

**Petrus Consulting**



**An tOmbudsman Seirbhísí  
Airgeadais agus Pinsean**

**Financial Services and  
Pensions Ombudsman**

**Review of the Levy  
paid by  
Financial Service Providers**

**February 2018**



**Institute of Management  
Consultants and Advisors**

**Registered Practice**

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## 1. EXECUTIVE SUMMARY

Petrus Consulting was requested by the Financial Services and Pensions Ombudsman Council to examine the levy system used by the Financial Services and Pensions Ombudsman (“FSPO”) and recommend improvements to the processes. The objective is to have a simple system that can be easily maintained and updated and that is acceptable and transparent to Financial Service Providers (“FSPs”). The work is also being carried out as a result of the implementation of new approaches to how the FSPO carries out its mandate. The terms of reference and scope are set out in section 2. **The report relates only to the work, and the levy raised, in connection with the financial services aspect of the FSPO’s activity. The work of the Ombudsman in relation to pension activities is funded separately by the exchequer.**

There is no major difference either in terms of how the FSPO is structured to deal with complaints from different categories of FSPs or in the scope of, or complexity of, individual complaints. The complexity of complaints is considered to be random and more difficult or more time consuming complaints can arise within any category. This means that complaints in different categories receive the same weighting as regards risk and complexity.

The existing cost allocation to the main FSP categories is based on a percentage allocation that no longer reflects the complaints experience of the FSPO. It also does not reflect the more recent experience of the FSPO in dealing with claims arising based on the introduction of the Dispute Resolution Service. There is no longer a direct relationship between the charges imposed and the level of complaints arising across the main categories of FSPs subject to the levy. While there was a rationale for the cost allocation in the past, over time the complaints experience has changed and the nature of the work carried out has also changed.

The manner in which the costs are allocated to individual categories of FSPs also varies across categories and can be based on a flat fee or be allocated based on Total Assets, Net Premium Income or Retail Customers or by reference to the amount paid to the Central Bank as part of the Central Bank’s levy process.

### Recommendations

This report highlights the need to rebalance between credit institutions and insurance institutions to bring the levy allocation into line with the actual complaints experience. This can be done in one year or phased in over a longer period but ideally should be done in the shortest time possible. Within the Insurance category there will also be a need to rebalance within the sub- categories in use namely Life, Non-life and Accident and Health.

The FSPO should continue to use Customer Numbers, Net Assets and Net Premium Income as the allocation bases for the relevant categories because these are well understood in their respective industries. The Financial Services and Pensions Ombudsman Act 2017 sets out in Section 18 a mechanism whereby the Central Bank can verify information and this provision should be sufficient to ensure that there is greater confidence in customer numbers being used.

The FSPO considers excluding individual FSPs if no claims have been upheld in the previous number of years thereby providing those FSPs with a strong incentive to resolve complaints internally. In addition, the FSPO should consider excluding the smaller FSPs from payment of the levy. Excluding the bottom 50% of FSPs would only impact 2% of total revenues. However, this apparent reduction would be recouped from the remaining top 50% of FSPs. The FSPO would continue to be fully funded by the larger FSPs and it could be expected that the levy administration workload would reduce by c. 50%.

The report recommends setting the flat fees and minimum levies to be paid by FSPs at €375 in each case so as to maintain revenue and ensure consistency across categories. Cheque payments should be eliminated alongside the introduction of a low cost, simple facility to accept card payments by telephone. Late payment fees or interest on overdue payments should be introduced and the fee for Investigations should be increased to a minimum of €1,000.

The report recommends that outsourcing all or some of the levy administration should not be carried out at this time although some software to facilitate debtor management should be considered.

## 2. TERMS OF REFERENCE AND METHODOLOGY

### 2.1. BACKGROUND AND METHODOLOGY

Petrus Consulting was engaged by the Financial Services and Pensions Ombudsman Council (“FSPOC”) to carry out a review of the levy<sup>1</sup> administration process in the Financial Services and Pensions Ombudsman Bureau (“FSPO”) and specifically to:

- Review current process, challenges and drivers for change
- Recommend improvements to current processes
- Recommend efficient and timely processes in processing future levies.

The current levy system has been in place since 2006 and, over time, the relationship between the level of effort related to client categories<sup>2</sup> and the amount of the overall budget / cost allocated to those categories in the form of the annual levy has become blurred. In addition, there has been a significant change in the way in which the Office carries out its work in the last 18 months. The current levy administration process would benefit from incentives for FSPs to resolve claims internally.

The work was carried out with the support of the FSPO and involved several meetings and interviews with FSPO staff at which the work of the FSPO was discussed and explained. Various reports were provided and reviewed as part of the work including the following:

- Legal basis for the levy in the form of the overarching Act and the annual Statutory Instruments.
- Analysis of Complaints by category of Financial Service Provider and Year
- Annual Budget and procedures to allocate the budget to FSP categories
- Strategic and Operational Review, 2016
- Review of Levies and Internal Financial Controls, 2016
- External Audit Comment on levy process
- Previous Financial Statements

A model was developed to examine the impact of changing the allocation basis under various assumptions in order to assess the significant cost drivers and variables to the charging methodology.

As part of the process a number of other regulatory bodies were also interviewed including the Aviation Regulator, the Broadcasting Authority of Ireland, COMREG, the Pensions Authority and the Competition and Consumer Protection Authority. Meetings were also held with the Central Bank, Department of Finance and industry representative bodies and a consumer representative body. See Appendix 2 for a list of organisations consulted.

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<sup>1</sup> The work of the FSPO related to Pensions is funded separately by the Exchequer and is not within the scope of this report.

<sup>2</sup> The categories of Financial Service Provider used to allocate the levy are set out in appendix 1.

## 2.2. SCOPE OF THE REVIEW

The financial information used throughout this report is based on figures for 2016 unless otherwise stated. In most cases the latest information available at the time of report preparation from published sources for other organisations charging a levy was for the financial year to December 2015.

## 2.3. STRUCTURE OF THE REPORT

This report is structured as follows:

- Section 1 Executive Summary contains a summary of the main findings from the review.
- Section 2 Background, terms of reference and methodology for the report.
- Section 3 Existing System Description, Issues Identified and Initial Findings
- Section 4 Analysis of Initial Findings and Recommendations

## 2.4. NEXT STEPS AND TIMETABLE

Where recommendations are made in this report a separate box is provided that sets out the intended approach that the FSPO intends to take whether by accepting, rejecting or amending the recommendation made.

The report will also be circulated to interested parties for comment and, following this consultation, the report will be submitted to the Financial Services and Pensions Ombudsman Council in March 2018 with the ensuing recommendations intended for implementation for the levy year 2019.

## 2.5. CONTEXTUAL UPDATE

This report was commenced in 2017 and was completed in January 2018 and refers in places to the, then, Financial Services Ombudsman (“FSO”).

The Financial Services and Pensions Ombudsman (“FSPO”) was established by the Financial Services and Pensions Ombudsman Act 2017 incorporating the work previously carried out separately by the Financial Services Ombudsman Bureau and the Pensions Ombudsman. It commenced its activities on 1 January 2018.

Where the context so requires, references are made to the FSO in relation to matters arising before the establishment of the FSPO and refers to the FSPO for matters arising after the establishment date.

**The report relates only to the work, and the levy raised, in connection with the financial services aspect of the FSPO’s activity. The work of the Ombudsman in relation to pension activities is funded separately by the exchequer.**

### 3. EXISTING SYSTEM DESCRIPTION

#### 3.1. REVIEW OF LEGISLATION

The Financial Services and Pensions Ombudsman Act 2017 - Section 43, provides that a levy is payable by financial service providers in respect of the services provided by the Ombudsman. Section 43 (4) states that The Council shall, with the consent of the Minister, prescribe by regulation the financial services industry levy to be paid having regard to the expenditure incurred or reasonably expected to be incurred by the Office in relation to complaints received by the Office in relation to financial service providers.

**Act 2017 – Extract – Emphasis Added**

43. (3) The financial services industry levy shall be paid to the Office on or before the date prescribed by the Council in regulations, in respect of the period concerned and in the manner specified by the Council.

(4) The Council shall ..... prescribe by regulation the financial services industry levy to be paid having regard to the expenditure incurred or reasonably expected to be incurred by the Office **in relation to complaints received** by the Office in relation to financial service providers.

**(5) The Council regulations may, having had regard to the number and type of complaints received by the Ombudsman, prescribe a different financial services industry levy under subsection (4) in respect of different financial service providers or different classes of financial service providers.**

(6) The amount of the financial services industry levy prescribed under subsection (4) shall not exceed those sums necessary to fund the operation of the Office having regard to the income and expenditure mentioned in section 19.

(7) The Council regulations may prescribe—

(a) having had regard to one or more of the following:

- (i) the amount of the outstanding levy or annual charge;
- (ii) the length of delay in payment of the outstanding levy or charge;
- (iii) a pattern, if any, of failure to pay, or to pay on time, the levy or charge,

**the penalties that shall be payable in cases of failure to pay the financial services industry levy or failure to pay the annual charge on time,**

(b) requirements in relation to the keeping of records and making of returns to the Office by persons who are liable to pay the financial services industry levy,

(c) requirements in relation to the collection and recovery of the financial services industry levy by the Office,

**(d) general or special exemptions from the payment of the financial services industry levy** (wholly or partly) in different circumstances,

**(e) a reduction in the financial services industry levy having regard to the method of payment of the charge,** and

(f) the financial service providers and different classes of financial services required to pay the financial services industry levy.

Section 43 (7) f gives the Council the power to specify the financial service provider and classes of financial services liable to pay the levy and therefore is presumed to also include the power not to

include specific groups or sub-groups such as those below a minimum size or meeting some other criterion or criteria.

Section 43 (7) d also allows for penalties to be payable for late payment of a levy or fee. The FSPO does not currently impose late penalties or Fees.

### 3.2. REVIEW OF LEVY IN OTHER REGULATORY BODIES

We examined a number of other national regulatory bodies which charge a levy. The table below summarises the key points for each of the bodies. The information was sourced from the relevant websites of the bodies supplemented with meetings with each of the bodies concerned. While the comparison is useful it should not be relied on in isolation as it does not take into account the different legislative remit of each regulatory body, the work practices involved in each body or the historical stage of development of the body concerned.

#### Aspects of Levy in Selected Regulatory bodies

Regulatory Body	Levy 2015 € 000's	Rate	No. of Staff	Legal Basis for Levy	Minimum Level	Notes
Broadcasting Authority	€4,748k Generally in range of €4.7m to €5.0m	For 2016 - From 2.15% to 0.4% decreasing depending on qualifying Income.	30.37 Excl. agency staff	Broadcasting Act 2009 (Section 33) Levy Order S.I. 7 of 2010	Turnover below €250,000 - €750 PA Considering removing this	Based on Qualifying Income. <b>The BAI outsourced the levy collection process.</b> The BAI sought to minimise the administrative burden imposed on FSPs, while simultaneously assuring the probity of the levy collection process. <b>....requirement of the levy reconciliation process to have each broadcaster (above 250k) independently verify their qualifying income for a given base year.</b> This can be by an independent accountant or by the auditor. Engagement letter examples and report formats are provided for guidance.
The Central Bank	€73,259k (2016)	Various according to Categories	Est. 1,600	S.I 429 of 2015 S.I 508 of 2016		Extensive coverage and numerous levy amounts.
Commission for Aviation Regulation	€1,969k	€635,112 per main airport €0.01191 per passenger €0.03361 per passenger	15 – Now 19	S.I. 552 of 2015 S.I. 592 of 2016	Turnover below €635,000 = €300 Levy for Tour Operators	Numerous charges in place. Have a “Central Levy” as well as Consumer Protection Levy Levy consultations in 2002 and 2007.

						Relatively small number of payers apart from Travel agents /Tour Operators (250) <b>DO NOT ACCEPT CHEQUES</b> Levy can increase if annual application is late Has a bonding Role and it receives Bonds and Accounts annually
The Competition and Consumer Protection Commission	€2,164k from levy Also €7,715k Oireachtas Grant	Credit institution €0.16337 per retail customer as at 31 December 2014.  Life assurance 0.002346% of its total net premium income 2013.  Non-life insurance 0.021091% of its total net premium income  Investment Firms €0.731 per retail client.  Credit union 0.000825% of its total assets	84	S.I. No. 457 of 2015 Consumer Protection Act 2007	€500 is payable by each credit institution.  €500 life assurance undertaking  €500 non-life insurance undertaking.  Minimum levy of €50  Minimum €50 by each credit union.	Corresponds closely to FSPO in its categories NB – Invoices issued and cash collected by the Central Bank 2015/6
COMREG	Electronic Communications €7,606k	Electronic Communications: 0.2% of “Relevant Turnover”	56 Other 41	Electronic Communication S.I. No. 346/2003	Only applies to turnover above €500,000  No Minimum Levy	Electronic Communications: Based on “Relevant Turnover”
	Postal €1,723k	Postal. 0.4% of the relevant turnover from USO.	5	Postal S.I. No. 181/2013		Postal Based on “Relevant Turnover” Premium Rate based on Call Revenues
	Premium Rate €439k	Premium Services Rate 0.5% to 1.8%	6	Premium Rate S.I. No. 339/2010		Comreg - S.I Extract 6.(1) ....submit to the Commission a statement, certified by a person who is qualified under the Companies Acts, 1963 to 2001 for appointment as auditor
Total	€9,768		108			



## Financial Services and Pensions Ombudsman Levy Review

						of a company, of the relevant turnover of the provider in that financial year.
FSPO						
<b>Credit Institutions</b>	€783k	€0.131 cent per retail customer as at 30 June 2016.		S.I. No. 54/2017	Minimum of €600 credit institution.	Based on Retail customers
<b>Insurance Institutions</b>	€2,152k	0.0481% of its total net premium income			Minimum of €600	Based on Net premium Income
<b>Accident and Health</b>		0.0254% of its total net premium income			Minimum of €600	Based on Net premium Income
<b>Investment Intermediary</b>	€312k	15% of the levy payable to the Central Bank of Ireland			Minimum €125	Based on payment to Central Bank
<b>Investment Business Firms</b>	€105k	12.09% of the annual industry-funding levy payable to the Central Bank			Minimum 750	Based on payment to Central Bank
<b>Credit Unions Other</b>	€374k €17k	0.00298% of its total assets			Minimum €175	Based on Total Assets
<b>Total</b>	€3,743k		27			
<b>Pensions Authority</b>	€3,207k	Pension: Below 500 members €8.00 per member. 500 to 1,000 members €4,000 fee. Over 100 members €4.00 per member.	42 in Total	S.I. No. 634 of 2010	Nil – but only if “Frozen”	Occupational Pension levy based on the number of members.  Over 50,000 schemes with 1 member each charged €8.00. Significant investment in systems automation
	€2,495k	PRSA €2,000 per product and .05 of Total PRSA Assets		S.I. No. 506 of 2002		PRSA levy based on the number of products and the value of funds under management. Self-certification but cross checks carried out
<b>Total</b>	€5,702k					

### Observations

- The Broadcasting Authority has outsourced the levy administration but still has to carry out a lot of work internally
- The Aviation Regulator does not accept cheques
- The Central Bank previously issued invoices and collected levy payments on behalf of the Competition and Consumer Protection Commission but this no longer applies

- Aviation regulator imposes penalties for late payment.

### 3.3. LEVY CALCULATION AND ALLOCATION

Prior to the establishment of the FSPO, the Financial Services Ombudsman Council published a Statutory Instrument annually setting out the levies to be applied to Financial Service Providers (FSPs). This S.I. required the consent of the Minister for Finance. In advance of publication, a detailed procedure<sup>3</sup> was followed in order to identify those FSPs liable to pay the levy and to calculate how much should be charged to each category of FSP. The funding required by way of a levy was based on calculating the budget for the upcoming period and adjusting this in order to reflect any carry forward of a surplus or deficit from the prior year and any adjustment for capital expenditure as follows:

Total Finance Required (i.e. budget)	XXXX
Anticipated surplus/deficit c/f	XXX
Capital Expenditure	(XXX)
Levy funding required	XXXX

The procedure calculated the proportion of the total levy funding to be paid by each category of FSP. For the main categories, apart from those categories due to pay a flat fee or a fee calculated by reference to the amount paid to the Central Bank, the average percentage that was used over the previous four years was averaged to obtain the percentage to be used in the current year. The percentages used determine the amount to be paid by these main categories of FSP. The monetary amounts so determined are recovered from the different FSP categories using a variety of charging bases including Retail customers, Net Premium Income or Total Assets.

### 3.4. POTENTIAL ISSUES IDENTIFIED

1. The allocation process outlined above is no longer appropriate because the percentages used no longer reflect the complaints experience. Please see detailed analysis in Section 4. Note that the absolute amount of the budget / cost recovery in total is not impacted in any significant manner and it is only the allocation of the amounts to be recovered from each category of FSP that is impacted. The allocation process needs to be rebalanced to charge each category based on the complaints experience from that category. This is explored in more detail in the following section.
2. There does not appear to be a direct relationship between the allocation basis in use for the levy in each category e.g. Retail customers, Net Premium Income, Total Assets, Flat fee etc. and the incidence of complaints arising. While there are issues regarding independent verification of customer numbers, it is also the case that there is a more direct relationship between complaints and customer numbers than, say, Total Assets or Net Premium income and complaints arising.
3. At present there are several different flat fees or minimum payments in use such as Bureaux de Change and Electronic Money Institutions – Flat fee €300, Retail Credit – Flat Fee €250, Other

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<sup>3</sup> Levy Calculation and Regulation Preparation Procedure and Policy 1.17

Regulated FSPs – Flat fee €200. There is no underlying rationale for the different flat fees in use. For each category, the allocation base, flat fee or minimum levy payable is set out below:

Ref	Category	Allocation Base	Minimum Levy €	Flat Fee €
Category A	Credit Institutions	Customers	600	
Category B	Insurance Undertakings.	Net Premium Income	600	
Category C	Intermediaries and Debt Management Firms	CB Basis	125	
Category D	Investment Business Firms (other than Investment Product Intermediaries)	CB Basis	750	
Category F	Credit Unions	Total Assets	175	
Category G	Approved Moneylenders	CB Basis	125	
Category H	Approved Professional Bodies	CB Basis	750	
Category J	Bureaux de Change and Money Transmission Service Providers	Na		300
Category K	Electronic Money Institutions	Na		300
Category L	Home Reversion Firms/Retail Credit Firms	Na		250
Category M	Other Regulated Financial Service Providers	Na		200
Category O	Business Transfers	Na	n/a	n/a
Category P	Default Assessments	Na		3,600
Category Q	All other Regulated Entities		€750 per complaint	

Rationalisation of flat fees will be discussed further in the following section.

- The number of Retail Customers is self-certified by the relevant FSP. There have been comments in the past about obtaining independent verification of the allocation base being used for credit institutions. If one or more credit institutions mis-state their customer numbers then there may be a consequential mis-allocation of cost to other FSPs in the same category. The total amount of the levy paid by the category will not be impacted but it may be the case that the distribution of the levy within that category may result in overcharging or undercharging to individual FSPs within the category. This issue will be discussed further in the following section along with the impact of the new legislative provisions whereby the Central Bank may validate information provided by the FSPO.
- The cost allocation to several categories is based on a percentage of what is payable by that category to the Central Bank. In theory it would be more efficient for the Central Bank to collect the levy amounts on behalf of the FSPO when collecting its own levy and pay this over when received. For example, Category C - Intermediaries and Debt Management Firms are liable to pay 15% of the amount they pay to the Central Bank. The Central Bank issued invoices and collected the levy on behalf of the Competition and Consumer Protection Commission in 2015/16. However, this practice has changed for the 2017 levy and the Competition and Consumer Affairs Commission will collect its own levy from now on. Following discussions with the Central Bank it is clear that it does not see a role for the Central Bank in collecting levy amounts on behalf of other organisations.

As regards insurance intermediaries, from preliminary discussions with the Insurance Brokers representative bodies it was stated that they would not wish to collect the levy on behalf of the Ombudsman. It is also the case that the levy paid to the Ombudsman by insurance

intermediaries is for a clear purpose and the work of the Ombudsman is, in general, well regarded.

Neither the Central Bank nor the representative bodies met are willing to collect the levy on behalf of the Ombudsman. No further consideration of this issue is proposed apart from a more general discussion on Outsourcing – see point 11 below and following.

6. The levy system does not include an incentive whereby FSPs, either individually or collectively within their category have an incentive to reduce the level of complaints and deal with complaints satisfactorily internally and thereby minimise the complaints referred to the Ombudsman. This issue will be examined further in conjunction with issue 7 on excluding smaller FSPs.
7. All FSPs regardless of size pay the levy with provision for a minimum levy to be paid according to the category of FSP involved. This means that there are approximately 500 FSPs paying a levy and the obligation to pay a levy is based on whether the FSP is within a category liable to pay the levy and not on the individual complaint experience of the individual FSP. Furthermore, the revenue collected from the levy is heavily concentrated with approximately 75% of the total levy funding raised from 20 FSPs and 90% raised from just 68 FSPs. The balance is raised from several hundred other FSPs. This issue will be examined further in the following section.
8. A large number of cheque payments are still received and the facility to pay by cheque should have been phased out several years ago. This will be examined further in the following section.
9. Penalties in the form of late payment fees or interest on late payments are not imposed even though such fees and interest are provided for in legislation. Other regulators charge such fees - e.g. BAI charges 3% over Euribor.
10. Investigation fees (Category Q) are currently set at a flat fee of €750 per complaint for all regulated entities not covered elsewhere. The charge per complaint is somewhat lower than the average cost per complaint and should be increased to a minimum of €1,000 per complaint based approximately on an annual budget of €4m and 4,000 complaints per annum.
11. At present all the levy administration is carried out internally. Consideration could be given to outsourcing the collection of the levy in whole or in part to a third party. The Broadcasting Authority of Ireland outsources their levy (2015, budget €4.7m) administration process to a third party for a relatively small fee. Broadly speaking, the BAI carries out all the work up to the point of budget preparation and levy calculation. The outsource provider issues invoices and follows up on payment. Payments are made directly to the account of the BAI. Regular reconciliations are carried out. There are about 100 broadcasters due to pay the broadcasting levy and although there are quarterly payments, verification of qualifying income requirements along with an initial estimated levy and final actual levy involved, the task is relatively straightforward and would not be comparable to the scale of work involved in the Ombudsman's office where there are many different categories. Outsourcing of aspects of the levy administration process is not considered to be a realistic option at this time given the other changes that are to be implemented but will be further discussed in the following section.

## 3.5. SUMMARY OF INITIAL FINDINGS

Findings	Issue	Significance /Impact	Level of Effort to Implement	Level of Effort Ongoing	Discussion	Status
1. Rebalancing as discussed above	Cost Allocation Imbalance between Categories	High	Medium	Medium	Recommended	To Be Developed in Following Section
2. Use consistent allocation base across all categories e.g. Use Customer Numbers or Net Assets instead of Total assets, NPI, for allocation within relevant categories?	Different Allocation bases in use	Medium	High	Medium	Consider Feasibility. Current system is working and is understood. The use of Customer numbers and Net Premium Income are appropriate to their respective financial sectors and are understood by those paying the levy	Not a critical issue at this time and if it were to be introduced at the same time as rebalancing it could lead to uncertainty but see further discussion in following section.
3. Rationalise the different flat fees and minimum levies in use	Different Minimum fees in use	Minor	Minor	Minor	Recommended	To Be Developed in Following Section
4. Obtain auditor or independent verification for large companies covering c.90% of levy with balance on self-certification by CEO/CFO	Equitable cost allocation within categories	Minor	Medium/High	Medium	Recommended if Customer numbers are still to be used as an allocation base	Consider possible impact of new legislation.
CB to collect levy in categories where the Ombudsman levy is a fixed amount of the CB levy	Reduce Workload	Medium	Medium	Medium	Not acceptable to CB	Following discussion with CB this is not feasible. No further action.
5. Consider excluding individual FSPs if no claims “upheld” in previous x years –	Incentive to resolve complaints internally	Medium	Medium	Medium	Incentives to be considered under the following finding below.	See finding below on Small payer exclusion

Findings	Issue	Significance /Impact	Level of Effort to Implement	Level of Effort Ongoing	Discussion	Status
Incentive to resolve internally.						
6. Exclude smallest FSPs from the levy based on e.g. turnover below 100k and customers < 50.	Incentive to resolve complaints internally	Minor / Medium	Minor	Minor	Financial impact – lost revenue would be paid by the remaining FSPs.	To Be Developed in Following Section
7. Eliminate cheque payments and introduce online payments system as the alternative.	Reduce Workload	Minor to Medium	Medium	Minor	Implement following D Finance Circular	To Be Developed in Following Section and provide simple online / phone based payment option(s)
8. Introduce late payment fees or interest on overdue payments – as allowed by legislation - Euribor +3%?	Provide Incentive to Pay on time	Small financial impact	Minor	Medium	For Discussion	To Be Developed in Following Section
9. Investigation fee of min 1,000 per complaint Category Q	Align charge with average cost	Minor	Minor	Minor	For Discussion	To Be Developed in Following Section
10. Outsourcing of Administrative aspects of levy	Reduce workload	Medium	High/Medium	Medium	Further consideration required	To Be Developed in Following Section

#### 4. ANALYSIS OF INITIAL FINDINGS AND RECOMMENDATIONS

##### 4.1. REBALANCING BASED ON ANALYSIS OF COMPLAINTS

The table below sets out the number of complaints dealt with by the Ombudsman and the proportion of complaints arising from each category of FSP in the period 2011 to 2016.

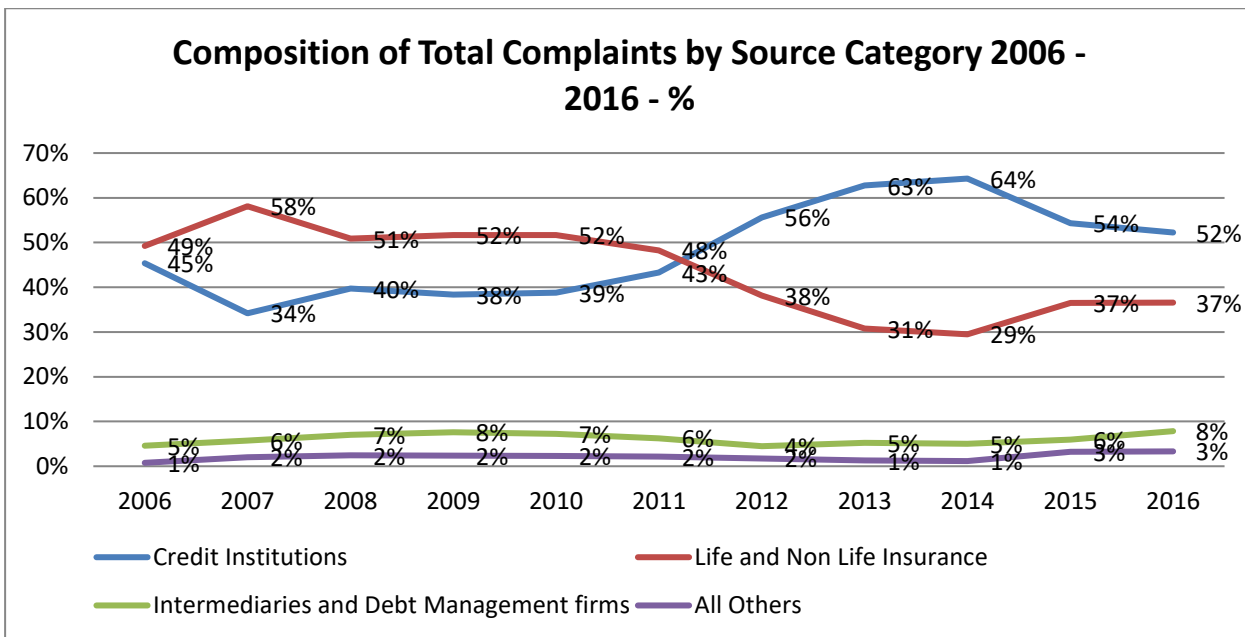
Financial Services Ombudsman - Complaints 2011 - 2016									
SI Ref	Type	Complaints Received						Six Years	
		2011	2012	2013	2014	2015	2016	Total	Total %
A	Credit Institutions	3,057	4,377	4,738	2,826	2,513	2,091	19,602	55%
B	Life and Non-Life Insurance	3,407	3,001	2,323	1,296	1,690	1,464	13,181	37%
C	Intermediaries and Debt Management firms	442	353	394	221	277	314	2,001	6%
D	Investment Business Firms	83	47	19	11	19	18	197	1%
F	Credit Unions	50	83	60	26	69	40	328	1%
G	Approved Moneylenders	13	8	13	6	39	19	98	0%
H	Approved Professional bodies							-	0%
J	Bureaux de Change	1	-	-	1	-	5	7	0%
K	Electronic Money Institutions								0%
L	Home reversion Firms								0%
M	Other regulated Financial Provider	5	1	5	8	22	51	92	0%
		7,058	7,870	7,552	4,395	4,629	4,002	35,506	100%

Source: Financial Services Ombudsman Annual Reviews 2015, 2016. Petrus Analysis

Looking below at the level and composition of complaints since 2006 shows that there has been a significant change in both the number of complaints and the source of the complaints. In the early years the Life and Non-life insurance category generated the highest number of complaints. Over the following years there was a period from 2008 to 2010 where there was a relatively stable relationship between the claims level in the two main categories of Credit and Insurance. Insurance accounted for c. 52% of complaints and Credit Institutions accounted for c. 39% of complaints.

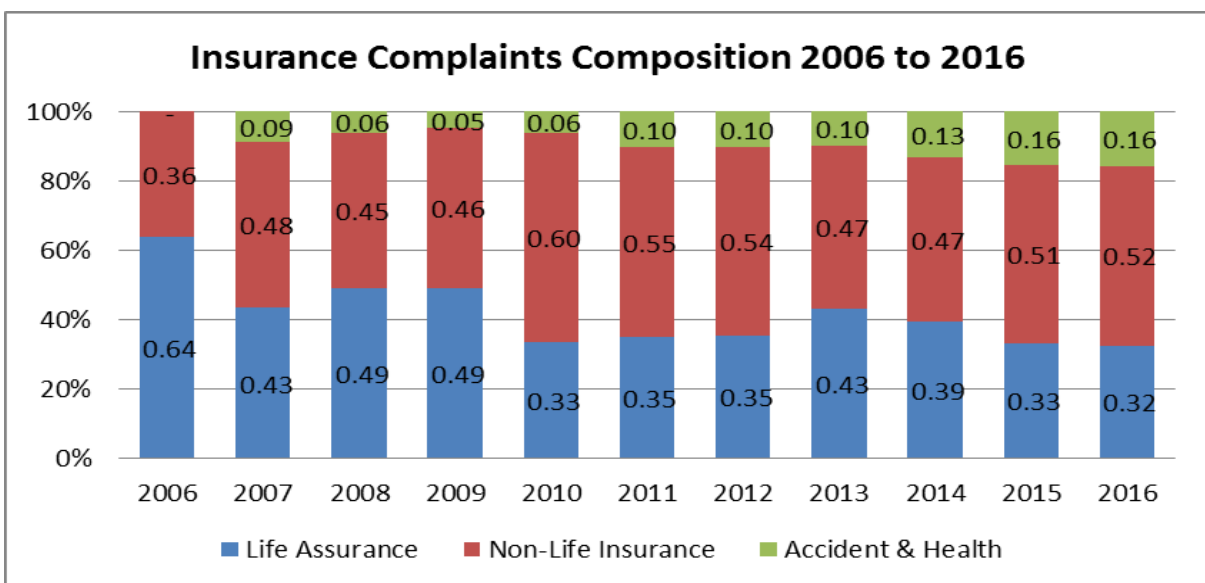
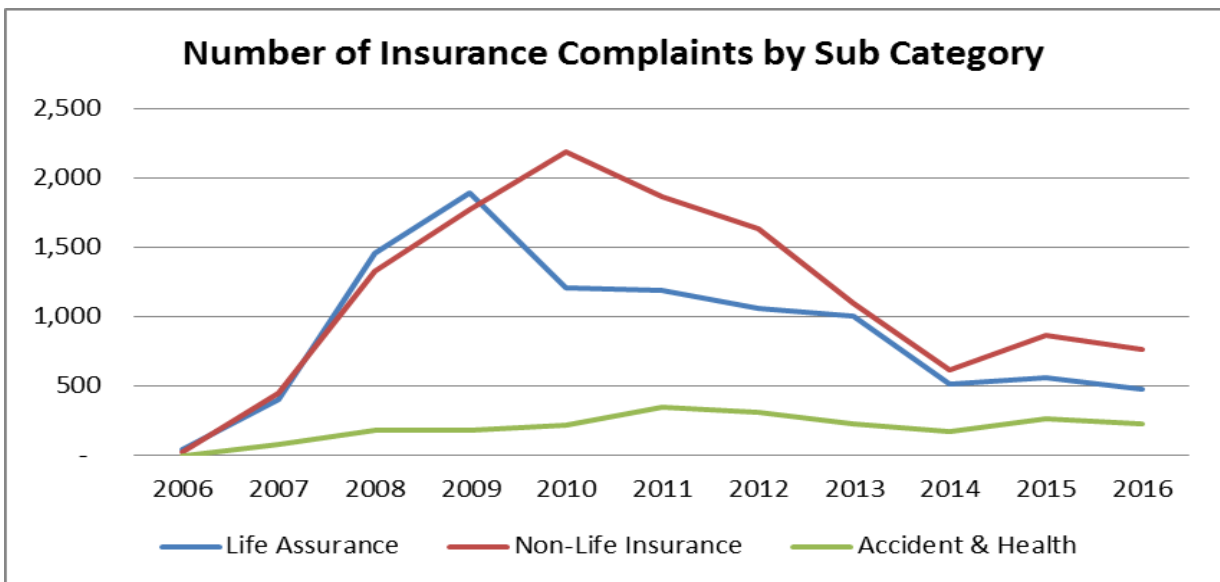
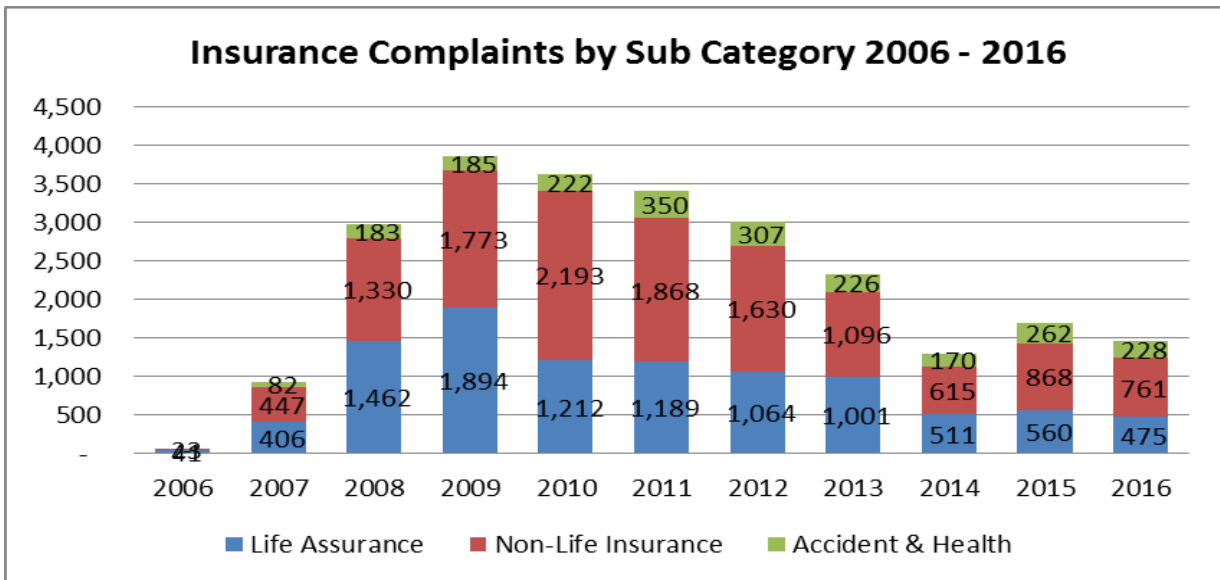
Beginning in 2011 there was a significant change in the relationship between the categories with the proportion of complaints from the Credit Institution category increasing and the proportion of complaints from the Insurance category decreasing. By 2016, after a substantial decrease in the overall number of complaints commencing in 2014, the previous relationship had been almost exactly reversed and Insurance now accounted for c. 37% of complaints and Credit Institutions accounted for c. 52% of complaints. The imbalance between the cost allocated to each category is believed to have taken place as a consequence of not reflecting this change in the source of complaints into the cost allocation process.

It should also be kept in mind that the introduction of the dispute resolution service took place in early 2016 and it is possible that the full effect of this on the behaviour of FSPs will result in further changes in volumes and the proportion of complaints arising within categories in the coming years.



The graph above takes Insurance as a single category whereas it is made up of three sub categories namely Life, Non-Life and Accident and Health. The graphs below show how the sub-category composition has changed over the years. Looking at the Insurance Complaints Composition graph, there has been a change in the composition of complaints over the years but in recent years the composition is relatively stable and is now approximately Life 35%, Non-Life 50% and Accident and Health 15% taking the average of the last three years.





Source: Petrus Analysis

Looking at the total complaints across all categories, the total number of complaints has reduced significantly since 2013 and the breakdown of complaints over the three years 2014 – 2016 shows that Credit Institutions accounted for 57% of complaints with Insurance Life, Non-Life and Health accounting for 34% of complaints. These two categories account for 91% of complaints overall. Investment Intermediaries made up 6% of complaints, Credit Unions, 1% and All Others, 2%.

Table 2 below sets out the allocation of the levy using the system currently in place. This shows that while Credit Institutions have been responsible for over 57% of complaints when averaged over the three years 2014 – 2016, the allocation of levy costs to Credit Institutions is approximately 23%. Similarly, while Insurance Institutions have been responsible for 34% of complaints they have been allocated over 57% of the total levy. Category C - Intermediaries - is almost balanced whereas Credit Unions are allocated 10% of costs but generate 1% of the complaints.

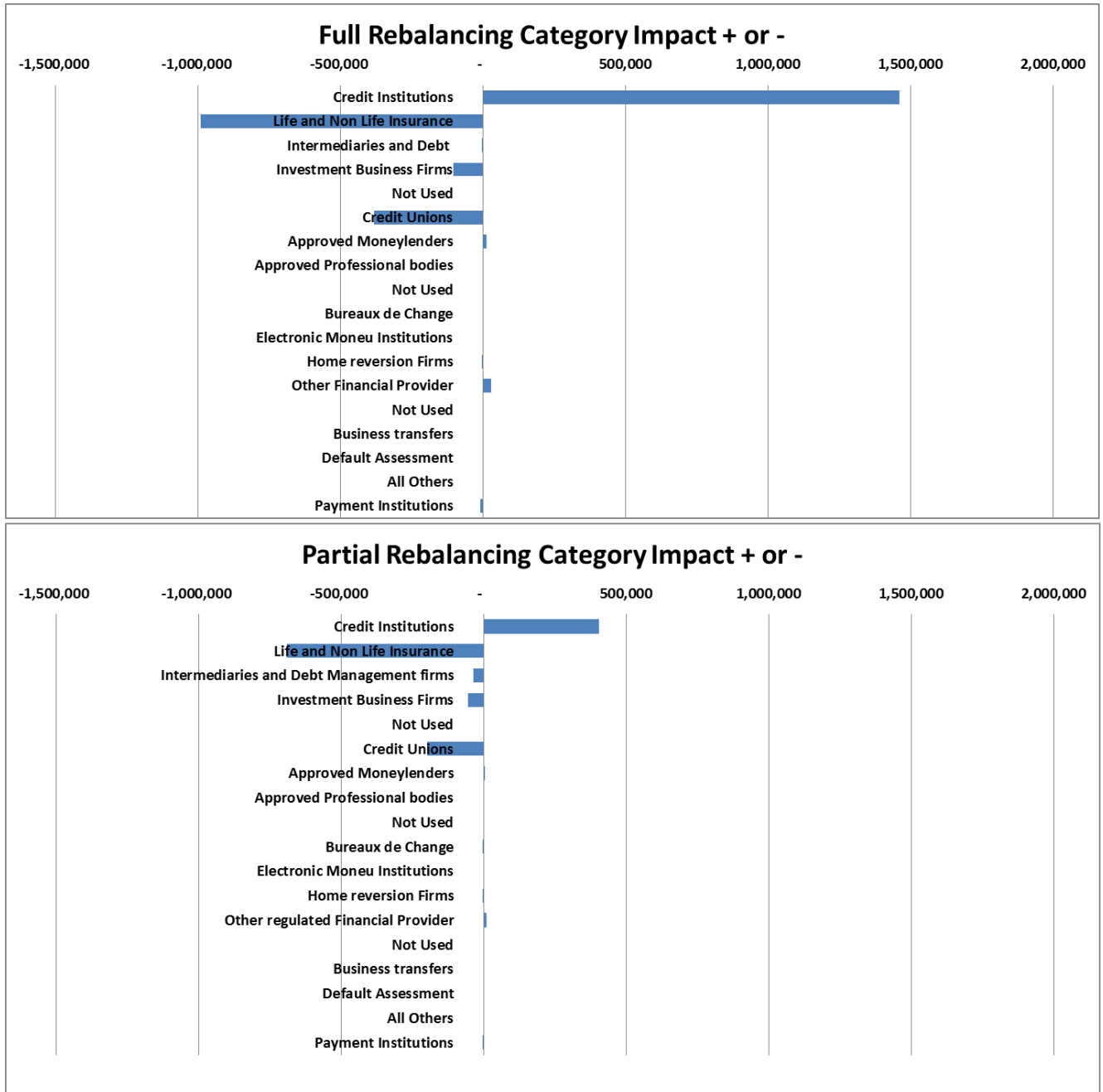
Complaints % and Levy %		Average	Actual	Actual	Levy Allocated
		Last 3	Levy	Levy	On Avg. Actual
SI Ref	Type	Years %	%	Charge 2017 €	Complaints 3 Years €
A	Credit Institutions	57.04%	22.9%	980,383	2,441,207
B	Life and Non-Life Insurance	34.16%	57.4%	2,453,784	1,462,096
C	Intermediaries and Debt Management firms	6.23%	6.3%	270,345	266,791
D	Investment Business Firms	0.37%	2.8%	120,848	15,771
F	Credit Unions	1.04%	10.0%	426,604	44,356
G	Approved Moneylenders	0.49%	0.2%	8,921	21,028
J	Bureaux de Change	0.05%	0.1%	3,900	1,971
L	Home reversion Firms	0.00%	0.1%	5,500	-
M	Other regulated Financial Provider	0.62%			26,613
S	Payment Institutions	0.00%	0.2%	9,549	-
<b>Total</b>		100%	100%	4,279,834	4,279,834

Source: Petrus Analysis

Comparing the Actual levy allocation and the allocation based on the average complaints level over the last three years shows the following:

Financial Services Ombudsman – Levy Allocation		Actual	Levy if Allocated	
		Levy	On Avg. Actual	Difference
SI Ref	Type	Charge 2017 €	Complaints 3 Years €	€
A	Credit Institutions	980,383	2,441,207	1,460,824
B	Life and Non-Life Insurance	2,453,784	1,462,096	-991,688
C	Intermediaries and Debt Management firms	270,345	266,791	-,554
D	Investment Business Firms	120,848	15,771	-105,077
F	Credit Unions	426,604	44,356	-382,248
G	Approved Moneylenders	8,921	21,028	12,107
J	Bureaux de Change	3,900	1,971	- 1,929
L	Home reversion Firms	5,500	-	- 5,500
M	Other regulated Financial Provider		26,613	26,613
S	Payment Institutions	9,549	-	- 9,549
<b>Total</b>		4,279,834	4,279,834	- 0

The impact of fully revising the percentage allocations to reflect recent (Average complaints 2014, 2015, 2016) complaint level experience by category would be as set out below. As an alternative to rebalancing fully in a single step, the graph below shows the impact of allocating 50% of the levy based on the current system and 50% based on the average complaints over the last three years.



The breakdown of complaints within the Insurance category will mean that there will also need to be a rebalancing across the sub categories within Insurance. Based on the 2017 allocations and using the 2014 - 2016 complaints experience by sub-category, Life Insurance would be due to pay 35% of the Insurance portion compared to 48% currently, Non-Life would pay 50% compared to 42% currently and Accident and Health would pay 15% compared to 10% currently. The associated reductions that would occur are shown below.

	Actual 2017 Levy Allocation €	Actual Current % Allocation €	Average # Complaints 2014 - 2016	Percentage Avg. Complaints 2014 - 2016	Allocation based on Average Complaints €	Difference
Life Assurance	1,177,647	48%	1,546	35%	507,955.12	-669,691.88
Non-Life Insurance	1,020,910	42%	2,244	50%	737,290.61	- 283,618.99
Accident & Health	255,227	10%	660	15%	216,850.18	- 38,377.22
	2,453,784		4,450		1,462,096	- 991,688

#### Recommendation 1

The levy should be based on the claims experience by category and sub-category over the previous three years. This will mean that there needs to be a rebalancing for the categories overall and for the sub-categories within Life and Non-Life Insurance. The rebalancing can be carried out in a single year or over a number of years and the recommended approach is to do this in a single year. Annually in the future, the average most recent three year claims experience should be calculated for each category and the levy for the following year allocated on that basis.

**FSPOC Council Response: The FSPOC accepts the recommendation and intends to rebalance charges in a single year commencing in the levy year 2019.**

#### 4.2. USE CONSISTENT ALLOCATION BASE

Complaints are raised by customers and, all else being equal, it would appear to be more logical to allocate the levy within categories based on the number of customers in the category. It should be borne in mind that, once the rebalancing discussed above is carried out, almost 60% of the total levy will be allocated based on customer numbers in Credit Institutions. However, Net Premium Income and Total Assets are well understood, can be independently verified and have operated successfully in the past. From discussions with industry representative groups it appears that there is no great desire to change the allocation bases in use in the main categories. In addition, the introduction of a revised basis for the levy at the same time as a rebalancing exercise is to be carried out would likely lead to uncertainty and confusion among FSPs.

#### Recommendation 2

The existing allocation bases namely Customers, Net Premium Income and Total Assets should be maintained. This can be revisited in the future once rebalancing has been implemented.

**FSPOC Council Response: The FSPOC accepts the recommendation and intends to maintain the existing allocation bases of Customers, Net Premium Income and Total Assets.**

### 4.3. RATIONALISE THE DIFFERENT FLAT FEES IN USE

The existing and recommended fees to be used are set out below

Ref	Category	Allocation Base	Existing		Recommended	
			Minimum Levy €	Flat Fee €	Minimum Levy €	Flat Fee €
Category A	Credit Institutions	Customers	600		375	
Category B	Insurance Undertakings.	Net Premium Income	600		375	
Category C	Intermediaries and Debt Management Firms	CB Basis	125		375	
Category D	Investment Business Firms (other than Investment Product Intermediaries)	CB Basis	750		375	
Category F	Credit Unions	Total Assets	175		375	
Category G	Approved Moneylenders	CB Basis	125		375	
Category H	Approved Professional Bodies	CB Basis	750		Note	
Category J	Bureaux de Change and Money Transmission Service Providers	Na		300		375
Category K	Electronic Money Institutions	Na		300		375
Category L	Home Reversion Firms/Retail Credit Firms	Na		250		375
Category M	Other Regulated Financial Service Providers	Na		200		375
Category O	Business Transfers	Na	n/a	n/a		
Category P	Default Assessments	Na		3,600		3600

Note. The category of Approved Professional Bodies is currently subject to a levy of €750 per annum. The number of such bodies is small, the sums involved are also small and the claims experience in the past is that there have been no complaints since 2006. However, Chartered Accountants Ireland alone has over 25,000 members and is believed to have grown by over 50% since 2004. Applying a levy based on the number of members rather than a flat fee would appear more appropriate. While the scope of this report does not allow a detailed analysis of the appropriate levy per member it is considered that a levy of at least 10 cents per member in each professional body should be implemented. This should also be revisited in the event that there are claims arising from within the professional body.

The figure of €375 is proposed as the baseline minimum fee level based on replacing the existing disparate fees with a single minimum fee level. In order to maintain the levy income at the same level the fee level is set at €375 and this results in an immaterial increase in total levy income of just over €1,500. The number of FSPs to be impacted is estimated to be 233 with an increase in the levy for 132 and a decrease in the levy for 100 FSPs

#### Recommendation 3

Minimum Fees and Flat fees as set out in the table above should be implemented for the next levy year.

**FSPOC Council Response: The FSPOC accepts the recommendation and intends to adopt the proposed minimum fees and flat fees for the levy year 2019.**

#### 4.4. INDEPENDENT VERIFICATION OF CUSTOMER NUMBERS

At present, where the levy is based on Customer Numbers, the number of customers in each FSP is certified by the FSP itself. If the number of customers is incorrect the amount of the levy paid by that FSP will also be incorrect although the total amount of the levy collected from the category will not be impacted. Possible approaches to ensure that the number of customers is accurate would include requiring the self-certification statement to be signed off by the Chief Executive or Head of Finance / Regulatory Affairs in each relevant organisation and/or obtaining independent verification from the auditors to the FSP.

This could be structured so that only those large organisations having an audit requirement would be required to provide independent verification from their auditor whereas the smaller/est organisations could still use self-certification. It is estimated that large organisations pay about 90% of the levy so this is considered to be an appropriate approach. The general rules regarding which organisations are not required to have an audit are that the company must satisfy TWO or more of the following conditions in the current financial year and in the preceding financial year namely: balance sheet total does not exceed €6m, turnover does not exceed €12m and the number of employees does not exceed 50.

In addition to the above, the Financial Services and Pensions Ombudsman Act 2017 sets out provisions whereby information provided to the Ombudsman can be verified by the Central Bank. Section 18, Exchange of information and co-operation, sets out procedures whereby information held by the Ombudsman may be shared with the Central Bank. At the request of the Ombudsman, the Central Bank may validate any information provided to it by the Ombudsman that is used to calculate the financial services industry levy in so far as such data to validate that information is available to the Bank.

#### Recommendation 4

**Independent verification of customer numbers should be achieved by sharing information with the Central Bank. The definition of “Customer” should be clearly and consistently defined by the Ombudsman and Central Bank and be understood by FSPs.**

**FSPOC Council Response: The FSPOC accepts the recommendation and intends to work with the Central Bank of Ireland to ensure consistency and accuracy of customer numbers reported.**

#### 4.5. INCREASE INCENTIVES FOR FSPs TO RESOLVE COMPLAINTS INTERNALLY

There is some anecdotal evidence that a small number of FSPs are willing to let complaints be raised with the Ombudsman without trying to fully resolve the complaint internally. This increases the workload of the Ombudsman and is likely to lead to more difficult and time consuming resolution issues. Ideally, complaints should be dealt with at the earliest possible time and FSPs should have comprehensive dispute resolution procedures in place so that only complaints where there was genuine disagreement are raised with the Ombudsman. As a possible incentive to ensure that complaints are dealt with internally, the Ombudsman may wish to consider excluding individual small FSPs from the levy for the following year if there has been no claim upheld in the previous x number of years. This could be trialled for selected smaller categories of FSPs such as Category G - Approved Moneylenders and Category M - Other Financial Provider. If a claim does arise in the year then it would mean that the FSP concerned would be liable to pay the levy for the following x years. In addition, if it appears that FSPs have not engaged fully in resolving complaints the Ombudsman may wish to consider taking this lack of engagement into account when reaching its decision on awards to be made when complaints are upheld. Over time it could be expected that FSPs would have an added

incentive to resolve complaints internally and to implement customer friendly complaint resolution procedures.

**Recommendation 5**

**The FSPO should consider mechanisms designed to provide an incentive to FSPs to resolve complaints internally including, for example, by excluding individual FSPs from the levy where no complaints have been raised in connection with that FSP in the previous number of years.**

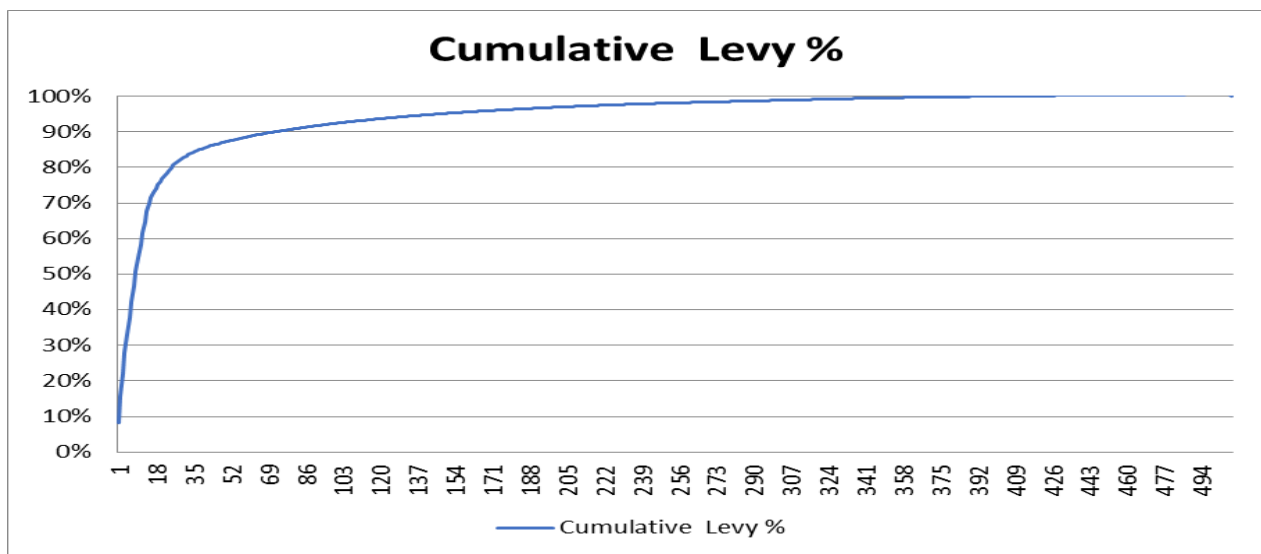
**FSPOC Council Response: The FSPOC encourages all FSPs to resolve complaints internally but considers that all FSPs should continue to pay a levy. It will keep the recommendation under review following the implementation of the other recommendations to be implemented.**

**4.6. EXCLUDE SMALLER FSPs FROM THE LEVY**

A further possibility to provide an incentive to resolve complaints internally would be to exclude smaller entities from paying the levy where they had not had a complaint upheld over a period of time. The graph below shows the Pareto analysis of invoices raised for 2017. Total invoices net of related credit notes amount to just over €4 million. The Y axis shows the percentage of the total levy collected and the x axis shows the number of FSPs ranked in order of the amount of the levy each pays. As described above the total levy collected is heavily concentrated in a small number of FSPs.

Other regulators (e.g. COMREG) exclude entities from paying a levy if turnover is below a certain level. Excluding such entities would also lead to a decrease in the administration workload and would not be a revenue shortfall but would be reallocated to be paid by the larger remaining FSPs.

The smallest 250 FSPs – representing 50% of the FSPs liable to pay the levy - contribute c. 2% of total revenue. As an example, removing the smallest 100 FSPs would result in a revenue adjustment of just c. €20k based on the current level of minimum levy amounts or €37,500 if new minimum levels are introduced. Removing the smallest 250 FSPs would result in a revenue adjustment of approximately €80k. Again, this would not be a revenue shortfall but would result in a small increase for all the remaining FSPs amounting to an increase of c.2% in their aggregate levy amounts. Within the Ombudsman’s office it is expected that there should be a decrease in the workload of c. 50% as a result of removing half the FSPs from the requirement to pay a levy.



Number of FSPs	Cumulative % of Total Levy Revenue	Cumulative Levy Income	Income from band	Average Levy Payment
Top 10	51%	2,189,877	2,189,877	218,988
Top 20	76%	3,054,286	864,409	86,441
Top 50	87%	3,501,152	446,866	14,896
Top 100	92%	3,707,412	206,260	4,125
Top 250	98%	3,935,166	227,754	1,518
All Others – Approx. 250	100%	4,013,072	77,906	312

**Recommendation 6**

The FSPOC should consider setting a minimum size threshold below which FSPs would be excluded from payment of the levy so long as there were no complaints upheld. This can be considered in its own right or in conjunction with recommendation 5 above.

**FSPOC Council Response:** The FSPOC considers that this is an operational issue rather than an issue of policy or principle and can be considered in the context of outsourcing. If collection work is to be outsourced then this would impact on any possible de minimus threshold.

**4.7. ELIMINATE CHEQUE PAYMENTS**

Payment by cheque is still accepted even though such payments are administratively time consuming to handle and should have been phased out some years ago. Department of Finance Circular 1/2013: “Issue and Acceptance of Cheque Payments By central Government, local authorities and State agencies from businesses” set out that after 19 September 2014 cheques would only be accepted in exceptional circumstances. The table below shows the number of cheques received in each of the years 2014, 2015, 2016 and up to the 20 June 2017.

Cheques Received by Ombudsman’s Office 2014 – 2017					
Provider	2014	2015	2016	2017	Provider Totals
Bank	1	9	14	1	25
Bureaux de Change			2		2
Credit Union	160	74	59	23	316
Debt Management		6			6
Home/Retail		4	2	2	8
Intermediary	719	447	321	192	1679
Life	5	1	1		7
Money Lender	13	14	9	5	41
Non-Life	6	1		2	9
Stockbroker	2		1		3
<b>Yearly Total</b>	<b>906</b>	<b>556</b>	<b>409</b>	<b>225</b>	<b>2096</b>

While the number of cheques received has declined they still represent a time consuming administrative burden. Acceptance of cheques should be discontinued by implementing an online payment facility. There will be a cost associated with setting up such an online payment facility in the first place and an ongoing cost



related to the value of transactions processed. Invoices should all clearly state that cheque payments will no longer be acceptable and that payment of invoices should be made to the bank account details shown on the invoice. One possibility to encourage bank transfers would be to have a higher charge for cheque payments such that for example, a minimum fee of €375 would be payable when made by bank transfer but that an amount of, say, €400 would apply for cheque payments.

In the event that the Ombudsman’s office wishes to accept card payments over the telephone for small amounts i.e. less than €500, it should be possible to do so in a simple and cost effective manner. A credit card reader can be bought for less than €100 euros and works in conjunction with a smart phone when used away from the office. It is usually used in a mobile environment but also allows the user access to a Virtual Terminal accessed by using an internet browser. This means that the Ombudsman’s office can take payments over the phone on a “card not present” basis by simply calling up the virtual terminal screen on a desktop and entering the amount, card details, user name and security code online.

The invoice reference could be included as part of the description so that reconciliations and matching could be easily carried out. The cost of using such a service is about 3% of the total value of the transaction. An online card reader / virtual terminal would be a simple and easy way to take credit card payments by phone or in person. It is quick to set up without the complexity of setting up an online system as part of the website.

**Recommendation 7**

**Cheque payments should be eliminated and payment by bank transfer encouraged and facilitated. In parallel, a system can be implemented whereby payments for amounts below €500 can be taken by phone.**

**FSPOC Council Response: The FSPOC accepts the recommendation and actively encourage all FSPs to pay online. If necessary, the FSPOC will also introduce additional charges for payments made by cheque.**

**4.8. IMPOSE PENALTIES FOR LATE PAYMENT**

The FSPOC has the legal right to impose penalties for late payment but has not done so in the past. As a way of encouraging all FSPs both large and small to pay the levy on time the FSPOC could consider imposing late payment interest penalties such as is done by the Broadcasting Authority which imposes charges of 3% over Euribor. The table below sets out an illustrative approach to calculating the interest penalty due based on a penalty rate of 3% over Euribor.

Variables	Data	Description
Amount	100,000	Invoice Amount
Due Date	30/06/2017	
Date Paid	15/09/2017	Received in Bank
Days taken to Pay	77	
Max Days Allowed	30	
Days Late	47	
ECB Rate 1 September 2017	0%	Current Rate
Margin Rate	3%	Specified Rate
Daily Rate	0.008%	Current ECB +Margin / 365
Interest Due	386.30	

The FSPOC should consider giving itself the power to impose penalties and the discretion to waive such penalties where the amounts are minor and would cost more to collect than the value of the penalty to be

imposed. The objective should be to encourage all FSPs to pay their levy on or before the due date. The FSPOC may also wish to consider incentives for early payment depending on the method of payment of the charge.

**Recommendation 8**

**The Council should include the right to charge interest on late payments at its discretion and/or provide an incentive for a reduction in the charge depending on the method of payment.**

**FSPOC Council Response: The FSPOC accepts the recommendation and will introduce a late payment charge in accordance with legislation. The FSPOC will retain discretion to only impose late payment penalties where the amounts involved are material. The potential for a reduction in the charge depending on the method of payment is provided for under the 2017 Act.**

**4.9. INCREASE INVESTIGATION FEES**

Investigation Fees – Category Q - are currently set at €750. Given that the average cost per complaint is nearly €1,000 this figure should be increased to a minimum of €1,000 per complaint with discretion to increase the fee depending on the extent of the work involved.

**Recommendation 9**

**The Council should increase the charge for Category Q Investigation Fees to a minimum of €1,000 per complaint with the facility to increase fees to fully recover the cost of any investigation where it is considered appropriate.**

**FSPOC Council Response: The FSPOC accepts the recommendation and will increase Investigation Fees to a minimum of €1,000 per complaint.**

**4.10. LEVY ADMINISTRATION OUTSOURCING**

The circumstances in which any organisation might consider outsourcing a function includes where the organisation does not have the required skills internally, where the costs of providing the service internally are in excess of what the service can be provided for externally, where a relatively steady state organisation is in place with well-defined service requirements and where the function is no longer considered to be a part of the core business of the organisation. Consideration therefore comes down to examining issues such as comparative costings, comparative productivity and service levels and the future development and importance of the function to the organisation.

Another aspect to be considered is the scope of the service(s) to be outsourced. This can range from the entire service to subsets of the overall service such as issuing invoices, pursuing late payments, cash management and debtor control. In a relatively small organisation it can be difficult to separate parts of the overall service because of functional overlapping and shared responsibilities. This is particularly so in the case of the Ombudsman’s office where there is one FTE involved in all aspects of the function as well as that person being responsible for other accounting functions. The following table compares the options associated with the provision of the service in-house or externally.

Service Delivery Option	How the option would apply	Key Benefits/Issues
<i>In-house provision Revised</i>	<ul style="list-style-type: none"> <li>The Ombudsman’s office would re-examine the needs of the function taking into account the other recommendations proposed in this report.</li> <li>Calculate the cost of provision in the future.</li> <li>Calculate service parameters required</li> </ul>	<p><b>Benefit:</b></p> <ul style="list-style-type: none"> <li>Greater clarity on the future workload on the function associated with the levy administration function.</li> <li>Internal cost visibility</li> <li>Service Parameter requirements defined</li> </ul>
<i>Transfer the service with no in-house provision</i>	<p>This option would still require the Ombudsman’s office to retain internal responsibility for:</p> <ul style="list-style-type: none"> <li>Selecting by means of a procurement process the service provider</li> <li>Managing the ongoing relationship with the provider. Continue to maintain the accounting records for the levy</li> <li>Regularly reconciling the debtors and cash receipts</li> <li>Manage the contract.</li> <li>Advise on policy/strategy</li> </ul>	<p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>Releases staff to work on other areas.</li> </ul> <p><b>Issues:</b></p> <ul style="list-style-type: none"> <li>The levy administration process cannot be fully outsourced and there will remain core work to be carried out internally</li> <li>Additional cost involved with little in the way of savings apparent</li> <li>Uncertainty at this time regarding the cost of in-house provision and the service delivery parameters that would be required from an external provider.</li> <li>Potential overlaps/duplication between internal and external service provider.</li> <li>Current cost information and service information is inadequate to allow comparative analysis.</li> </ul>

The approach which is considered suitable for the Ombudsman’s office at this time is to continue administering the levy internally. As part of this, the cost of internal provision should be calculated both currently and also following the implementation of recommendations in this report. The existing written procedures will need to be revised as a result of this. After the procedures have been revised they can be examined to see which elements could be performed externally or by other means such as a short term temporary assistant to deal with a peak load. Additional software could be considered to assist with debtor management. One example would be software to automatically send a text message to a debtor’s phone requesting payment and linking them directly to a screen to facilitate payment.

As a general principle, outsourcing should only be considered for functions being performed internally in an efficient manner and where there are still clear benefits to having it performed externally. One reason for this is that otherwise the outsourcing entity loses the efficiency gains which are transferred to the external provider.

**Recommendation 10**

The Ombudsman’s office should continue to administer the levy internally until such time as the other recommendations in this report have been implemented. Following this, the internal costs and efficiencies can be assessed and the service delivery parameters defined. At that time the decision to outsource elements of the administration can be re-examined.

**FSPOC Council Response: The FSPOC accepts the recommendation and considers that there are potential benefits associated with outsourcing elements of the levy collection process whether by means of a third party provider or by means of a shared service type of approach. The FSPOC intends to examine this option in greater detail as a follow-on review to focus on this option in more detail.**

**4.11. IMPLEMENTATION OF PROPOSED RECOMMENDATIONS**

Findings	Significance /Impact	Level of Effort to Implement	Level of Effort Ongoing	Implementation
1. <b>Rebalancing to reflect recent complaints experience</b>	High	Medium	Medium	Decide on implementation period i.e. 1 or 2 years. Revise administrative procedures, develop charging matrix, consider issuing information / briefing note to the FSPs and representative bodies
2. <b>Use consistent allocation base across all categories e.g. Use Customer Numbers or Net Assets instead of Total assets, NPI, for allocation within relevant categories?</b>	Medium	High	Medium	No change to Status Quo
3. <b>Rationalise the different flat fees and minimum levies in use</b>	Minor	Minor	Minor	Set out the Flat fees and minima in S.I.
4. <b>Obtain auditor or independent verification for large companies covering c.90% of levy with balance on self-certification by CEO/CFO</b>	Minor	Medium/High	Medium	Develop memorandum of agreement with Central Bank on information sharing, definitions, data availability and procedures.
5. <b>Consider excluding individual FSPs if no claims “upheld” in previous x years – Incentive to resolve internally.</b>	Medium	Medium	Medium	Maintain complaints history by FSP, review annually over x years Legal basis set out in Act S 43 (7) (d)

Findings	Significance /Impact	Level of Effort to Implement	Level of Effort Ongoing	Implementation
<b>6. Exclude smallest FSPs from the levy based on e.g. turnover below 100k and customers &lt; 50.</b>	Minor / Medium	Minor	Minor	Legal basis set out in Act S 43 (7) (d)
<b>7. Eliminate cheque payments and introduce online payments system as the alternative.</b>	Minor to Medium	Medium	Minor	Introduce system to accept card payments by phone with possible discounts / penalties for payments not made by bank transfer Act 43. (7) (e)
<b>8. Introduce late payment fees or interest on overdue payments e.g. Euribor +3% and/or incentives for a reduction in the charge depending on the method of payment.</b>	Small financial impact	Minor	Medium	Set out in S.I. Follow Act 43 (7) (a)
<b>9. Investigation fee of min 1,000 per complaint Category Q</b>	Minor	Minor	Minor	Set out in S.I. as normal
<b>10. Outsourcing of Administrative aspects of levy</b>	Medium	High/Medium	Medium	N/A but consider software to facilitate debtor management.

## APPENDIX 1 CATEGORIES OF FINANCIAL SERVICE PROVIDER SUBJECT TO PAY A LEVY TO THE FSPO

<b>Category A</b>	<b>Credit Institutions</b>
<b>Category B</b>	Insurance Undertakings.
<b>Category C</b>	Intermediaries and Debt Management Firms
<b>Category D</b>	Investment Business Firms (other than Investment Product Intermediaries)
<b>Category F</b>	Credit Unions
<b>Category G</b>	Approved Moneylenders
<b>Category H</b>	Approved Professional Bodies
<b>Category J</b>	Bureaux de Change and Money Transmission Service Providers
<b>Category K</b>	Electronic Money Institutions
<b>Category L</b>	Home Reversion Firms/Retail Credit Firms
<b>Category M</b>	Other Regulated Financial Service Providers
<b>Category O</b>	Business Transfers In the case of a regulated entity that is liable to pay a levy under these Regulations, whose financial services business is transferred to another regulated entity, the transferee regulated entity shall be liable to pay that portion of the levy payable by the transferor regulated entity, which has not been paid, and which is notified to the transferee regulated entity by way of a levy notice.
<b>Category P</b>	Default Assessments
<b>Category Q</b>	All other Regulated Entities

Extracted from S.I. No. 54 of 2017

APPENDIX 2 ORGANISATIONS / INDIVIDUALS MET

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Organisation

Competition and Consumer Protection Commission

Commission for Communications Regulation

Broadcasting Authority of Ireland

Commission for Aviation Regulation

Central Bank of Ireland

The Pensions Authority

Department of Finance

Professional Insurance Brokers Association - Jointly with the Irish Brokers Association

Banking & Payments Federation Ireland

Insurance Ireland

Brendan Burgess – Askaboutmoney.com

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## APPENDIX 3 GLOSSARY

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<b>Organisation</b>	
<b>FSP</b>	<b>Financial Services Provider</b>
<b>FSO</b>	<b>Financial Services Ombudsman – up to 31<sup>st</sup> December 2017</b>
<b>FSPO</b>	<b>Financial Services and Pensions Ombudsman – from 1<sup>st</sup> January 2018</b>
<b>FSOC</b>	<b>Financial Services Ombudsman Council – up to 31<sup>st</sup> December 2017</b>
<b>FSPOC</b>	<b>Financial Services and Pensions Ombudsman Council – from 1<sup>st</sup> January 2018</b>
<b>Ombudsman</b>	<b>Financial Services Ombudsman - up to 31<sup>st</sup> December 2017</b>
	<b>Financial Services and Pensions Ombudsman – from 1<sup>st</sup> January 2018</b>

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