersey) Law 2014. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the OFSO and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the OFSO's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Principal activity

The OFSO's primary function is to ensure that complaints about financial services are resolved:

- independently, and in a fair and reasonable manner,
- effectively, quickly, with minimum formality, and so as to offer an alternative to court proceedings that is more accessible for complainants, and
- by the most appropriate means, whether by mediation, referral to another forum, determination by an Ombudsman or in any other manner.

Results

The Statement of Income and Retained Earnings for the year is set out on page 6.

Directors

The directors who served during the year were:

David Thomas - Chairman
John Curran
Deborah Guillou
John Mills

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the OFSO's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the OFSO's auditors are aware of that information.

Independent Auditors

The auditors, KPMG Channel Islands Limited, have indicated their willingness to continue in this capacity.

This report was approved by the board on 25 April 2019 and signed on its behalf.

[Original signed on 25 April 2019]

Director

Independent Auditor's Report to the Minister for Economic Development, Tourism, Sport and Culture of the States of Jersey (the "Minister")

Our opinion is unmodified

We have audited the financial statements (the "Financial Statements") of the Office of the Financial Services Ombudsman - Jersey (the "Body Corporate"), which comprise the statement of financial position as at 31 December 2018, the statements of income and retained earnings, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Body Corporate as at 31 December 2018, and of the Body Corporate's financial performance and the Body Corporate's cash flows for the year then ended;
- are prepared in accordance with United Kingdom accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and;
- have been properly prepared in accordance with the Financial Services Ombudsman (Jersey) Law 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Body Corporate in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 2, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Body Corporate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Body Corporate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Minister

This report is made solely to the Minister, in accordance with Schedule 2 Article 2(4)(1)(5)(a) of the Financial Services Ombudsman (Jersey) Law 2014. Our audit work has been undertaken so that we might state to the Minister those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Minister, for our audit work, for this report, or for the opinions we have formed.

[Original signed on 26 April 2019]

James Le Bailly

For and on behalf of KPMG Channel Islands Limited

Chartered Accountants, Jersey

April 2019

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £	2017 £
Revenue	3	405,926	315,865
Gross profit		405,926	315,865
Administrative expenses	4	(433,183)	(364,339)
Operating loss		(27,257)	(48,474)
Interest receivable and similar income		295	278
Deficit and total loss for the year		<u>(26,962)</u>	<u>(48,196)</u>
Retained earnings at the beginning of the year		271,121	319,317
Deficit and total loss for the year		(26,962)	(48,196)
Retained earnings at the end of the year		<u>244,159</u>	<u>271,121</u>

All amounts relate to continuing operations.

The notes on pages 9 to 19 form part of these financial statements.

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £	2017 £
Fixed assets			
Intangible assets	5	13,444	12,283
		<u>13,444</u>	<u>12,283</u>
Current assets			
Unbilled income	6	63,450	37,025
Debtors	7	4,991	12,566
Cash and cash equivalents	8	193,233	247,473
		<u>261,674</u>	<u>297,064</u>
Current liabilities			
Creditors	9	(30,959)	(38,226)
Net current assets		<u>230,715</u>	<u>258,838</u>
Total assets less current liabilities		<u>244,159</u>	<u>271,121</u>
Net assets		<u><u>244,159</u></u>	<u><u>271,121</u></u>
Capital and reserves			
Accumulated surplus	11	244,159	271,121
		<u><u>244,159</u></u>	<u><u>271,121</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 April 2019.

[Original signed on 26 April 2019]

Director

The notes on pages 9 to 19 form part of these financial statements.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 £	2017 £
Cash flows from operating activities		
Deficit and total loss for the year	(26,962)	(48,196)
Adjustments for:		
Interest received	(295)	(278)
Amortisation of intangible assets	3,776	2,961
Increase in unbilled income	(26,425)	(13,425)
Decrease/(increase) in debtors	7,575	(11,728)
(Decrease)/increase in creditors	(7,267)	3,163
Net cash used in operating activities	<u>(49,598)</u>	<u>(67,503)</u>
Cash flows from investing activities		
Purchase of intangible fixed assets	(4,937)	(7,574)
Interest received	295	278
Net cash used in investing activities	<u>(4,642)</u>	<u>(7,296)</u>
Net decrease in cash and cash equivalents	(54,240)	(74,799)
Cash and cash equivalents at the beginning of the year	247,473	322,272
Cash and cash equivalents at the end of year	<u><u>193,233</u></u>	<u><u>247,473</u></u>
Cash and cash equivalents at the end of year comprise:		
Cash and cash equivalents	193,233	247,473
	<u><u>193,233</u></u>	<u><u>247,473</u></u>

The notes on pages 9 to 19 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102 ('FRS 102'), the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the OFSO's accounting policies (see note 2).

1.2 Going Concern

The OFSO continues to adopt the going concern basis in preparing its financial statements for the following reasons:

- All statutory aspects of the mandate are in place making the OFSO mandatory;
- There is statutory ability to levy industry to cover operating costs;
- There is a strong cash position and prudent operating reserves;
- Operational momentum including case files and associated case fee income tracking to plan;
- As regards the pan-Channel Islands, joint operation of the OFSO and its Guernsey equivalent, there is a Memorandum of Understanding in place between the Guernsey Committee for Economic Development and the Minister.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.3 Revenue

The intent under-pinning the design of the OFSO's funding regime is to charge on a basis that is transparent, fair and simple to administer in the first few years of the OFSO's operation. A wide-ranging review of the funding approach was carried out from April 2017 to June 2018 and involved several stages of stakeholder consultation. The OFSO board decided to adopt a new structure for the annual levies, under which the levy charged to individual financial services providers will no longer differ depending on the island in which they are based. After developing the necessary changes to legislation during 2019, this change will take effect from January 2020.

The Financial Services Ombudsman (Case-fee and Levy) (Jersey) Regulations 2015, as amended by the Financial Services Ombudsman (Case-Fee, Levy and Budget – Amendments) (Jersey) Regulations 2018, provide for the OFSO to prescribe schemes for case fees and levies to be paid by certain financial services providers in respect of the expenses of the OFSO.

Sources of revenue

The principal sources of revenue are annual levies and case fees.

Annual levy

The detail regarding the levies for 2018 is set out in the Financial Services Ombudsman Levy Scheme (Jersey) 2018 (the '2018 Jersey Levy Scheme').

The OFSO's levies are payable by 'Registered Providers', as defined in the Financial Services Ombudsman (Case-Fee and Levy) (Jersey) Regulations 2015. Broadly these are providers that are required to register with the Jersey Financial Services Commission ("the Commission") or are licensed or hold a certificate or permit under the regulatory laws as specified. Data on registered providers is provided by the Commission to the OFSO, as set out in the Financial Services Ombudsman (Jersey) Law 2014.

The 2018 levy was payable per sector of activity for which, on 2 January 2018, a provider was registered with or held a licence, permit or certificate from the Commission, unless the Registered Provider was entitled to zero-rating in accordance with the 2018 Jersey Levy Scheme. Levy notices were sent out from May to November 2018 and Registered Providers were required to pay to the OFSO the levy as specified in the levy notice, unless they certified as zero-rated in accordance with the procedure specified in the levy notice.

The 2018 levies raised the funding required for the operation of the OFSO in 2018. In setting the amount to be raised in levies the OFSO board was mindful of the need to minimise year-on-year variability of levy amounts and, as part of a two-year plan for 2017 and 2018, managed the reserves and expected case fee income carefully to keep the increase in the total levy amount required to 5.7%. For 2018, the total levy amount required in Jersey was £327,552.

As is shown, the actual amount received in levies was greater. This higher collection is due to the estimates of the number of new registered providers that would be eligible for zero-rating being higher than actual.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

Case fees

Case fees are set in the Financial Services Ombudsman Fee Scheme (Jersey) 2018. Case fees are charged on a fixed basis irrespective of the outcome and the time and other costs incurred relating to the specific case. Each financial services provider must pay to the OFSO a case fee for each complaint against the provider that is referred to the OFSO, 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.

The amount of the case fee for each complaint received on or after 1 April 2018 is:

- nil for Community Savings Limited;
- £400 for any registered provider that is liable to pay a levy; and
- £900 for any other provider.

The amount of the case fee for each complaint received in the period 1 January 2017 to 31 March 2018 is:

- nil for Community Savings Limited;
- £300 for any registered provider that is liable to pay a levy; and
- £750 for any other provider.

The amount of the case fee for each complaint received prior to 1 January 2017 is:

- nil for Community Savings Limited;
- £200 for any registered provider that is liable to pay a levy; and
- £600 for any other provider.

Recognition bases

Levy income

Levy income is recognised in the period to which the levy relates.

Case fee income

Case fee income is recognised when it is billable. A complaint becomes billable once it has completed the initial jurisdictional checks and has not been rejected as ineligible or for other reasons in accordance with the legislation. Ordinarily, the OFSO will invoice any case fees annually in arrears. For Registered Providers that are subject to the annual levy, the OFSO will invoice any case fees for the preceding year in conjunction with the levy for the current year. If any provider accumulates 10 or more case fees since the previous case fee invoice (or since the OFSO opened for business) the OFSO may issue an interim case fee invoice.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.4 Intangible and tangible assets

Intangible assets comprise primarily of the OFSO's website and brand and its bespoke complaint management system (CMS). These assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

The estimated useful lives range as follows:

Website & Brand	-	5	years
Complaint management system	-	5	years
Computer equipment	-	4	years

The board's policy is to only capitalise items over £1,000 in total per item (£500 per OFSO).

Intangible asset amortisation commences upon commissioning of the asset in question. Amortisation of the CMS began in 2017 when the OFSO started using the system for all new complaints received.

1.5 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts (if applicable) that are repayable on demand and form an integral part of the OFSO's cash management.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.6 Financial instruments

Financial instruments are classified as basic or other financial instruments in accordance with Section 11 and 12 of FRS 102. Basic financial instruments include unbilled income, debtors, cash and cash equivalents, trade and other creditors and accrued expenses. There are no other financial instruments in these financial statements.

(i) Financial assets

Unbilled income and debtors are recognised initially at the transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Financial assets measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Earnings.

Financial assets are derecognised when the contractual rights to cash flows from the asset expire or are settled.

(ii) Financial liabilities

Trade and other creditors and accrued expenses are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

(iii) Offsetting

No financial assets and liabilities have been offset at the year end date.

(iv) Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

1.7 Taxation

The income of the OFSO is not subject to Income Tax under the Income Tax (Jersey) Law 1961.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.8 Foreign currency translation

Functional and presentation currency

The OFSO's functional and presentational currency is GBP because that is the currency of the primary economic environment in which the OFSO operates.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Income and Retained Earnings.

1.9 Finance costs

Finance costs are charged to the Statement of Income and Retained Earnings over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.10 Pensions

The OFSO provides membership of an outsourced defined contribution plan for its employees. A defined contribution plan is a pension plan under which the OFSO pays fixed contributions into a separate entity. Once the contributions and administration fees have been paid the OFSO has no further payment obligations.

The contributions are recognised as an expense in the Statement of Income and Retained Earnings when they fall due. Amounts not paid are shown within creditors as a liability in the Statement of Financial Position. The assets of the plan are held separately from the OFSO in independently administered funds.

1.11 Interest receivable and similar income

Interest income is recognised in the Statement of Income and Retained Earnings using the effective interest method.

1.12 Borrowing costs

All borrowing costs are recognised in the Statement of Income and Retained Earnings in the year in which they are incurred.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.13 Operating Lease

Rentals under operating leases are charged to the Statement of Income and Retained Earnings on a straight-line basis over the term of the lease.

1.14 Expenses

Expenses are accounted for on an accrual basis. Operating expenses incurred are shared equally between the two offices, OFSO and the equivalent body in Guernsey.

2. Judgments in applying accounting policies and key sources of estimation uncertainty

Recoverability of unbilled income and debtors are the key areas of judgement.

In assessing unbilled income recoverability, management have considered each entity's awareness of the OFSO's case fee and levy schemes and whether the entity to be billed is still in operation.

In assessing debtor recoverability management have considered any certifications regarding zero rating, whether the entity is still in operation and whether the entity is still a Registered Provider (see Note 1.3).

3. Analysis of revenue

An analysis of revenue is presented below:

	2018	2017
	£	£
Case fees	58,400	35,425
Levies	347,503	280,440
Interest on overdue levies	23	-
	<u>405,926</u>	<u>315,865</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4. Administrative expenses

	2018	2017
	£	£
Directors remuneration	21,000	21,000
Staff salaries	236,478	201,492
Employer social security	11,752	10,341
Staff pension costs	19,521	18,760
Staff training	9,045	9,101
Hotels, travel and subsistence	7,941	7,689
Computer costs	24,704	23,506
Legal and professional	2,626	5,948
Case-related costs	13,086	-
Auditor's remuneration	14,684	15,900
Accountancy fees	13,968	1,950
Bad debts	1,200	-
Rent and rates	21,924	20,216
Insurances	15,109	12,704
Recruitment	3,393	4,328
Other	16,752	11,404
	<u>433,183</u>	<u>364,339</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

5. Intangible and tangible assets

	Computer equipment £	Website and Brand £	Complaint Management system £	Total £
Cost				
At 1 January 2018	-	4,402	12,042	16,444
Additions	636	2,400	1,901	4,937
At 31 December 2018	<u>636</u>	<u>6,802</u>	<u>13,943</u>	<u>21,381</u>
Amortisation				
At 1 January 2018	-	2,080	2,081	4,161
Amortisation for the year	26	1,201	2,549	3,776
At 31 December 2018	<u>26</u>	<u>3,281</u>	<u>4,630</u>	<u>7,937</u>
Net book value				
At 31 December 2018	<u>610</u>	<u>3,521</u>	<u>9,313</u>	<u>13,444</u>
At 31 December 2017	<u>-</u>	<u>2,322</u>	<u>9,961</u>	<u>12,283</u>

6. Unbilled income (Net of provision)

	2018 £	2017 £
Case fees (see note 1.3)	63,450	37,025
	<u>63,450</u>	<u>37,025</u>

7. Debtors (Net of provisions)

	2018 £	2017 £
Trade debtors	3,810	10,153
Other debtors	1,181	2,413
	<u>4,991</u>	<u>12,566</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. Cash and cash equivalents

	2018	2017
	£	£
Cash and cash equivalents	193,233	247,473
	<u>193,233</u>	<u>247,473</u>

The OFSO and the equivalent body in Guernsey share one current account and one savings account under the account name "The Offices of the Financial Services Ombudsman - CI". The above balance reflects the OFSO's share of the balance. The current account has an unutilised overdraft facility of £250,000.

9. Creditors: Amounts falling due within one year

	2018	2017
	£	£
Trade and other creditors	11,409	20,526
Accruals	19,550	17,700
	<u>30,959</u>	<u>38,226</u>

10. Financial instruments

	2018	2017
	£	£
Financial assets		
Financial assets measured at amortised cost	261,674	297,064
	<u>261,674</u>	<u>297,064</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(30,959)	(38,226)
	<u>(30,959)</u>	<u>(38,226)</u>

11. Accumulated Surplus

The accumulated surplus includes all current and prior period retained profits and losses.

The Financial Services Ombudsman (Jersey) Law 2014 states that the OFSO may, in accordance with any guidelines set by the Minister for Treasury and Resources;

- (a) accumulate a reserve of such amount as it considers necessary, and
- (b) invest that reserve and any of its other funds and resources that are not immediately required for the performance of its functions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

12. Other financial commitments

During 2017, the OFSO entered into a new serviced office licence agreement with Vantage Innovation Limited with a commencement date of 1 January 2018, fixed until 31 December 2019 (£3,654 per month). The breakdown of the commitments which have been allocated to the OFSO are as follows:

	2018 £	2017 £
Due within 1 year	21,924	21,924
Due 2 – 5 years	-	21,924
	<u>21,924</u>	<u>43,848</u>

13. Related Party Transactions

During the year board remuneration of £12,000 (2017: £12,000) was paid to David Thomas, the chairman and £9,000 (2017: £9,000) was paid in aggregate to the three non-executive directors. No amounts were outstanding at the year end.

The principal ombudsman is considered to be key management personnel. Remuneration in respect of the principal ombudsman is £74,942 (2017: £72,458).

14. Subsequent events

A court hearing was held on 19 February 2019 in the matter of a judicial review, brought by a financial services provider, against a determination made by the Channel Islands Financial Ombudsman on a complaint against that provider. The court heard the application and dismissed it on all grounds. For the period from 1 January 2019 to the date of signing these financial statements there were no other material events that require disclosure and/or adjustments in these financial statements.

15. Contingent liability

As at 31 December 2018 the Channel Islands Financial Ombudsman were party to an ongoing legal case with a financial services provider. The directors deemed the likelihood of the outcome of the legal case being found against the Channel Islands Financial Ombudsman to be remote at the year end and as such no provision for legal costs or economic outflow was made in the financial statements. The directors also determined that no reliable estimate could be made for the legal costs or economic outflow as at the year end and hence have not disclosed this information.

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

DETAILED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £	2017 £
Revenue	405,926	315,865
Gross profit	<u>405,926</u>	<u>315,865</u>
Less: overheads		
Administration expenses	(433,183)	(364,339)
Operating loss	<u>(27,257)</u>	<u>(48,474)</u>
Interest receivable	295	278
Loss for the year	<u>(26,962)</u>	<u>(48,196)</u>

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Revenue

	2018 £	2017 £
Operational levies - banking	163,785	133,550
Operational levies - other	183,718	146,890
Case fees	58,400	35,425
Interest on overdue case fees	23	-
	<u>405,926</u>	<u>315,865</u>

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Administration expenses

	2018	2017
	£	£
Directors remuneration	21,000	21,000
Staff salaries	236,478	201,492
Employer social security	11,752	10,341
Staff pension costs – defined contribution schemes	19,521	18,760
Staff training	9,045	9,101
Hotels, travel and subsistence	7,941	7,689
Computer costs	24,704	23,506
Legal and professional	2,626	5,948
Case-related costs	13,086	-
Auditor's remuneration	14,684	15,900
Accountancy fees	13,968	1,950
Rent and rates	21,924	20,216
Insurances	15,109	12,704
Recruitment	3,393	4,328
Printing and stationery	1,751	1,278
Postage	1,329	412
Telephone and fax	552	542
General office expenses	1,800	1,118
Trade subscriptions	2,085	2,678
Bank charges	898	869
Line of credit charge	1,563	-
Bad debts	1,200	-
Amortisation - website & brand	3,776	2,961
Governance expenses	282	-
Administration	2,716	1,545
	433,183	364,339

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Interest receivable

	2018 £	2017 £
Bank interest received	295	278
	<u>295</u>	<u>278</u>



APPENDIX

APPENDIX 2 2018 AUDITED FINANCIAL STATEMENTS

Office of the Financial Services Ombudsman (Guernsey)



OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY

OFSO INFORMATION

Directors	David Thomas - Chairman John Curran Deborah Guillou John Mills
Administration office	Channel Islands Financial Ombudsman No 3 The Forum Grenville Street St. Helier Jersey JE4 9QG
Independent auditors	KPMG Channel Islands Limited 37 Esplanade St. Helier Jersey JE4 8WQ
Principal Ombudsman	Douglas Melville

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**CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

The Chairman presents his statement for the year.

The Channel Islands Financial Ombudsman (CIFO) is the joint operation of the Office of the Financial Services Ombudsman (OFSO) established by the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014 and the equivalent body established by law in Jersey. The OFSO's financial statements reflect the fact that it is part of the joint operation.

In particular, a Memorandum of Understanding between the States of Guernsey and the States of Jersey provides that the operating expenses of the joint operation are to be divided equally between the two bodies until the end of 2019. These shared operating expenses are raised by levies currently divided equally between the financial sector in each Bailiwick, supplemented by case fees. This has meant that the actual levy paid by a financial services provider differs depending on the Bailiwick in which it is located, because of different numbers of providers in each. The Board concluded its wide-ranging and multi-stage review of the funding model in 2018 and decided to adopt a new structure for the annual levies. This is broadly based on the existing model of a fixed charge (by way of annual levy) to be divided among all relevant providers in both islands and a user-pays charge (by way of case fees) to be paid by those providers about which cases are handled by CIFO. But the new structure will use a different method to divide the total levy amount so that the levy charged to individual providers will not differ depending on the island in which they are based. Due to the States' resources required to develop the necessary changes to legislation to implement the new structure, it will be put in place for 2020.

The OFSO Board seeks to maintain an operating reserve sufficient to allow for unforeseeable volatility in complaint numbers and to cover operating costs until the next set of levy payments are received towards the middle of the following year. This is reflected in the accumulated surplus at the end of 2018.

Maintenance of a prudent reserve helps the OFSO Board to smooth fluctuations from year to year, by increasing or reducing reserves accordingly. For 2018 the Board again planned a reduction in reserves, by budgeting for a deficit between revenue and expenditure. The deficit in the accounts is broadly in line with the budget.

Expenditure increased in 2018, mainly due to increased staff costs to assist with the consistent volume of complaints; as well as increased case-related costs and outsourced accountancy costs.

[Original signed on 25 April 2019]

David Thomas
Chairman

25 April 2019

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors present their report and the financial statements for the year ended 31 December 2018.

Directors' responsibilities statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

The Financial Services Ombudsman (Bailiwick of Guernsey) Law, 2014 requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Office of the Financial Ombudsman ("OFSO") and of the profit or loss of the OFSO for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the OFSO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- use the going concern basis of accounting unless they either intend to liquidate the OFSO or to cease operations, or have no realistic alternative but to do so; and
- submit the accounts and report to the Committee for Economic Development (the 'Committee') not later than 4 months after the end of the financial year.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the OFSO and enable them to ensure that the financial statements comply with the Financial Services Ombudsman (Bailiwick of Guernsey) Law, 2014. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the OFSO and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the OFSO's website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Principal activity

The OFSO's primary function is to ensure that complaints about financial services are resolved:

- independently, and in a fair and reasonable manner,
- effectively, quickly, with minimum formality, and so as to offer an alternative to court proceedings that is more accessible for complainants, and
- by the most appropriate means, whether by mediation, referral to another forum, determination by an Ombudsman or in any other manner.

Results

The Statement of Income and Retained Earnings for the year is set out on page 6.

Directors

The directors who served during the year were:

David Thomas - Chairman
John Curran
Deborah Guillou
John Mills

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the OFSO's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the OFSO's auditors are aware of that information.

Independent Auditors

The auditors, KPMG Channel Islands Limited, have indicated their willingness to continue in this capacity.

This report was approved by the board on 25 April 2019 and signed on its behalf.

[Original signed on 25 April 2019]

Director

Independent Auditor's Report to the Committee for Economic Development of the States of Guernsey (the "Committee")

Our opinion is unmodified

We have audited the financial statements (the "Financial Statements") of the Financial Services Ombudsman - Guernsey (the "Body Corporate"), which comprise the statement of financial position as at 31 December 2018, the Statements of income and retained earnings, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Body Corporate as at 31 December 2018, and of the Body Corporate's financial performance and Body Corporate's cash flows for the year then ended;
- are prepared in accordance with United Kingdom accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been properly prepared in accordance with the requirements of the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Body Corporate in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 2, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Body Corporate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Body Corporate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Committee

This report is made solely to the Committee, as a body, in accordance with Schedule 1(5)(4)(a) of the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014. Our audit work has been undertaken so that we might state to Committee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Committee, as a body, for our audit work, for this report, or for the opinions we have formed.

[Original signed on 26 April 2019]

James Le Bailly

For and on behalf of KPMG Channel Islands Limited

Chartered Accountants, Jersey

April 2019

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £	2017 £
Revenue	3	376,762	316,755
Gross profit		376,762	316,755
Administrative expenses	4	(432,946)	(365,146)
Operating loss		(56,184)	(48,391)
Interest receivable and similar income		295	278
Deficit and total loss for the year		<u>(55,889)</u>	<u>(48,113)</u>
Retained earnings at the beginning of the year		205,497	253,610
Deficit and total loss for the year		(55,889)	(48,113)
Retained earnings at the end of the year		<u>149,608</u>	<u>205,497</u>

All amounts relate to continuing operations.

The notes on pages 9 to 18 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £	2017 £
Fixed assets			
Intangible assets	5	13,444	12,283
		<u>13,444</u>	<u>12,283</u>
Current assets			
Unbilled income	6	25,650	23,025
Debtors	7	2,163	26,792
Cash and cash equivalents	8	138,263	181,623
		<u>166,076</u>	<u>231,440</u>
Current liabilities			
Creditors	9	(29,912)	(38,226)
Net current assets		<u>136,164</u>	<u>193,214</u>
Total assets less current liabilities		<u>149,608</u>	<u>205,497</u>
Net assets		<u>149,608</u>	<u>205,497</u>
Capital and reserves			
Accumulated surplus	11	149,608	205,497
		<u>149,608</u>	<u>205,497</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 April 2019.

[Original signed on 25 April 2019]

Director

The notes on pages 9 to 18 form part of these financial statements.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 £	2017 £
Cash flows from operating activities		
Deficit and total loss for the year	(55,889)	(48,113)
Adjustments for:		
Interest received	(295)	(278)
Amortisation of intangible assets	3,776	2,961
Increase in unbilled income	(2,625)	(11,625)
Decrease/(increase) in debtors	24,629	(25,560)
(Decrease)/increase in creditors	(8,314)	3,163
Net cash used in operating activities	<u>(38,718)</u>	<u>(79,452)</u>
Cash flows from investing activities		
Purchase of intangible fixed assets	(4,937)	(7,574)
Interest received	295	278
Net cash used in investing activities	<u>(4,642)</u>	<u>(7,296)</u>
Net decrease in cash and cash equivalents	(43,360)	(86,748)
Cash and cash equivalents at the beginning of the year	181,623	268,371
Cash and cash equivalents at the end of year	<u><u>138,263</u></u>	<u><u>181,623</u></u>
Cash and cash equivalents at the end of year comprise:		
Cash and cash equivalents	138,263	181,623
	<u><u>138,263</u></u>	<u><u>181,623</u></u>

The notes on pages 9 to 18 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102 ('FRS 102'), the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the OFSO's accounting policies (see note 2).

1.2 Going Concern

The OFSO continues to adopt the going concern basis in preparing its financial statements for the following reasons:

- All statutory aspects of the mandate are in place making the OFSO mandatory;
- There is statutory ability to levy industry to cover operating costs;
- There is a strong cash position and prudent operating reserves;
- Operational momentum including case files and associated case fee income tracking to plan;
- As regards the pan-Channel Islands, joint operation of the OFSO and its Jersey equivalent, there is a Memorandum of Understanding in place between the Committee and the Jersey Minister for Economic Development, Tourism, Sport and Culture.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.3 Revenue

The intent under-pinning the design of the OFSO's funding regime is to charge on a basis that is transparent, fair and simple to administer in the first few years of the OFSO's operation. A wide-ranging review of the funding approach was carried out from April 2017 to June 2018 and involved several stages of stakeholder consultation. The OFSO board decided to adopt a new structure for the annual levies, under which the levy charged to individual financial services providers will no longer differ depending on the island in which they are based. After developing the necessary changes to legislation during 2019, this change will take effect from January 2020.

The Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) Order, 2015, as amended by the Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) (Amendment) Order, 2018, provides for the OFSO to prescribe schemes for case fees and levies to be paid by certain financial services providers in respect of the expenses of the OFSO.

Sources of revenue

The principal sources of revenue are annual levies and case fees.

Annual levy

The detail regarding the levies for 2018 is set out in the Financial Services Ombudsman Levy Scheme (Bailiwick of Guernsey) 2018 (the '2018 Guernsey Levy Scheme').

The OFSO's levies are payable by 'Registered Providers', as defined in the Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) Order, 2015. Broadly these are providers that are required to register with Guernsey Financial Services Commission ("the Commission") or are licensed under the regulatory laws as specified. Data on registered providers is provided by the Commission to the OFSO, as set out in the Financial Services Ombudsman (Bailiwick of Guernsey) Law, 2014.

The 2018 levy was payable per sector of activity for which, on 2 January 2018, a provider was registered with or held a licence from the Commission, unless the Registered Provider was entitled to zero-rating in accordance with the 2018 Guernsey Levy Scheme. Levy notices were sent out from May to August 2018 and Registered Providers were required to pay to the OFSO the levy as specified in the levy notice, unless they certified as zero-rated in accordance with the procedure specified in the levy notice.

The 2018 levies raised the funding required for the operation of the OFSO in 2018. In setting the amount to be raised in levies the OFSO board was mindful of the need to minimise year-on-year variability of levy amounts and, as part of a two-year plan for 2017 and 2018, managed the reserves and expected case fee income carefully to keep the increase in the total levy amount required to 5.7%. For 2018, the total levy amount required to be raised in Guernsey was £327,552.

As is shown, the actual amount received in levies was greater. This higher collection is due to the estimates of the number of new registered providers that would be eligible for zero-rating being higher than actual.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

Case fees

Case fees are set in the Financial Services Ombudsman Fee Scheme (Bailiwick of Guernsey) 2018. Case fees are charged on a fixed basis irrespective of outcome and the time and other costs incurred relating to the specific case. Each financial services provider must pay to the OFSO a case fee for each complaint against the provider that is referred to the OFSO, 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.

The amount of the case fee for each complaint received on or after 1 April 2018 is:

- £400 for any registered provider that is liable to pay a levy; and
- £900 for any other provider.

The amount of the case fee for each complaint received in the period 1 January 2017 to 31 March 2018 is:

- £300 for any registered provider that is liable to pay a levy; and
- £750 for any other provider.

The amount of the case fee for each complaint received prior to 1 January 2017 is:

- £200 for any registered provider that is liable to pay a levy; and
- £600 for any other provider.

Recognition bases

Levy income

Levy income is recognised in the period to which the levy relates.

Case fee income

Case fee income is recognised when it is billable. A complaint becomes billable once it has completed the initial jurisdictional checks and has not been rejected as ineligible or for other reasons in accordance with the legislation.

Ordinarily, the OFSO will invoice any case fees annually in arrears. For Registered Providers that are subject to the annual levy, the OFSO will invoice any case fees for the preceding year in conjunction with the levy for the current year.

If any provider accumulates 10 or more case fees since the previous case fee invoice (or since the OFSO opened for business) the OFSO may issue an interim case fee invoice.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies (continued)

1.4 Intangible and tangible assets

Intangible assets comprise primarily of the OFSO's website and brand and its bespoke complaint management system (CMS). These assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

The estimated useful lives range as follows:

Website & Brand	-	5	years
Complaint management system	-	5	years
Computer equipment	-	4	years

The board's policy is to only capitalise items over £1,000 in total per item (£500 per OFSO).

Intangible asset amortisation commences upon commissioning of the asset in question. Amortisation of the CMS began in 2017 when the OFSO started using the system for all new complaints received.

1.5 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts (if applicable) that are repayable on demand and form an integral part of the OFSO's cash management.

1.6 Financial instruments

Financial instruments are classified as basic or other financial instruments in accordance with Section 11 and 12 of FRS 102. Basic financial instruments include unbilled income, debtors, cash and cash equivalents, trade and other creditors and accrued expenses. There are no other financial instruments in these financial statements.

(i) Financial assets

Unbilled income and debtors are recognised initially at the transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Financial assets measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Earnings.

Financial assets are derecognised when the contractual rights to cash flows from the asset expire or are settled.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

(ii) Financial liabilities

Trade and other creditors and accrued expenses are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

(iii) Offsetting

No financial assets and liabilities have been offset at the year end date.

(iv) Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

1.7 Foreign currency translation

Functional and presentation currency

The OFSO's functional and presentational currency is GBP because that is the currency of the primary economic environment in which the OFSO operates.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Income and Retained Earnings.

1.8 Finance costs

Finance costs are charged to the Statement of Income and Retained Earnings over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.9 Pensions

The OFSO provides membership of an outsourced defined contribution plan for its employees. A defined contribution plan is a pension plan under which the OFSO pays fixed contributions into a separate entity. Once the contributions and administration fees have been paid the OFSO has no further payment obligations.

The contributions are recognised as an expense in the Statement of Income and Retained Earnings when they fall due. Amounts not paid are shown within creditors as a liability in the Statement of Financial Position. The assets of the plan are held separately from the OFSO in independently administered funds.

1.10 Interest receivable and similar income

Interest income is recognised in the Statement of Income and Retained Earnings using the effective interest method.

1.11 Borrowing costs

All borrowing costs are recognised in the Statement of Income and Retained Earnings in the period in which they are incurred.

1.12 Taxation

The income of the OFSO is not subject to Income Tax under the Income Tax (Guernsey) Law 1975.

1.13 Unbilled income

Income is recognised in the year it relates to. Any income relating to the current year but unbilled at the year-end is recognised as unbilled income.

1.14 Operating Lease

Rentals under operating leases are charged to the Statement of Income and Retained Earnings on a straight-line basis over the term of the lease.

1.15 Expenses

Expenses are accounted for on an accrual basis. Operating expenses incurred are shared equally between the two offices, OFSO and the equivalent body in Jersey.

2. Judgments in applying accounting policies and key sources of estimation uncertainty

Recoverability of unbilled income and debtors are the key areas of judgement.

In assessing unbilled income recoverability, management have considered each entity's awareness of the OFSO's case fee and levy schemes and whether the entity to be billed is still in operation.

In assessing debtor recoverability, management have considered certifications regarding zero-rating, whether the entity is still in operation and whether the entity is still a Registered Provider (see Note 1.3).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. Analysis of revenue

An analysis of revenue is presented below:

	2018	2017
	£	£
Case fees	24,300	19,825
Levies	348,853	296,930
Recovery of case related costs	3,590	-
Interest on overdue levies	19	-
	<u>376,762</u>	<u>316,755</u>

4. Administrative expenses

	2018	2017
	£	£
Directors remuneration	21,000	21,000
Staff salaries	236,478	201,492
Employer social security	11,752	10,341
Staff pension costs	19,521	18,760
Staff training	9,045	9,101
Hotels, travel and subsistence	7,941	7,689
Computer costs	24,704	23,506
Legal and professional	2,626	5,948
Case-related costs	13,086	-
Auditor's remuneration	14,684	15,900
Accountancy fees	13,968	1,950
Bad debts	963	807
Rent and rates	21,924	20,216
Insurances	15,109	12,704
Recruitment	3,393	4,328
Other	16,752	11,404
	<u>432,946</u>	<u>365,146</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

5. Intangible and tangible assets

	Computer Equipment £	Website and Brand £	Complaint Management system £	Total £
Cost				
At 1 January 2018	-	4,402	12,042	16,444
Additions	636	2,400	1,901	4,937
At 31 December 2018	<u>636</u>	<u>6,802</u>	<u>13,943</u>	<u>21,381</u>
Amortisation				
At 1 January 2018	-	2,080	2,081	4,161
Amortisation for the year	26	1,201	2,549	3,776
At 31 December 2018	<u>26</u>	<u>3,281</u>	<u>4,630</u>	<u>7,937</u>
Net book value				
At 31 December 2018	<u>610</u>	<u>3,521</u>	<u>9,313</u>	<u>13,444</u>
At 31 December 2017	<u>-</u>	<u>2,322</u>	<u>9,961</u>	<u>12,283</u>

6. Unbilled income (Net of provision)

	2018 £	2017 £
Case fees (see note 1.3)	25,650	23,025
	<u>25,650</u>	<u>23,025</u>

7. Debtors (Net of provisions)

	2018 £	2017 £
Trade debtors	982	24,379
Other debtors	1,181	2,413
	<u>2,163</u>	<u>26,792</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

8. Cash and cash equivalents

	2018 £	2017 £
Cash and cash equivalents	138,263	181,623
	<u>138,263</u>	<u>181,623</u>

The OFSO and the equivalent body in Jersey share one current account and one savings account under the account name "The Offices of the Financial Services Ombudsman - CI". The above balance reflects the OFSO's share of the balance. The current account has an unutilised overdraft facility with a limit of £250,000.

9. Creditors: Amounts falling due within one year

	2018 £	2017 £
Trade and other creditors	10,362	20,526
Accruals	19,550	17,700
	<u>29,912</u>	<u>38,226</u>

10. Financial instruments

	2018 £	2017 £
Financial assets		
Financial assets measured at amortised cost	166,076	231,440
	<u>166,076</u>	<u>231,440</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(29,912)	(38,226)
	<u>(29,912)</u>	<u>(38,226)</u>

11. Accumulated Surplus

The accumulated surplus includes all current and prior period retained profits and losses.

The establishing law states that the OFSO may, in accordance with any guidelines set by the States Policy and Resources Committee -

- (a) accumulate a reserve of such amount as it considers necessary, and
- (b) invest that reserve and any of its other funds and resources that are not immediately required for the performance of its functions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

12. Other financial commitments

During 2017, the equivalent body in Jersey entered into a new serviced office licence agreement with Vantage Innovation Limited with a commencement date of 1 January 2018, fixed until 31 December 2019 (£3,654 per month). The breakdown of the commitments which have been allocated to the OFSO are as follows:

	2018 £	2017 £
Due within 1 year	21,924	21,924
Due 2 – 5 years	-	21,924
	<u>21,924</u>	<u>43,848</u>

13. Related Party Transactions

During the year board remuneration of £12,000 (2017: £12,000) was paid to David Thomas, the chairman and £9,000 (2017: £9,000) was paid in aggregate to the three non-executive directors. No amounts were outstanding at the year end.

The principal ombudsman is considered to be key management personnel. Remuneration in respect of the principal ombudsman is £74,942 (2017: £72,458).

14. Subsequent events

A court hearing was held on 19 February 2019 in the matter of a judicial review, brought by a financial services provider, against a determination made by the Channel Islands Financial Ombudsman on a complaint against that provider. The court heard the application and dismissed it on all grounds. For the period from 1 January 2019 to the date of signing these financial statements there were no other material events that require disclosure and/or adjustments in these financial statements.

15. Contingent liability

As at 31 December 2018 the Channel Islands Financial Ombudsman were party to an ongoing legal case with a financial services provider. The directors deemed the likelihood of the outcome of the legal case being found against the Channel Islands Financial Ombudsman to be remote at the year end and as such no provision for legal costs or economic outflow was made in the financial statements. The directors also determined that no reliable estimate could be made for the legal costs or economic outflow as at the year end and hence have not disclosed this information.

DETAILED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £	2017 £
Revenue	376,762	316,755
Gross profit	<u>376,762</u>	<u>316,755</u>
Less: overheads		
Administration expenses	(432,946)	(365,146)
Operating loss	<u>(56,184)</u>	<u>(48,391)</u>
Interest receivable	295	278
Loss for the year	<u>(55,889)</u>	<u>(48,113)</u>

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Revenue

	2018 £	2017 £
Operational levies - banking	163,779	146,828
Operational levies - other	185,074	150,102
Case fees	24,300	19,825
Recovery of case related costs from FSPs	3,590	-
Interest on overdue levies	19	-
	<u>376,762</u>	<u>316,755</u>

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY

**SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Administration expenses

	2018	2017
	£	£
Directors remuneration	21,000	21,000
Staff salaries	236,478	201,492
Employer social security	11,752	10,341
Staff pension costs – defined contribution schemes	19,521	18,760
Staff training	9,045	9,101
Hotels, travel and subsistence	7,941	7,689
Computer costs	24,704	23,506
Legal and professional	2,626	5,948
Case-related costs	13,086	-
Auditor's remuneration	14,684	15,900
Accountancy fees	13,968	1,950
Rent and rates	21,924	20,216
Insurances	15,109	12,704
Recruitment	3,393	4,328
Printing and stationery	1,751	1,278
Postage	1,329	412
Telephone and fax	552	542
General office expenses	1,800	1,119
Trade subscriptions	2,085	2,678
Bank charges	898	869
Line of credit charge	1,563	-
Bad debts	963	807
Amortisation - website & brand	3,776	2,961
Governance expenses	282	-
Administration	2,716	1,545
	<u>432,946</u>	<u>365,146</u>

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Interest receivable

	2018 £	2017 £
Bank interest receivable	295	278
	<u>295</u>	<u>278</u>





Fairness of **outcome...**
Fairness of **process...**

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