



Channel Islands
**Financial
Ombudsman**

ANNUAL REPORT 2019

Fairness of outcome and fairness of process...

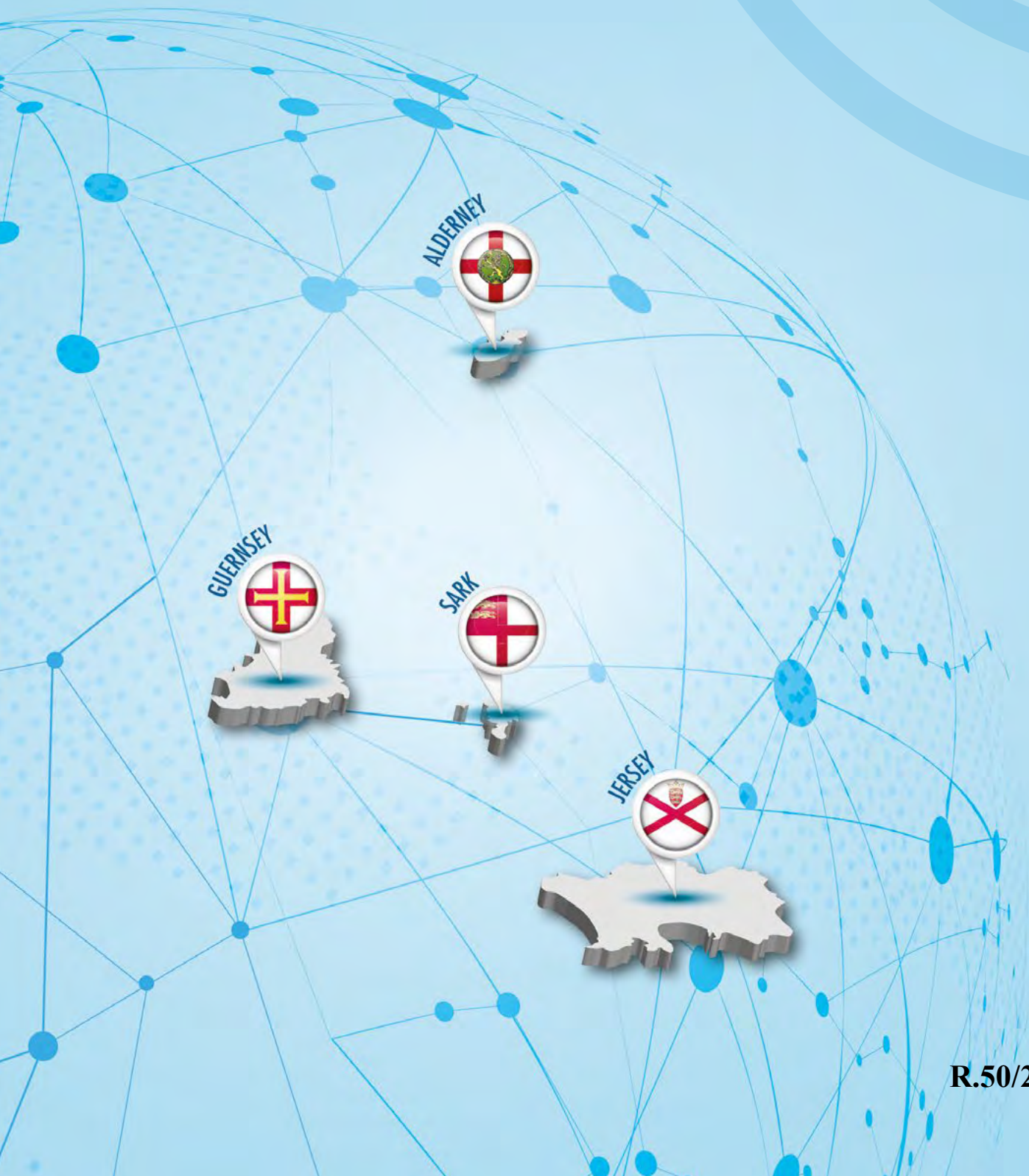


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SUBMISSION LETTER
**CHANNEL ISLANDS
FINANCIAL OMBUDSMAN**

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Senator Lyndon Farnham
Deputy Chief Minister and
Minister for Economic Development, Tourism, Sport & Culture
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Dear President and Minister

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 2019. 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

-  82% more case files closed in 2019 than in 2016, but total funding levies paid by industry went up only 49% in the same period
-  72% of case files successfully resolved through informal mediation rather than binding Ombudsman decision (28%)
-  47% of case files resolved in favour of complainants
-  Average amount of compensation awarded down significantly year-over-year to £4,483 due to nature of complaints
-  Number of complaints received moderated (down 10% year-over-year), and a larger proportion (62%, compared to 50% in 2018) fell outside CIFO's mandate
-  Case files opened dropped 23% from 2018 level due to moderated complaint volumes and increased proportion of out of mandate complaints
-  Case file inventory awaiting or under review dropped 20% from all-time high in Q2 and down 9% year-over-year due to moderation of new case file volumes, process efficiencies and addition of case handling capacity
-  Additional capacity added to leverage complaint information for stakeholder benefit through online publication of Ombudsman decisions and case studies
-  Legislation passed to implement new CIFO funding structure from 1st January 2020
-  Successful defence of first judicial review of a CIFO binding decision

MESSAGE FROM THE CHAIRMAN

David Thomas



This is the report of the Channel Islands Financial Ombudsman (CIFO) for the calendar year 2019 – our fourth full year since we opened for business on 16 November 2015. CIFO is the joint operation of the two independent financial ombudsman bodies established by law in Jersey and the Bailiwick of Guernsey. The board of directors provides oversight and protects CIFO's independence.

CIFO resolves complaints against financial services providers (FSPs) – fairly and impartially – as an informal alternative to the courts. The availability of redress if something goes wrong helps to support public confidence in financial services, within the Channel Islands and internationally. We also provide impartial information about issues which arise from complaints referred to us.

CIFO is funded by levies and case fees charged to FSPs. After a multi-stage public consultation, the board adopted modifications, intended to equalise the levies paid by like categories of financial services providers (banks and non-banks) across the islands. 2019 saw legislation in Jersey and Guernsey to implement those changes from 1 January 2020.

The board's rolling quarterly review, comparing aspects of CIFO's operation against international good

practices, continued through the year. Additional staff capacity previously approved by the board came on stream in 2019. This, and other efficiency initiatives, helped to substantially improve the throughput of cases.

Feedback to governments, regulators, industry and the public on themes from CIFO's complaint resolution work helps to encourage improvements in market practice – and to reduce sources of future complaints. During 2019 we enhanced the publication of ombudsman decisions and case studies on CIFO's searchable website.

When CIFO sought its first Principal Ombudsman, we ran an open competition with independent external input – a process we will repeat if the post falls vacant. We were fortunate to recruit Douglas Melville, an experienced financial ombudsman from Canada with a worldwide reputation. As the end of his first five-year term of office approached, the board was glad that he agreed to be reappointed for a further term through to 2025.

Next year's report will cover more fully the effects on CIFO's workload and operations of the 2020 Covid-19 emergency and associated lockdown. In consultation with the board, management took prompt steps to protect staff health and ongoing operations by moving to remote working – whilst also handling a surge of contacts from those whose finances were stressed by the emergency.

As in previous years, and consistent with our policy of openness and transparency, CIFO aims to convene public meetings in Guernsey and Jersey in the summer – to discuss this report with stakeholders and answer questions. If the health situation continues to prevent or discourage attendance in person, we will strive to achieve the same effect by video conference.

We look forward to that as a further opportunity to continue the constructive engagement that has developed between CIFO and the politicians, public officials, regulators, industry bodies, consumer bodies, press and broadcasters in both jurisdictions.

I am grateful to the other members of CIFO's board for their thoughtful leadership and commitment. They and I thank the Principal Ombudsman and all the members of the CIFO team for their resilience and continuing hard work. We pledge them our support through the challenges that lie ahead, both during the current disruption and beyond.

MESSAGE FROM THE PRINCIPAL OMBUDSMAN & CHIEF EXECUTIVE

Douglas Melville



Just when you think you have clarity with respect to the work challenges faced, and a way forward to address them, new challenges emerge that dispense with your assumptions and prompt you to reprioritise and focus on a whole new game plan to enable the effective performance of your role. That is the inflection point where we find ourselves at the beginning of 2020 in the midst of a global Covid-19 pandemic crisis. This unexpected development follows a year that had shown significant progress for CIFO in working through the previous collection of challenges.

This is the 5th annual report of the Channel Islands Financial Ombudsman. Since commencing operation in November of 2015, the challenge has been clear, to the extent that any office responsible for reviewing complaint volumes over which it has no control, can ever have complete clarity. We have established and gradually matured an operation comprising people, systems, policies and procedures to tackle the workload required to review the almost 3,000 complaints referred to our office since its inception.

The diversity of complaints brought to CIFO for review reflects the unique nature of the financial sector in the Channel Islands. More than half are from customers resident outside the Channel Islands.

Most complaints are single one-off issues arising

from a customer's interaction with their financial services provider. Some are multiple complaints from different customers arising from a particular issue seen across the industry (e.g., customer information requests and account closures as FSPs attempt to meet regulatory expectations and manage their perceived risk). Some others are multiple complaints about the perceived failings of a single product or a single FSP that affect many individual customers of a single FSP. These can be the most challenging types of complaints to resolve given the potential reputational and financial impact such multiple complaints can have for the FSP. The degree of resistance and reliance upon legal rights rather than fair and reasonable outcomes can reflect that higher risk to financial services providers.

The vast majority of complaints are brought to CIFO by individual retail customers. Only a very small proportion (less than 4%) of complaints are from microenterprises, trusts, or charities. As a result, our work is very much person-to-person, yet rarely face-to-face. Our team's work is carried out through remote channels like telephone and email from our office in Jersey, or in current circumstances, from each member of our team's own homes in Jersey.

We have adjusted the size and capability of our organisation to meet the workload as previously indicated, though that usually involves a lagged response as resources, especially those funded by external stakeholders, tend to follow the demonstrated proof of need.

We have invested in the training of our team members and enhancements to our systems to continually improve and to maximise the efficiency and quality of our work. This is demonstrated by our ability since our inception to increase the rate of case files closed at a rate higher than the increase in our funding raised through a levy on industry.

The scope of CIFO's public interest mandate (i.e., what complaints arising from certain financial services providers and certain types of complainants we have the authority to review) is a matter for governments to decide. CIFO already covers complaints from areas of the financial sector that are not yet regulated in the Channel Islands. These include consumer credit and related services as well as certain aspects of pensions. There are also areas of existing financial services business that CIFO does not cover as set out in table 6 on page 25 of this report. Finally, there are new emerging areas such as cryptocurrency and cryptocurrency trading platforms that are not yet regulated nor fall within CIFO's remit.

These mandate scope questions combined with new emerging issues like artificial intelligence (AI) and new requirements under data protection regulation create the varied and dynamic field in which CIFO currently operates and will continually evolve going forward.

CIFO has made transparency a high priority to instil confidence and understanding amongst stakeholders of our mandate and operation. Such transparency is also about reflecting the lessons from our complaint handling back to stakeholders to inform potential legislative or regulatory change in the public sector, business process, product and service improvements in the private sector, and better informed consumer behaviour.

Our objective is to prevent those future misunderstandings, failures, and criminal scams that give rise to complaints and which may be preventable. For this reason, we increased our focus and resources in 2019 on the publication of redacted Ombudsman decisions and case studies to provide more useful context and reflect the valuable lessons that we believe each complaint story has to offer. We appreciate that the redacted decisions and case studies are valued content for internal staff training at many FSPs.

Experience from the complaints we receive suggests that fewer problems would arise if more FSPs helped consumers to understand the nature of products and services, the contents of agreements and the basis of advice given – and if consumers engaged with this.

Ensuring that customers receive and understand the documentation and disclosures provided to them leads to improved customer appreciation of the details of the products and services purchased and their own obligations. Having disclosures and documentation easily accessible and produced using plain language helps to avoid misunderstandings and encourages customers to read and understand the material.

Keeping previous versions of account agreements, terms and conditions, disclosure material, website content and correspondence sent to all customers helps to avoid later misunderstandings and provides clear evidence of what was in place and provided to customers during the relevant time period. The same is true for FSPs' closed circuit television (CCTV) files, recorded calls, and voicemail messages. Retention periods need to reflect the importance of such evidence to resolving potential customer complaints.

FSPs that embrace the value of good internal complaint handling reap the benefits of better

customer outcomes as well as continual business improvement from the product, service, and business process feedback that complaints provide. CIFO also sees the clear benefit where FSPs, before a matter is escalated to CIFO, have already conducted a thorough internal review and looked at the complaint from a perspective of what would be fair and reasonable in the circumstances. CIFO's complaint statistics reflect the significant proportion of complaints where FSPs have clearly done so. In those cases, CIFO found that, while the complaint had merit, the compensation offered by the provider was already as much or sometimes even more than CIFO considered warranted in the circumstances.

With customers facing increasing frequency and sophistication of fraud attempts, the warnings and verification checks built into customer self-service platforms help to remind customers of the risks and prompt reflection before initiating a potentially risky transaction.

Due to the prevalence of criminal hacking of personal computers and email accounts, customer authentication, even two-factor authentication, based solely upon email-provided verifications may no longer be considered sufficient on their own to ensure adequate customer security, particularly for high-risk transactions like changes to previous account information, banking information and instructions, and payments. The benefits of customer outreach and education to support crime prevention and to raise awareness of scams leveraging customers' financial services provider's own capabilities cannot be overstated.

Understanding the true cost of borrowing, not simply what regular repayment amount can be afforded, can help inform better choices. Understanding the full up-front and recurring cost of service fees on accounts, especially those involving trusts, investments or pension plans, can help inform choice and enable customers to better assess for themselves the value of products and services offered for the prices charged.

Understanding the risk-return trade-off inherent in investments helps to protect consumers from getting into investments unsuited to their level of knowledge, experience, and risk tolerance. The quest for increased investment returns in a low interest rate environment is prompting many to move up the risk curve to accept, perhaps unwittingly, higher levels of risk in search of higher returns, or in some cases enough returns to provide them with sufficient income to live on.

Ensuring that appropriate and sufficient insurance is

in place to cover one's life, health, home, and other assets is an important, yet often overlooked part of a customer's financial affairs. Checking that the declared value of the insured asset is kept up-to-date is important to avoid any under-insurance issue arising which could result in some proportion of losses left uncovered in case of an insurance claim. For those looking for health insurance coverage, they should ensure they understand the implications of pre-existing medical conditions for their coverage under the policy.

Careful practice with respect to their cards and PINs, account IDs and passwords, and the security of their personal information technology, all will help combat financial crime and limit the ability of criminals to separate individual consumers, especially the most vulnerable, from their money. The fraud control systems of FSPs, working in conjunction with safe payment practice by consumers, will yield the best results for theft and fraud protection.

Fund transfers and payments are a particular area of concern and customers should take particular care when asked to send or move money or to change pre-existing payment instructions, even if the request comes from a known party. Criminals are increasingly using email, text, and other messaging platforms to contact customers with credible-sounding warnings and instructions designed to trick unsuspecting customers into taking steps that could open them up to loss from theft or fraud.

For those who are vulnerable, having the supports in place through added security on accounts and online access, support from trusted family, friends and advisors, and where appropriate, substitute decision-making through powers of attorney (POAs) or similar tools will help ensure our vulnerable family members, friends and neighbours will be well-protected and can still have their personal financial services needs effectively met.

The final suggestion for consumers is even more important than ever given the current environment. Customers are strongly encouraged to contact their FSP for advice or assistance if they are experiencing

financial distress or are unable to meet financial obligations as they come due. Providing the FSP with an opportunity to assist, or to resolve dissatisfaction, increases the likelihood of a good outcome. For those circumstances where the concern cannot be satisfactorily resolved with the FSP, consumers are encouraged to contact CIFO for a free and impartial review of the matter.

The behind-the-scenes operation at CIFO that reviews the hundreds of customer complaints referred to us each year is continually evolving to meet the need and to continually improve. We seek to make the best use of technology, policies and procedures to ensure that we continually improve our effectiveness and efficiency while maintaining a high degree of quality in our work.

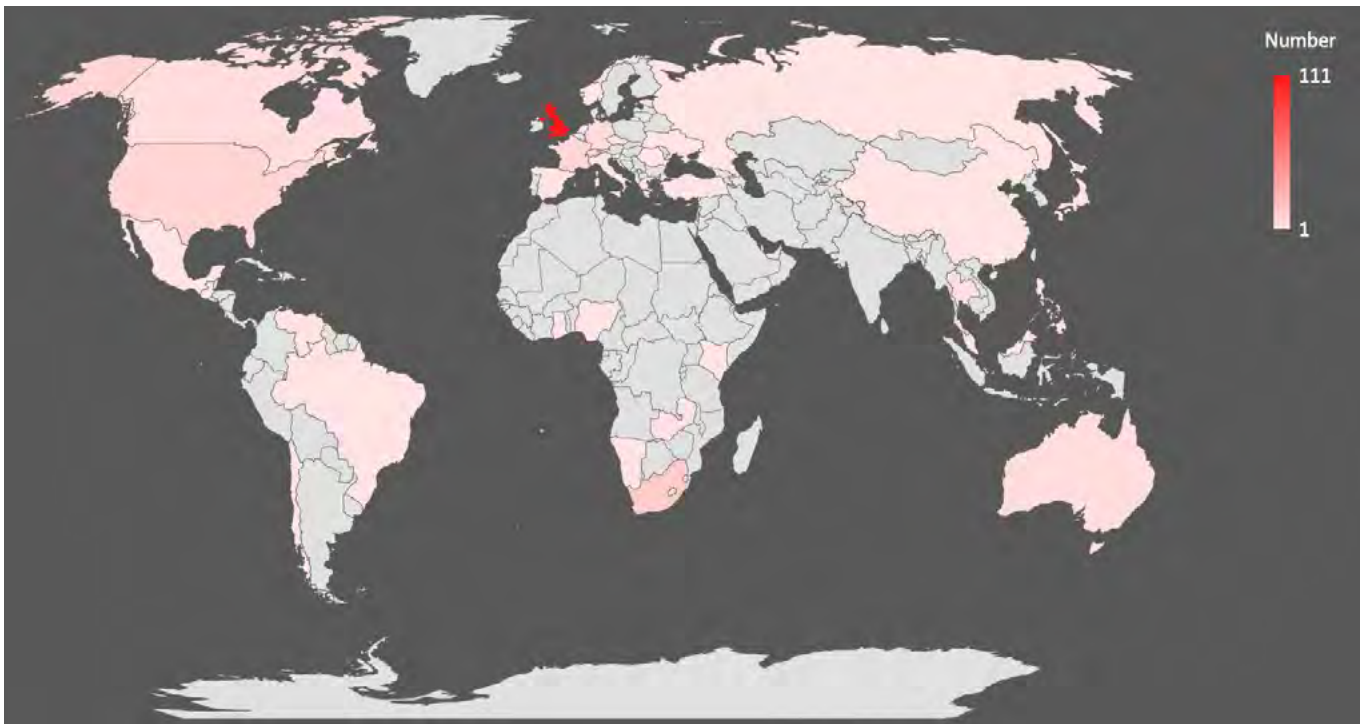
In this report, much of this work to improve complaint handling is referred to though it is less interesting than the stories and themes found in the complaints themselves. The efforts to improve what we do and to make the most of what we learn from complaints, is as important as the case handling itself. For this reason, it is important to understand the important contribution of everyone on CIFO's team to the effective performance of our important public interest role.

Mindful that current circumstances may overshadow the successes of the past year, I wish to thank everyone from the CIFO team and our stakeholders, contractors, advisors, partners, and suppliers for their contribution to the successes achieved by our office in 2019.

I have no doubt that the commitment and integrity shown by the entire CIFO team in 2019 made it possible to reverse the growth in volume of case files awaiting or under review, successfully defend our first judicial review, increase our outreach activity to prevent future complaints, and adopt new technology and processes to continually improve our effectiveness and efficiency. Leveraging the progress made in 2019, we are well-prepared to address the challenges that 2020 has, already thus far, placed before us as well as those to follow.

HEAT MAP ORIGIN OF CIFO COMPLAINANTS IN 2019

As the financial Ombudsman for the international financial centres in Jersey and the Bailiwick of Guernsey, CIFO's mandate covers customers anywhere in the world whose non-exempt financial services are provided in or from the Channel Islands. The heat map and table below demonstrate the international nature of CIFO's work and the global reach of the Channel Islands' financial sectors.



Country	#
Australia	5
Brazil	1
Canada	5
Cayman Islands	2
Chile	1
China	1
Cyprus	4
Czech Republic	2
Estonia	1
France	8
Germany	6
Ghana	1
Gibraltar	1
Greece	2
Grenada	1
Guatamala	1
Guernsey	50

Country	#
Isle of Man	6
Israel	2
Italy	2
Jamaica	1
Japan	2
Jersey	90
Kenya	1
Malaysia	1
Malta	1
Mexico	1
Namibia	1
Netherlands	1
Nigeria	1
Norway	1
Philippines	1
Qatar	2

Country	#
Romania	1
Russian Federation	1
Saint Helena	1
Singapore	3
Slovenia	1
South Africa	14
Spain	16
Switzerland	8
Thailand	3
Turkey	1
Ukraine	1
United Arab Emirates	7
United Kingdom	113
United States of America	9
Venezuala	2
Zambia	2

YEAR IN REVIEW 2019

OPERATIONS

Overall, CIFO's fourth full year of operation saw the year start on 1 January 2019 in a challenging position. A large number of complaints were awaiting or under review and the office had borne the added burden of successfully defending its first-ever judicial review where a non-bank lender had challenged a binding CIFO decision for compensation. By year-end 2019, the situation had improved markedly due to a number of positive developments that took hold as the year progressed.

To begin with, the volume of complaints referred to CIFO eased 10% from 2018, particularly in the later part of 2019 as shown in our quarterly complaint statistics regularly published on [our website](#). In addition, CIFO experienced a 12% year-over-year decrease in the proportion of complaints that came within CIFO's remit. The combination of these two factors meant the workload faced by CIFO staff from new in-mandate complaints fell.

The significant off-setting factor was the mass complaints being reviewed by CIFO where the number of complaints and total amount of potential compensation involved creates a very different dispute resolution dynamic than the individual "one-off" complaints that are the usual day-to-day complaint handling experience. These have had a significant impact on CIFO's capacity.

Behind those annual statistics however is an important development regarding the volume of complaints awaiting or under review by CIFO. Such volumes had steadily increased over time as a result of repeated periods during which the volume of new complaints received consistently exceeded CIFO's capacity to review and close complaints.

The addition to CIFO's team of a fourth experienced case handler in late 2018 had gone part of the way to address CIFO's capacity issue but other creative solutions were also needed. Following consultation with industry stakeholders in Q2 of 2019, CIFO embarked on two pilot projects to tackle the volume of complaints awaiting review.

One was to identify the less-complex complaints which could be tackled with our newly increased staff capacity using a "fast-track" approach. This pilot was deemed successful in delivering more timely decisions for complainants and has been incorporated into our standard operating model going forward.

The second pilot, commenced in Q3, was to engage two experienced individuals with financial Ombudsman backgrounds in the United Kingdom to bring their years of experience to bear in resolving a number of case files that had been awaiting review by our office. Following a review of the results in Q4, a second phase was approved by CIFO's board of directors for implementation at the beginning of 2020.



The combination of these initiatives made a significant difference and enabled CIFO to reduce the inventory of in-mandate complaints awaiting or under review to 203 by year-end 2019 from the high-water mark of 255 in Q2 2019. The downward trajectory in complaints awaiting or under review was a welcome development and was expected to continue throughout 2020, barring any significant unforeseen challenges, such as those now anticipated in connection with the Covid-19 pandemic.

This past year demonstrated the resiliency of the mandate, our team, and our operating model. As we complete our fourth full year of operation, we can proudly point to a consistent improvement in the efficiency of the office as we have increased case file closure at a rate significantly higher than the increase in funding raised from industry stakeholders.

The total amount levied by CIFO increased 49% from 2016 to 2019. However, case files closed during the same period increased by 82%. The ability to do more with less is the sign of a maturing and resilient system that is constantly seeking ways to improve and adapt to meet the demands placed upon it. Considering recent events arising from the global public health crisis, that resiliency is likely to be tested again.



PUBLICATION OF NEW SUMMARY COMPLAINT STATISTICS

CIFO has continued to publish quarterly complaint statistics on an island-specific basis. The planned introduction of summary complaint statistics on an FSP-named basis was held up pending the approval of required legislation by the States Assembly in Jersey and States of Deliberation in Guernsey. The final legislative approvals were obtained in Q4 2019 but left insufficient time for the required consultations and operational work to apply the new approach to publication of 2019 complaint data. Plans are under development to enable the publication of such FSP-named summary complaint statistics for 2020 by the time of next year's report.

STAKEHOLDER OUTREACH

During 2019, CIFO engaged in significant stakeholder consultation to identify means of increasing efficiency in the process by which CIFO

receives and resolves complaints from Channel Islands-based financial services providers. These consultations were fruitful and resulted in the pilot projects noted above, both of which have been adopted for use on an on-going basis and have proven their effectiveness in terms of increased numbers of case files closed and a decreased inventory of case files awaiting review. This is a positive development for both complainants and their financial services providers.

The addition of a new communications officer role to the CIFO team during 2019 has brought welcome additional capacity to CIFO's ability to engage with the wide range of stakeholders. It has also enabled CIFO to improve the content available and accelerate our ability to produce published Ombudsman decisions on a redacted basis to protect the identity of complainants.

Searchable [Ombudsman decisions](#) and [case studies](#) are an important resource for all stakeholders as they illustrate where consumers can encounter challenges in their financial affairs. Financial services providers can identify product and service issues of note and are informed of the approach CIFO generally takes in resolving certain types of complaints and in response to certain fact situations promoting fair offers to settle earlier in the complaint process. This also enhances the accessibility and transparency of CIFO's processes for all stakeholders.

FUNDING

In 2019, we were very pleased to finalise the preparations to implement a new funding scheme for CIFO. In 2018, CIFO completed an extensive four-stage 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 scheme. As a result, CIFO's board of directors approved a new scheme in 2018 which, once the necessary legislation was approved by the legislatures in Jersey and Guernsey, would take effect from 1 January 2020 pursuant to a revised memorandum of understanding (MOU) between Jersey and Guernsey. Details of the new funding scheme can be [seen here](#).

Under the new funding scheme, 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 an 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.



OFFICE INFRASTRUCTURE DEVELOPMENT

Operational initiatives in 2019 focused on three key areas to improve the integrity of our infrastructure: complaint data integration; cybersecurity; and new secure office premises. Each involved significant enhancements that contributed to the effective and secure functioning of our modest operation.

CIFO's complaint management system (CMS) is the secure cloud-based focal point of CIFO's information technology infrastructure and maintains the unique complaint file record assigned to an individual complaint. However, much of the day-to-day work of CIFO team members is carried out creating Word documents, Excel spreadsheets, using Outlook email for correspondence, and SharePoint for storing and accessing documents.

Significant investment was made in 2019 to CIFO's ability to securely integrate email and document management under the single complaint record in CIFO's CMS system. This was a significant enabler of greater efficiencies for case handlers and other staff and greatly enhances the ability to access complaint records.

The migration of current complaint records to enable the new functionality was a significant task that unexpectedly paid large dividends when the recent public health crisis had CIFO staff moving to remote operation and needing to securely access case files from their various home locations.

Given the sensitive nature of complainants' personal and private information provided to and held by CIFO, information security is critical to prevent unauthorised access to information and maintain the reputation of the office to perform its important public interest mandate. Having achieved the Cyber Essentials information security certification in 2018, CIFO continued to pursue the higher available certification, Cyber Essentials Plus, an information security level normally associated with regulators and major financial services providers.

In 2019, following systems penetration testing, an audit of CIFO's information systems and external connections, and a review of internal information security policies, CIFO achieved the Cyber Essentials Plus certification. Maintaining this high level of certification will require regular testing and continuous improvement to ensure the desired level of information security as threats continually evolve.

We also recognise that we need to continually focus on minimising the risk of human error. We continue to refine our workflow and tasks to minimise the possibility of staff errors which could inadvertently compromise complaint data integrity or data privacy.

As CIFO's team grew from its humble beginning in 2015 to meet the demands posed by the complaint volumes referred to CIFO, our initial office could no longer accommodate the entire team. Three separate offices, albeit close to each other, were occupied thereby breaking up the CIFO team.

In mid-2019, an opportunity to consolidate the team once again into a single secure office location emerged and also provided an opportunity to reconfigure the office for optimal team efficiency and to promote the informal communication and continual team learning that is critical to increasing efficiency and to consistently arrive at fair and reasonable conclusions on complex matters in a dynamic industry marketplace.

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 enhance the effectiveness of CIFO's mandate. We also escalate issues on a regular basis to CIFO's board of directors and, where appropriate, to the regulators and governments in Jersey and Guernsey.

Issues regarding CIFO's remit

After four full years of operation, CIFO's mandate is still being clarified as complaints arise that test the boundaries of the remit as initially set out by the Jersey and Guernsey legislatures.

Questions of complainant eligibility arose in circumstances such as where investment complaints were brought to CIFO by holding companies. The legal entity of the holding company was different from that of the underlying investor and the eligibility status of each under our legislation led to unanticipated outcomes that raised legitimate concerns amongst numerous investors.

The lack of a mandate for CIFO in certain areas of financial services business, such as fiduciary services and cryptocurrency, continues to leave some complaints brought to CIFO unresolved.

Finally, questions remain of how CIFO's "fair and reasonable in the circumstances" test, enshrined in CIFO legislation, interacts with local legislation. In some cases we review, the treatment of customers was entirely consistent with the legal requirement yet generated an outcome for the customer that was neither fair nor reasonable in the circumstances. From CIFO's perspective, such unfair and unreasonable outcomes may still warrant compensation. Some financial services providers, not surprisingly, are focused more narrowly on the legal perspective.

Non-bank credit and related activities

We note the long-standing plans of governments and regulators in both Guernsey and Jersey to regulate non-bank lending and credit and related services such as loan brokerage and debt collection. As we reported in both 2017 and 2018, 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.

Regulation would 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 complaints arising from mortgage and consumer lending, mortgage and loan brokerage, debt counselling, collections, and credit information reporting activities.

Cryptocurrency

It is expected that the powers of a statutory dispute resolution scheme set out in legislation reflect the marketplace at that time. The emergence of cryptocurrency as a new product, and cryptocurrency trading platforms as new services, has left CIFO responding to enquiries and complaints for which it has no mandate.

With cryptocurrencies increasingly being sold around the world to retail financial consumers as investments or as risk hedges against other currencies, the potential for future complaints is evident. Media coverage of losses due to cryptocurrency crime are raising public attention and expectations for regulation and redress.

At present, such products and services are not regulated in the Channel Islands and do not fall within CIFO's remit. In 2019, CIFO helpfully engaged in two cases where, while outside of CIFO's remit, our office was able to appropriately signpost complainants to help them resolve their concerns.

Powers of attorney

We see an aging population in the Channel Islands and amongst those served around the world by Channel Islands financial services providers. Having a robust, yet flexible regime for substitute decision making is critical to ensure that the needs of vulnerable financial consumers are met, balanced with the need to protect them from financial harm, often, sadly, at the hands of those closest to them.

Powers of attorney (POAs) and other similar legal instruments are important tools to enable financial transactions to occur on behalf of vulnerable customers. Given the nature of the international financial centres in Guernsey and Jersey, many account holders are not resident in the Channel Islands and therefore have POAs prepared where they live granting others certain powers over part or all of their personal financial affairs.

Issues have arisen where financial services providers based in the Channel Islands have been reluctant to accept POAs from other jurisdictions. The process to have a foreign power of attorney recognised by the courts in the Channel Islands is not well known or understood and can lead to delays and unanticipated costs in carrying out what are sometimes relatively straightforward and low value transactions.

Pension transfers

In 2019 CIFO dealt with a number of complex complaints involving pension transfers, an issue that has received great attention in other jurisdictions like the United Kingdom. These complaints can involve an assessment of the performance of a trustee's fiduciary duty and the actions, decisions, or potential conflicts of interest of other parties outside of the Channel Islands beyond the reach of CIFO's remit or ability to compel the production of required information for our review.

In some cases, based on the individual circumstances of the complaint, CIFO decided that the complaints were more appropriately resolved through the legal system which has the ability to compel evidence, assess the fiduciary's performance and determine the appropriateness of the actions of other financial services providers beyond CIFO's remit, especially those in other jurisdictions.

The potentially competing interests of many, if not all of the parties involved in a pension transfer, raise significant issues for the protection of individual pension plan members. CIFO set out its concerns in an [October 2019 newsletter](#) illustrated by a [case study](#).

Pension plan transfers

As public sector bodies seek to manage their future employer contributions to public sector pensions, pension plan members are being offered substantial sums to transfer their pension pots, many without the benefit of advice on the merit of such a change, which is of concern. Those that have done this then face the choice of what to do with the funds to provide for their retirement and are likely in need of advice regarding suitable investments for their funds to provide adequately for their future needs.

Such pension pots represent an attractive business opportunity for independent financial advisors and yet we note that the most prevalent complaint issue in investments is unsuitable investment advice followed by complaints regarding private pension plans.

AI and GDPR Article 22

There is growing use of artificial intelligence (AI) in financial services alongside questions about unconscious bias emerging in AI from the data used to train AI systems. The 2018 European Union (EU) implementation of the General Data Protection Regulation (GDPR) resulted in similar legislation being brought into force in Guernsey and Jersey.

The local equivalents of Article 22 of the GDPR provide customers with "the right to obtain human intervention [...] and to contest the decision" when automated decision technology is used to make decisions affecting the customer. The implications of this for the provision of financial services in or from the Channel Islands is under discussion with data protection regulators and will be kept under active review.

Retention of evidence for complaint reviews

CIFO has encountered situations where, during a complaint investigation, the evidence that could establish or disprove the merits of the complaint is not available. Most often this involves video images and call recordings. Given the ability to bring a complaint to CIFO within 6 years of the action complained about, or 2 years from when the complainant knew or ought to have known about the action, the implications for evidence retention by financial services providers are clear.

Disputes regarding the handling of cash or the verification of a person's presence or conduct at a certain location can often be determined from closed circuit television (CCTV) cameras located in branches, processing centres, or at bank machines. The destruction, erasure or recording over of video images after short periods have elapsed deprives complainants, and CIFO, of important evidence in some types of disputes.

Disputes involving customer service and customer reliance upon information provided or agreements made over the telephone can often be determined from call recordings or voicemail. Again, the destruction, erasure or recording over of calls and voicemails is similarly problematic. The use of unrecorded phone lines to communicate with customers is particularly unhelpful given the customer perception, and presumption, that all calls are recorded.

Finally, verified copies of historical versions of generic customer agreements, terms and conditions, and marketing material, including website information, is of great assistance when dealing with complaints that rely upon older versions of such material and where customers' own copies are unavailable.

Regulators have established retention periods for certain types of records. Financial services providers are urged to recognise the value of these other types of retained information for successful resolution of customer complaints.



While it would depend upon the unique circumstances of a particular complaint, where it would be fair and reasonable to do so, CIFO may make a negative inference from the inability to produce evidence that should have or could have been retained for review.

JUDICIAL REVIEW OF CIFO

As reported in the 2018 CIFO Annual Report, a Jersey mortgage broker brought a judicial review action before the Jersey Royal Court in mid-2018 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](#).

Following the judicial review, actions continued to seek to enforce the binding decision to have the complainant paid the compensation awarded by CIFO. This was complicated by assertions that the financial services provider was no longer operating and no longer had sufficient assets to cover the award payment.

While ultimately successful, in large part due to the diligence and persistence of the complainants, the time and expense incurred to compel payment of a binding CIFO determination was notable, as was the absence of an industry compensation scheme similar to the UK. Another unfortunate outcome of this process was that CIFO was unable to recover its own court-granted legal costs from the financial services provider, leaving this unplanned expense unfunded.

LOOKING AHEAD TO 2020

Our top priorities for 2020 were quickly overtaken by the emergence in Q1 2020 of the Covid-19 pandemic which has already had, and will continue to have a profound impact on CIFO's operation. Early on, CIFO moved to a remote operating model to enable all staff to work securely from their homes for the duration of the crisis. This had operational implications for information technology and security, work-flow, team interaction on casework and other tasks, stakeholder engagement, and our internal and external means of communication.

As for all employers during this challenging period, ensuring the health and well-being of our staff is paramount during this time of remote work, social distancing and isolation. Yet for all the challenges we face, they pale in comparison to the challenges faced by many consumers living in the Channel Islands and those around the world whose financial services are provided from the Channel Islands.

The economic turmoil and job losses due to local and global efforts to address the public health crisis have quickly translated into issues for financial consumers. Enquiries and complaints have quickly emerged around consumers' needs for mortgage, consumer loan and credit card debt relief as well as concerns about

debt collection practices. Investors and pension plan members are understandably concerned about the effects on their financial well-being of significant drops in the value of their investment and pension funds.

The implications of these recent developments for complaint volumes through the rest of 2020 is unclear, but past economic crises such as the 2008-2009 event were responsible for very significant increases in complaint volumes that severely stressed the capacity of financial Ombudsman schemes in many jurisdictions.

Notwithstanding the new challenges arising from the public health crisis and those that may well lie ahead in the near future, we remain committed to several important initiatives that support our overall mission.

With the implementation of the new CIFO funding scheme effective 1 January 2020, the separate financial accounts that CIFO previously maintained and reported on for each of the Office of the Financial Services Ombudsman (Jersey) and the Office of the Financial Services Ombudsman (Guernsey) have been combined. As a result, the audited annual accounts for 2020 and future years presented to both governments in April of the following year will be reported on a combined basis.

In 2019, we received confirmation of the long-anticipated completion of legislative changes to enable the publication of summary complaint statistics on an FSP-named basis. We will undertake the planning and consultations with industry stakeholders around procedures to ensure data accuracy. If a robust approach can be identified in conjunction with industry stakeholders, we anticipate commencing publication of summary complaint statistics with the 2020 CIFO annual report to be published in the summer of 2021. This is an important step in ensuring transparency in CIFO's complaint handling mandate.

Government plans in Jersey and/or Guernsey to introduce regulation in the credit and pension areas and development of secondary pension schemes for local residents will involve questions regarding CIFO's future remit in these areas. CIFO has responded to queries from both governments regarding their plans based on our consumer complaint experience in these areas and implications for effective complaint handling going forward.

CIFO also plans to engage this year with interested parties in Jersey and Guernsey to identify means of assisting those with foreign powers of attorney (POAs) to have their financial services needs met in the Channel Islands. We also seek to work with local stakeholders to assist local residents in need of such tools, particularly the most vulnerable, to identify how to obtain appropriate advice to protect their interests.

Despite the challenges in securing policy and legislative capacity due to Brexit preparations in 2019 and now during the current public health crisis, we continue to make progress in a few areas where changes to our legal framework would be helpful to our effective performance of our role.

One example is the legislative change to add CIFO to the list of approved bodies to permit the conduct of enhanced reliability checks on new and existing staff. This enhances CIFO’s security and credibility by ensuring that our team is vetted at a high level, consistent with that performed for financial sector regulators and staff of other trusted bodies handling highly sensitive information.

We look forward to working with policy and legal advisors in the Jersey and Guernsey governments to continue to implement other legislative changes to help improve CIFO’s ability to effectively and efficiently perform its role. After four 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 effectively and efficiently perform its important public interest mandate.

CIFO CHANGE MAP

	INTERNAL	EXTERNAL
PAST	<ul style="list-style-type: none"> Operational efficiency initiatives Data security Office move 	<ul style="list-style-type: none"> Funding legislation and Revised MOU Legislation for FSP-named summary complaint statistics
FUTURE	<ul style="list-style-type: none"> Combined financial accounts Operationalise production of FSP-named summary complaint statistics Staff vetting 	<ul style="list-style-type: none"> Consultations on FSP-named summary complaint statistics POAs Pension regulation Credit regulation Secondary pension plans Cryptocurrency regulation AI and GDPR

COMPLAINT STATISTICS 2019

This presentation of CIFO's complaint statistics represents the fourth 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 2019 was 10% lower than in 2018 coupled with a 12% decrease in the proportion of complaints which fell within CIFO's remit, down to 38% from 50% in 2018. This meant the workload faced by CIFO staff created by new in-mandate complaints fell, especially later in the year when complaint volumes dropped notably in Q4.

In 2019, the proportion of complaint outcomes shifted a bit from 2018. In 2019 roughly half of case files resolved were in favour of each of consumers and their financial services providers.

Also of note was the significant decrease in the average and median amounts of compensation awarded by CIFO in 2019 compared with 2018. In 2019 CIFO experienced a higher proportion of complaints involving lower amounts of awarded compensation (e.g., account closures) which pulled down both the mean and median values.

Otherwise, the proportional nature of complaints in 2019 was remarkably similar to what CIFO experienced in 2018 across geographic, product and issue complaint dimensions. Administrative and service errors and account remediation by firms seeking to meet their regulatory "know your client" requirements remain the predominant issues giving rise to complaints.



2019 COMPLAINT STATISTICS SUMMARY



324

Opening Complaints on Hand



389

Complaints Received

Stage 2 Stage 2 Initial Review as at 31 December 2019

5 **22**

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 2019

46 **0**

Waiting for documents from FSP

Pending further review against mandate

Rejected as out of mandate

Within mandate

243

23

..... Case Fee Payable

Stage 4 Open Case Files as at 31 December 2019

16

Under 30 days

28

30-60

19

61-90

140

Over 90

Closed Case Files

111

Mediated

44

Decided

11

Withdrawn



281

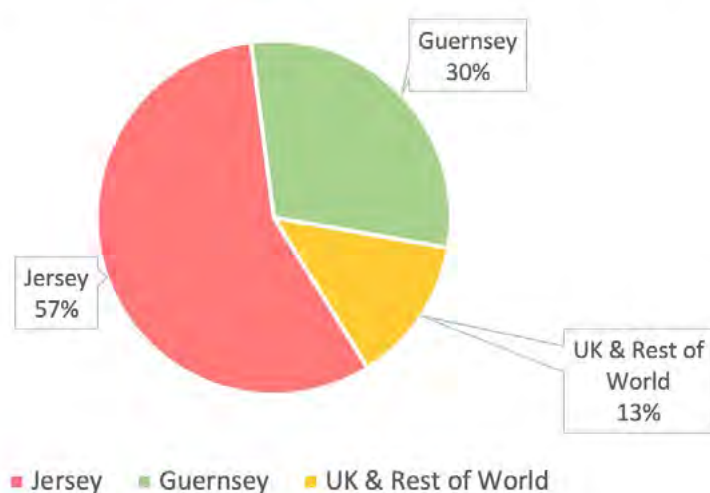
Closing Complaints on Hand

2019 COMPLAINT STATISTICS ANALYSIS

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

Jersey	221	57%
Guernsey	116	30%
UK & Rest of World	52	13%
Grand Total	389	100%

Complaints Received - Location of Financial Services Provider



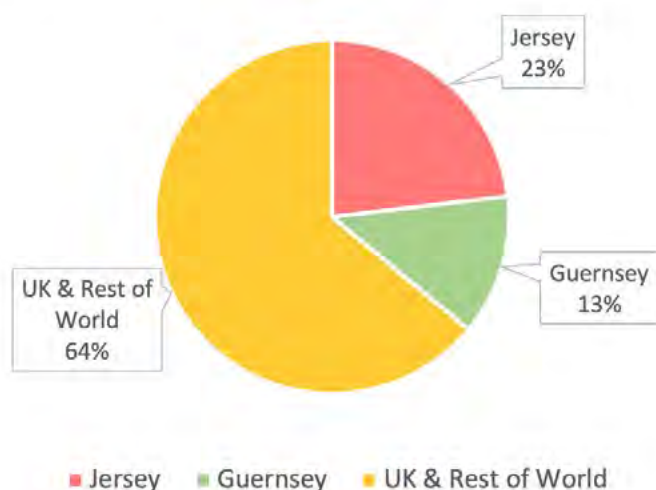
This section of the 2019 statistics analysis provides detailed information concerning all complaints about a financial services provider that have been received by CIFO whether or not they are ultimately deemed to fall within CIFO's statutory mandate.

Of the 389 complaints received by CIFO in 2019, 337 (87%) were against financial services providers operating in or from within the Channel Islands, 57% in Jersey and 30% in Guernsey. 52 (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	90	23%
Guernsey	50	13%
UK & Rest of World	249	64%
Grand Total	389	100%

Complaints Received - Location of Complainants



CIFO reviews complaints about financial services provided in or from the Channel Islands. The complainants can be from anywhere in the world. Of the 389 complaints received by CIFO in 2019, 140 (36%) were from complainants residing in the Channel Islands, 23% in Jersey and 13% in Guernsey. 249 (64%) 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	89	99%	46	92%	241	97%	376	97%
Microenterprise	1	1%	2	4%	3	1%	6	2%
Trustee	0	0%	1	2%	5	2%	6	2%
Charity	0	0%	1	2%	0	0%	1	0%
Other	0	0%	0	0%	0	0%	0	0%
Grand Total	90	100%	50	100%	249	100%	389	100%

Of the 389 complaints received by CIFO in 2019, 376 (97%) were from consumers. Only 6 (2%) were from microenterprises, with 6 from trustees and 1 from a charity. The proportions were not significantly different for Jersey, Guernsey, and the UK & rest of the world although Jersey did not have any complaints from trustees or charities.

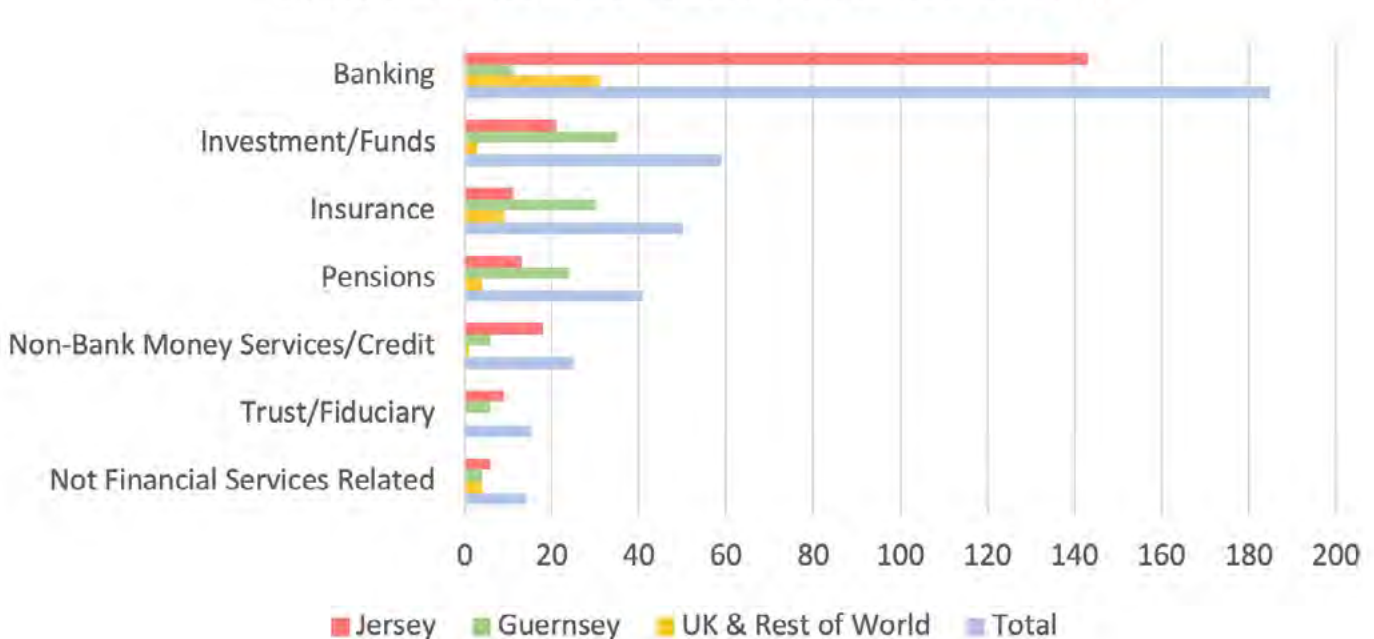


Table 4: **Complaints Received - Sector of Business Activity**

	Jersey		Guernsey		UK & Rest of World		Total	
Banking	143	65%	11	9%	31	60%	185	48%
Investment/Funds	21	10%	35	30%	3	6%	59	15%
Insurance	11	5%	30	26%	9	17%	50	13%
Pensions	13	6%	24	21%	4	8%	41	11%
Non-Bank Money Services/Credit	18	8%	6	5%	1	2%	25	6%
Trust/Fiduciary	9	4%	6	5%	0	0%	15	4%
Not Financial Services Related	6	3%	4	3%	4	8%	14	4%
Grand Total	221	100%	116	100%	52	100%	389	100%

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

Complaints Received - Sector of Business Activity



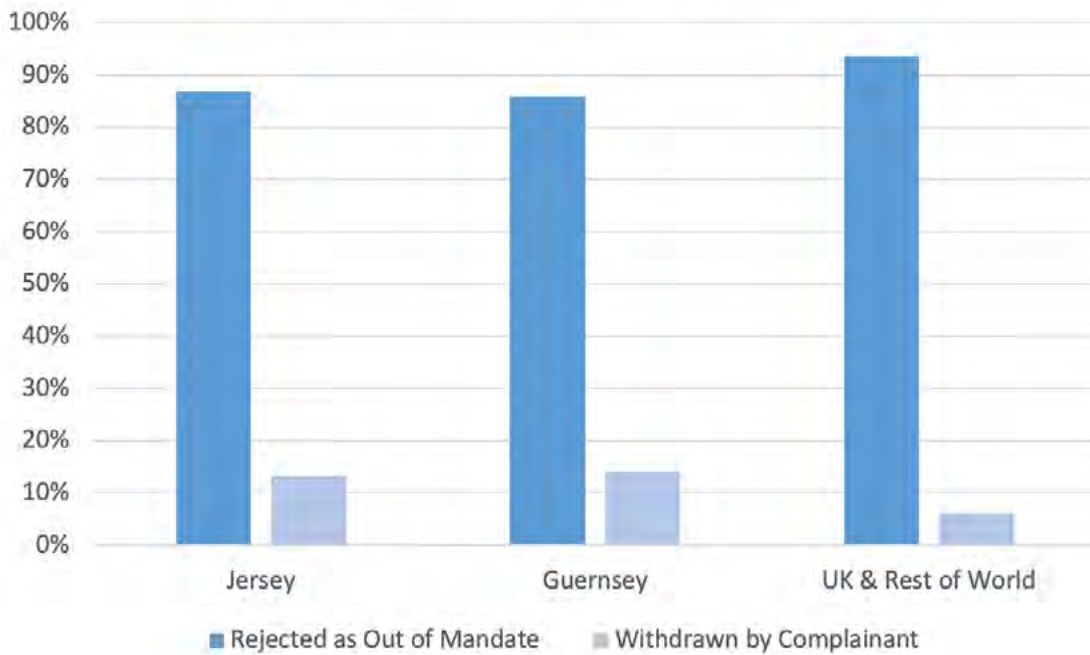
Of the 389 complaints received by CIFO in 2019, 48% related to the banking sector. The proportions by location varied widely with Jersey having 65% of complaints from the banking sector while Guernsey had only 9%. This contrasts significantly with the third most prevalent sector, insurance, which accounted for 13% of the overall total - which was 26% of the complaints in Guernsey but only 5% in Jersey. Of the other complaints, 15% related to the investment/funds sector, 11% to the pensions sector, 4% to the non-bank money services/credit sector, and 4% to the trust/fiduciary sector. The remaining 4% of complaints were not related to financial services.

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

Table 5: **Why complaints did not become cases**

	Jersey		Guernsey		UK & Rest of World		Total	
Rejected as Out of Mandate	125	87%	73	86%	45	94%	243	88%
Withdrawn by Complainant	19	13%	12	14%	3	6%	34	12%
Grand Total	144	100%	85	100%	48	100%	277	100%

Complaints received that did not become cases



Of the 389 complaints received by CIFO in 2019, 277 complaints (71%) did not become case files. Of those 277 complaints, 88% were rejected as falling outside of CIFO's statutory mandate. 12% were withdrawn by the complainant. The proportions were almost equal between Jersey and Guernsey with Jersey having a slightly higher proportion (87% compared with 86% for Guernsey) of complaints rejected as out of mandate. Guernsey also had a slightly higher proportion of withdrawn complaints (14% compared with 13% for Jersey).

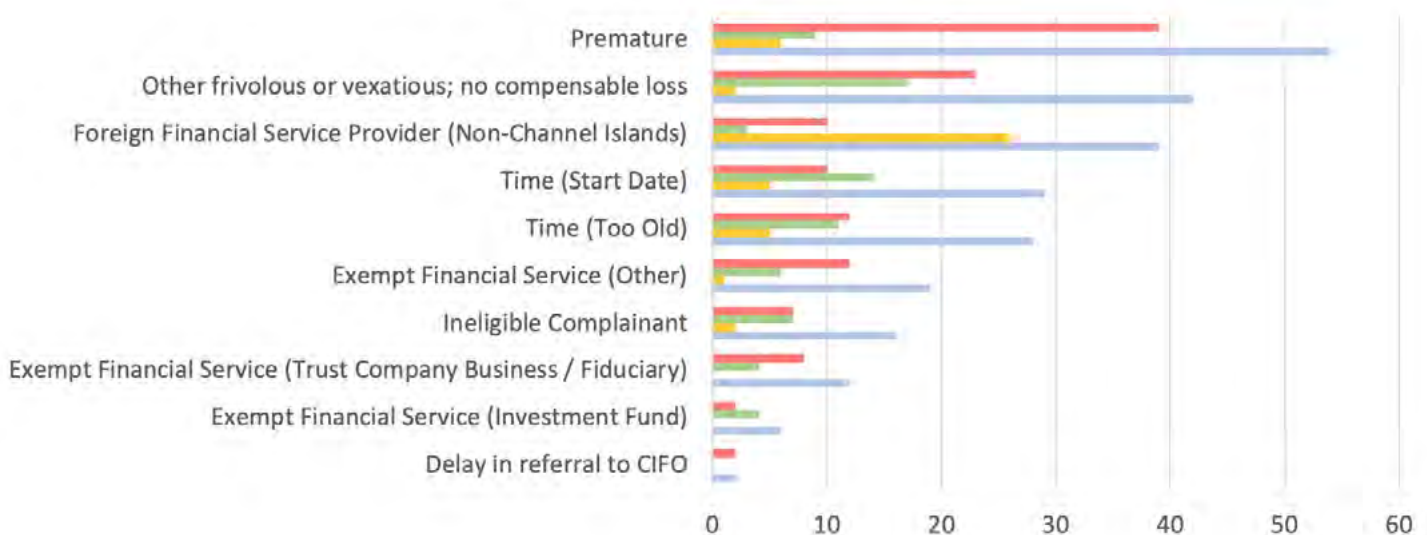


Table 6: **Why complaints did not become cases**

	Jersey		Guernsey		UK & Rest of World		Total	
Premature	39	31%	9	12%	6	13%	54	22%
Other frivolous or vexatious; no compensable loss	23	18%	17	23%	2	4%	42	17%
Foreign Financial Service Provider (Non-Channel Islands)	10	8%	3	4%	26	55%	39	16%
Time (Start Date)	10	8%	14	19%	5	11%	29	12%
Time (Too Old)	12	10%	11	15%	5	11%	28	11%
Exempt Financial Service (Other)	12	10%	6	8%	1	2%	19	8%
Ineligible Complainant	7	6%	7	9%	2	4%	16	6%
Exempt Financial Service (Trust Company Business / Fiduciary)	8	6%	4	5%	0	0%	12	5%
Exempt Financial Service (Investment Fund)	2	2%	4	5%	0	0%	6	2%
Delay in Referral to CIFO	2	2%	0	0%	0	0%	2	1%
Grand Total	125	100%	75	100%	47	100%	247	100%

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

Why complaints did not become cases



Of the 277 complaints that did not become case files, 22% (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 CIFO's mandate in each island, was the reason for rejection in 23% of complaints.

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

Jersey	128	70%
Guernsey	55	30%
Total	183	100%

Of the 183 case files opened in 2019, 128 (70%) were about FSPs from Jersey and 55 (30%) were about FSPs from Guernsey.

Case Files Opened - Location of Financial Services Provider

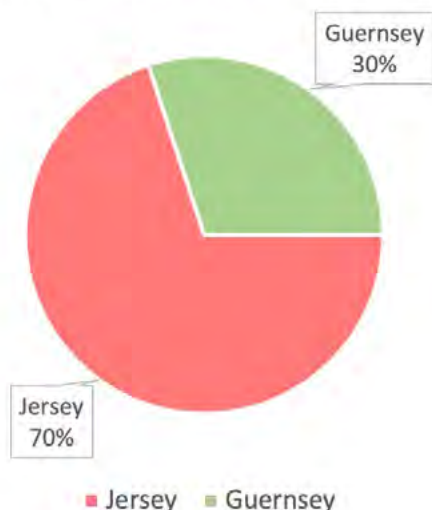


Table 8: **Case Files Opened - Location of Complainants**

Jersey	38	21%
Guernsey	18	10%
UK & Rest of World	127	69%
Total	183	100%

Of the 183 case files opened in 2019, 38 (21%) were from residents of Jersey, 18 (10%) were from residents of Guernsey, and 127 (69%) were from residents of the UK or rest of the world.

Case Files Opened - Location of Complainants

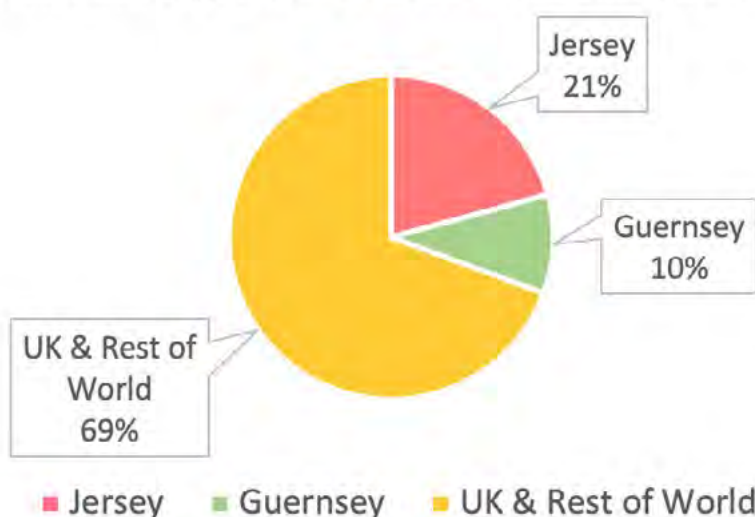
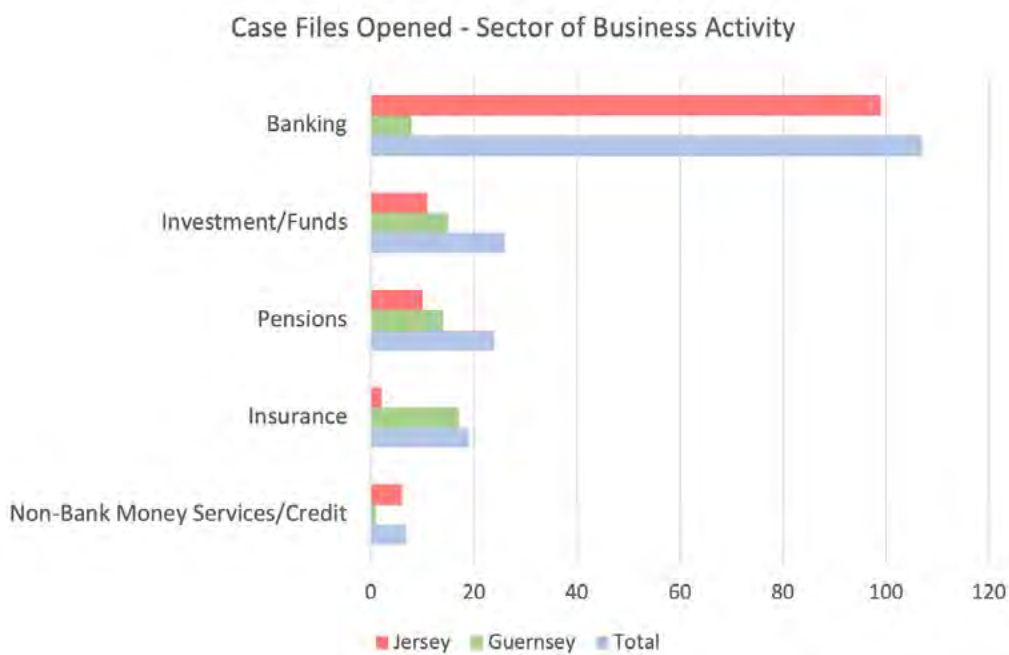


Table 9: **Case Files Opened - Sector of Business Activity**

	Jersey		Guernsey		Total	
	Count	Percentage	Count	Percentage	Count	Percentage
Banking	99	77%	8	15%	107	58%
Investment/Funds	11	9%	15	27%	26	14%
Pensions	10	8%	14	25%	24	13%
Insurance	2	2%	17	31%	19	10%
Non-Bank Money Services/Credit	6	5%	1	2%	7	4%
Grand Total	128	100%	55	100%	183	100%



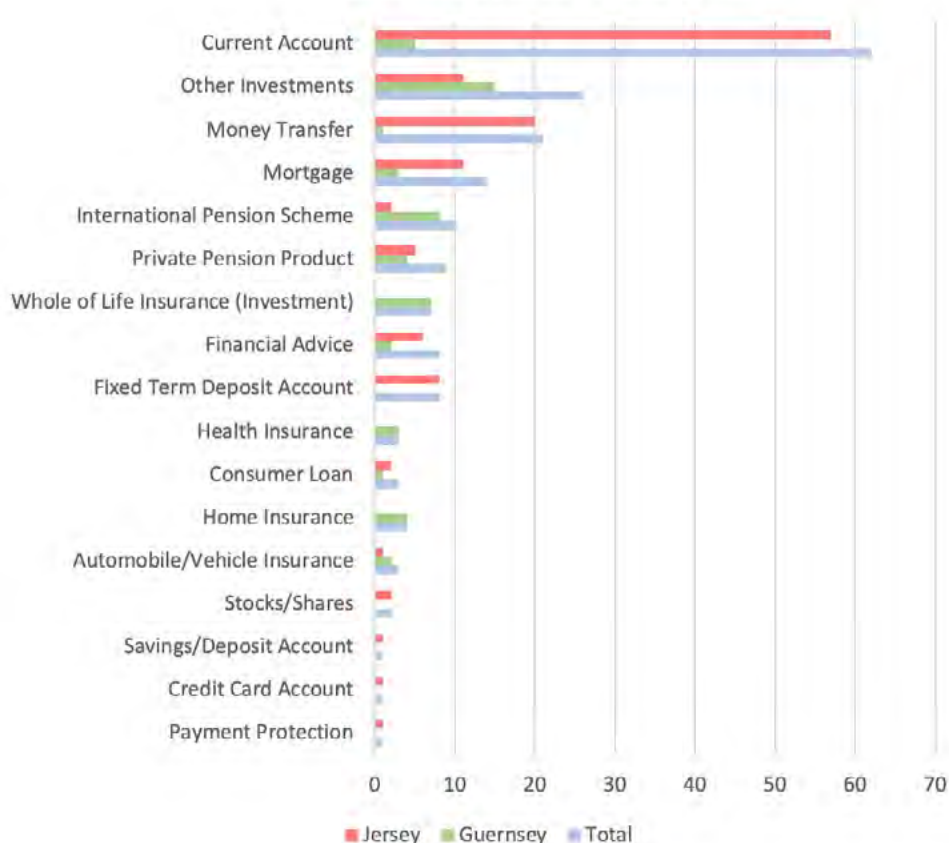
Over half of 183 case files opened in 2019 related to the banking sector (58%). This proportion varied significantly between Jersey and Guernsey with banking comprising 77% of opened case files in Jersey but only 15% of opened case files in Guernsey. In contrast, the insurance sector accounted for 10% of all opened case files but was 31% of opened case files in Guernsey and only 2% in Jersey. The investment/funds sector was 14% of all opened case files with 15 opened in Guernsey and 11 opened in Jersey.

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	57	45%	5	9%	62	34%
Other Investments	11	9%	15	27%	26	14%
Money Transfer	20	16%	1	2%	21	11%
Mortgage	11	9%	3	5%	14	8%
International Pension Scheme	2	2%	8	15%	10	5%
Private Pension Product	5	4%	4	7%	9	5%
Financial Advice	6	5%	2	4%	8	4%
Fixed Term Deposit Account	8	6%	0	0%	8	4%
Whole of Life Insurance (Investment)	0	0%	7	13%	7	4%
Health Insurance	0	0%	3	5%	3	2%
Consumer Loan	2	2%	1	2%	3	2%
Home Insurance	0	0%	4	7%	4	2%
Automobile/Vehicle Insurance	1	1%	2	4%	3	2%
Savings/Deposit Account	1	1%	0	0%	1	1%
Payment Protection	1	1%	0	0%	1	1%
Credit Card Account	1	1%	0	0%	1	1%
Stocks/Shares	2	2%	0	0%	2	1%
Grand Total	128	100%	55	100%	183	100%

Case Files Opened - Product Areas

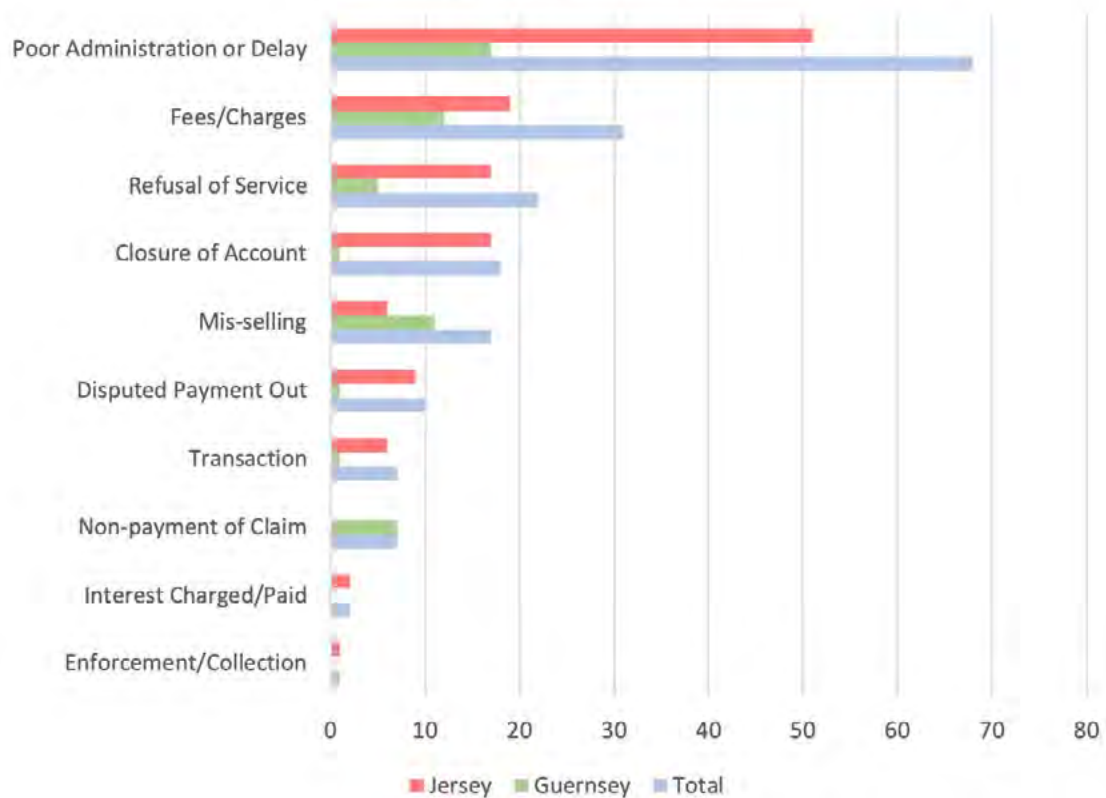


Of the 183 case files opened in 2019, 62 (34%) related to current accounts and 26 (14%) related to miscellaneous investments other than those already categorised. Money transfers made up 11% of the total case files opened and was the only other product area to make up more than 10% of the total cases opened.

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

	Jersey		Guernsey		Total	
	Count	Percentage	Count	Percentage	Count	Percentage
Poor Administration or Delay	51	40%	17	31%	68	37%
Fees/Charges	19	15%	12	22%	31	17%
Refusal of Service	17	13%	5	9%	22	12%
Closure of Account	17	13%	1	2%	18	10%
Mis-selling	6	5%	11	20%	17	9%
Disputed Payment Out	9	7%	1	2%	10	5%
Non-Payment of Claim	0	0%	7	13%	7	4%
Transaction	6	5%	1	2%	7	4%
Interest charged/Paid	2	2%	0	0%	2	1%
Enforcement/Collection	1	1%	0	0%	1	1%
Grand Total	128	100%	55	100%	183	100%

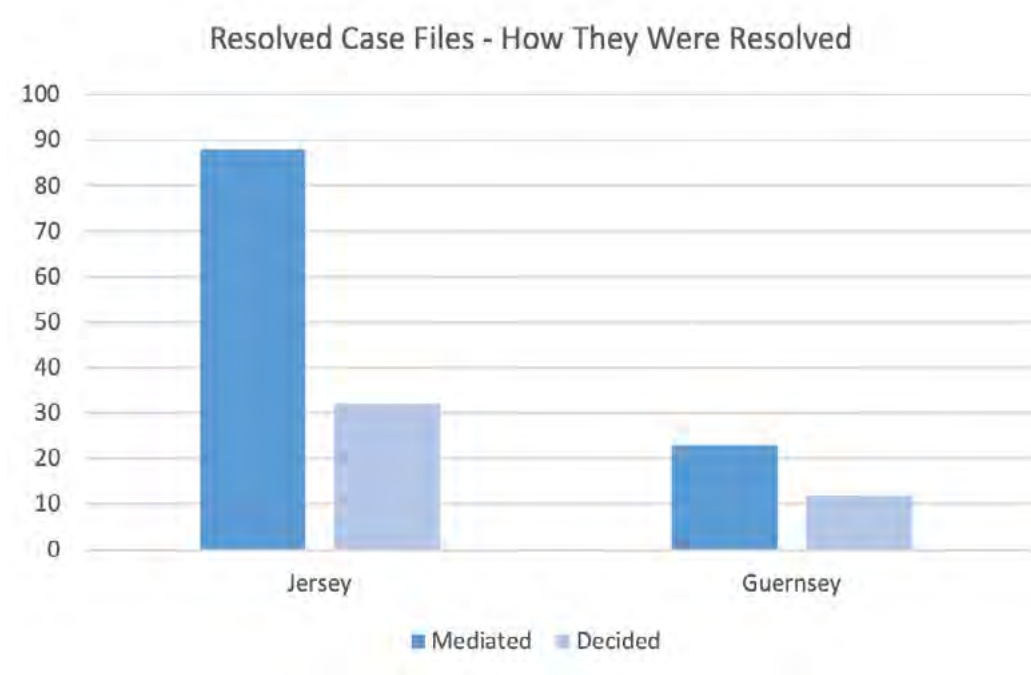
Case Files Opened - Issue



The most common issue in the 183 case files opened in 2019 was poor administration or delay with 68 (37%). Fees/charges was the second most common issue with 31 (17%) and arose across a wide range of products. Refusal of service was the third most common issue with 22 (12%).

Table 12: Resolved Case Files - How They Were Resolved

	Jersey		Guernsey		Total	
Mediated	88	73%	23	66%	111	72%
Decided	32	27%	12	34%	44	28%
Grand Total	120	100%	35	100%	155	100%



In 2019, CIFO opened 183 case files and successfully closed 120 by either mediation or determination. Of the 120, over two thirds (72%) were resolved informally through mediated settlements. Only 44 (28%) case files proceeded to the end of CIFO's process and required an Ombudsman determination to resolve.



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	30	25%	14	40%	44	28%
Case Files Resolved in Favour of Complainant for Same or Less Compensation than Previously Offered by FSP	29	24%	1	3%	30	19%
Case Files Resolved in Favour of FSP	61	51%	20	57%	81	52%
Total	120	100%	35	100%	155	100%

Of the 120 case files closed in 2019, 44 case files (28%) were resolved in favour of the complainant for more compensation than previously offered by the FSP. A higher proportion (40%) of Guernsey case files received higher compensation than previously offered by the FSP compared with 25% in Jersey. 30 case files (19%) were resolved in favour of the complainant, but for the same or less compensation than previously offered by the FSP. 81 case files (52%) were resolved in favour of the FSP.

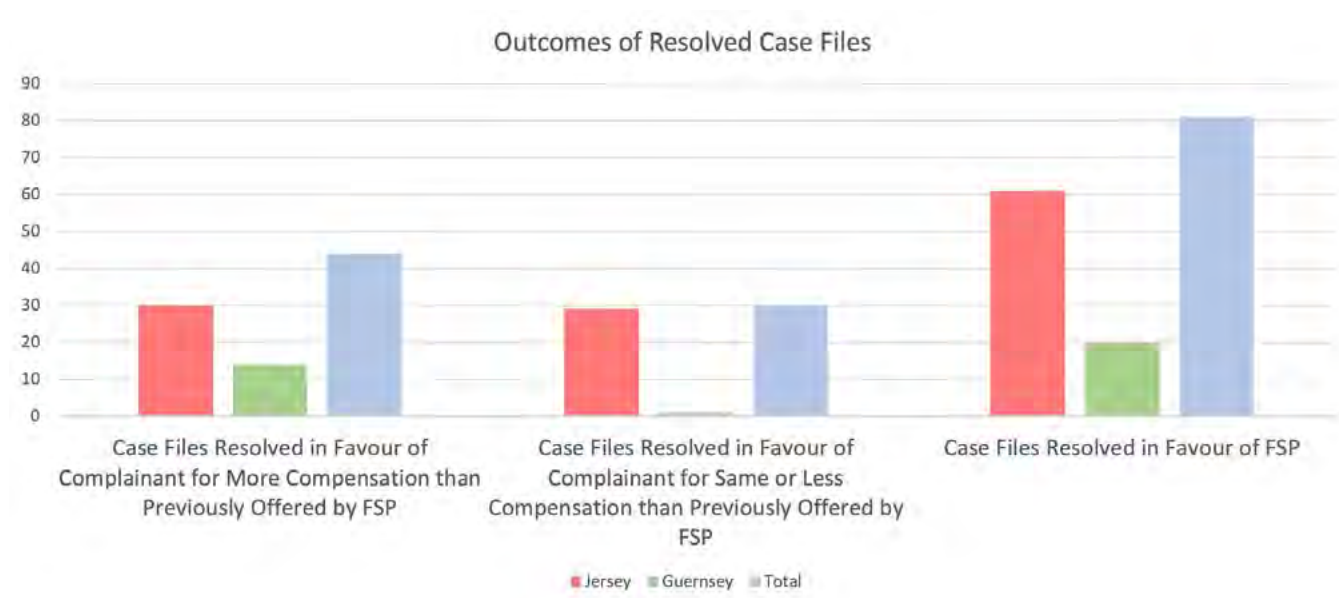


Table 14: Amounts of compensation awarded up to statutory limit of £150,000

Maximum	£150,000
Average	£4,483
Median	£286
Minimum	£30

Of the case files that were resolved in favour of the complainant and involved financial compensation, the largest award for compensation was £150,000. This does not include non-binding recommendations above the £150,000 statutory limit paid by FSPs, the highest at which was £191,250 in 2019. The average award of compensation was £4,483 with the median amount £286. The lowest amount awarded was £30.

ANNEXES

ANNEXES TO THE ANNUAL REPORT 2019

Channel Islands Financial Ombudsman



ANNEX 1 OUR STAFF

Our staff – with a wide variety of experience and training in financial services, law, accounting 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

Alison Finn

Financial Accountant

Dominic Hind

Case Handler & Operations Analyst

Ross Symes

Case Handler

Richard Langlois

Case Handler

Natalie Mooney

Case Handler

Oana Lupu

Case File Administrator

Julia Dandurand

Legal Assistant

Francois Legrand

Legal Assistant

Heather Rushton

Administration Officer

Carol Rabet

Information Officer



From left to right; Francois Legrand, Natalie Mooney, Julia Dandurand, Oana Lupu, Heather Rushton, Douglas Melville, Ross Symes, Richard Langlois, Sophie Watkins, Alison Finn, Carol Rabet, Dominic Hind

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 takes various steps to ensure that we are accountable for our performance of this role and to drive our commitment to continuous improvement.

CIFO Board Review

CIFO regularly conducts a rolling review of various aspects of CIFO's operations. At each quarterly CIFO board meeting, part of the strategy discussion time is 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) and the Service Standards Framework of the Ombudsman Association (OA).

In the past, CIFO has been found by the board to be generally consistent with the fundamental principles and standards and those few opportunities for enhancement that were identified will be implemented by management as resources permit. These INFO Network fundamental principles can be [seen here](#). The OA Service Standards Framework 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](#).

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 publishes [final Ombudsman decisions](#) and [case studies](#) on its website. Published decisions on complaints referred to CIFO on or after 1 January 2018 will include the names of the FSPs involved. Complainants' names are not published.

This year we have included thirteen case studies in this annual report that illustrate 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. With the completion of the required legislative changes in both islands at the end of 2019, CIFO can begin preparations to publish summary complaint statistics on an FSP-named basis going forward. In 2020 we will consult with industry stakeholders on how we can operationalise production and verification of this new complaint data to ensure accuracy. Once that process is completed, 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 chairman of South West Mutual Ltd (UK) and an adviser for Citizens Advice (UK). 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 fellow of the Chartered Institute of Management Accountants and a Chartered Director with experience in wealth management, insurance and fund management as well as utilities and healthcare. Debbie is currently Chief Executive Officer of Artemis Trustees Ltd in Guernsey and was formerly Chief Executive of the Medical Specialist Group. Previous roles include 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 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. 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).

John Mills CBE was formerly a senior civil servant in the UK and Jersey. In recent years he has held a number of non-executive appointments in the public and statutory sectors, including as a board member of the Jersey Financial Services Commission, vice-chairman of the Port of London Authority and deputy chairman of Ports of Jersey Ltd. Since 2017 he has been Jersey's first Charity Commissioner. He is a member of the board of both public sector pension funds in Jersey and is also an independent trustee of one of the country's largest private sector schemes.

DIRECTORS' ATTENDANCE AT 2019 BOARD MEETINGS

ATTENDANCE AT BOARD MEETINGS

Regular in-person meetings of the board of directors were scheduled throughout 2019. 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.

	No. of meetings held	No. of meetings attended	No. of meetings absent	Attendance rate	Meeting dates
David Thomas (Chair)	4	4	0	100%	22 January 2019
Deborah Guillou	4	4	0	100%	25 April 2019
John Mills	4	4	0	100%	16 July 2019
John Curran	4	4	0	100%	22 October 2019

DIRECTOR REMUNERATION 2019

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



St Ouens Bay, Jersey

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 appoint the Board of Directors and the Board appoints 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.

Sark la Coupe, Sark, Bailiwick of Guernsey



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> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; vertical-align: top; border-right: 1px solid black; padding-right: 10px;"> <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; </td> <td style="width: 50%; vertical-align: top; padding-left: 10px;"> <ol style="list-style-type: none"> 3. Insurance; 4. Investment funds: activities relating only to recognized funds and not other collective or alternative investment funds; 5. Investment services such as advising, managing or dealing in collective investment funds and other investments such as stocks and shares; 6. Pensions. Exemption for pension business carried on by employers in relation to their occupational pension schemes, where the employer does not do any other pensions business; </td> </tr> </table> <ol style="list-style-type: none"> 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>		<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; 	<ol style="list-style-type: none"> 3. Insurance; 4. Investment funds: activities relating only to recognized funds and not other collective or alternative investment funds; 5. Investment services such as advising, managing or dealing in collective investment funds and other investments such as stocks and shares; 6. Pensions. Exemption for pension business carried on by employers in relation to their occupational pension schemes, where the employer does not do any other pensions business;
<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; 	<ol style="list-style-type: none"> 3. Insurance; 4. Investment funds: activities relating only to recognized funds and not other collective or alternative investment funds; 5. Investment services such as advising, managing or dealing in collective investment funds and other investments such as stocks and shares; 6. Pensions. Exemption for pension business carried on by employers in relation to their occupational pension schemes, where the employer does not do any other pensions business; 			
Timing	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; vertical-align: top; border-right: 1px solid black; padding-right: 10px;"> <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. </td> <td style="width: 50%; vertical-align: top; padding-left: 10px;"> <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; </td> </tr> </table>		<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;
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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 41). 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 39. 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

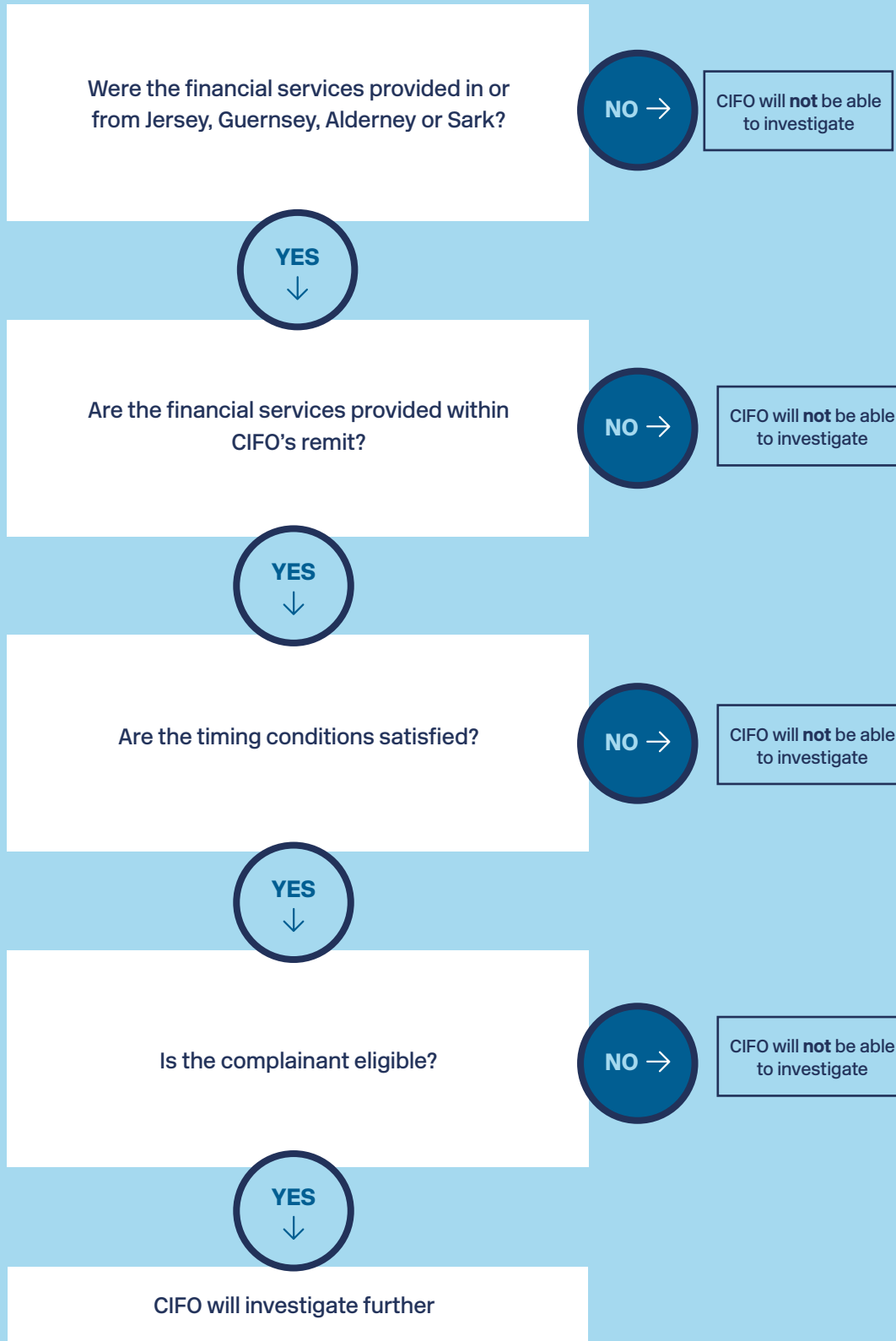
dispute through a facilitated settlement between the consumer and FSP that aims to address the complaint quickly with a fair outcome to both parties.

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.

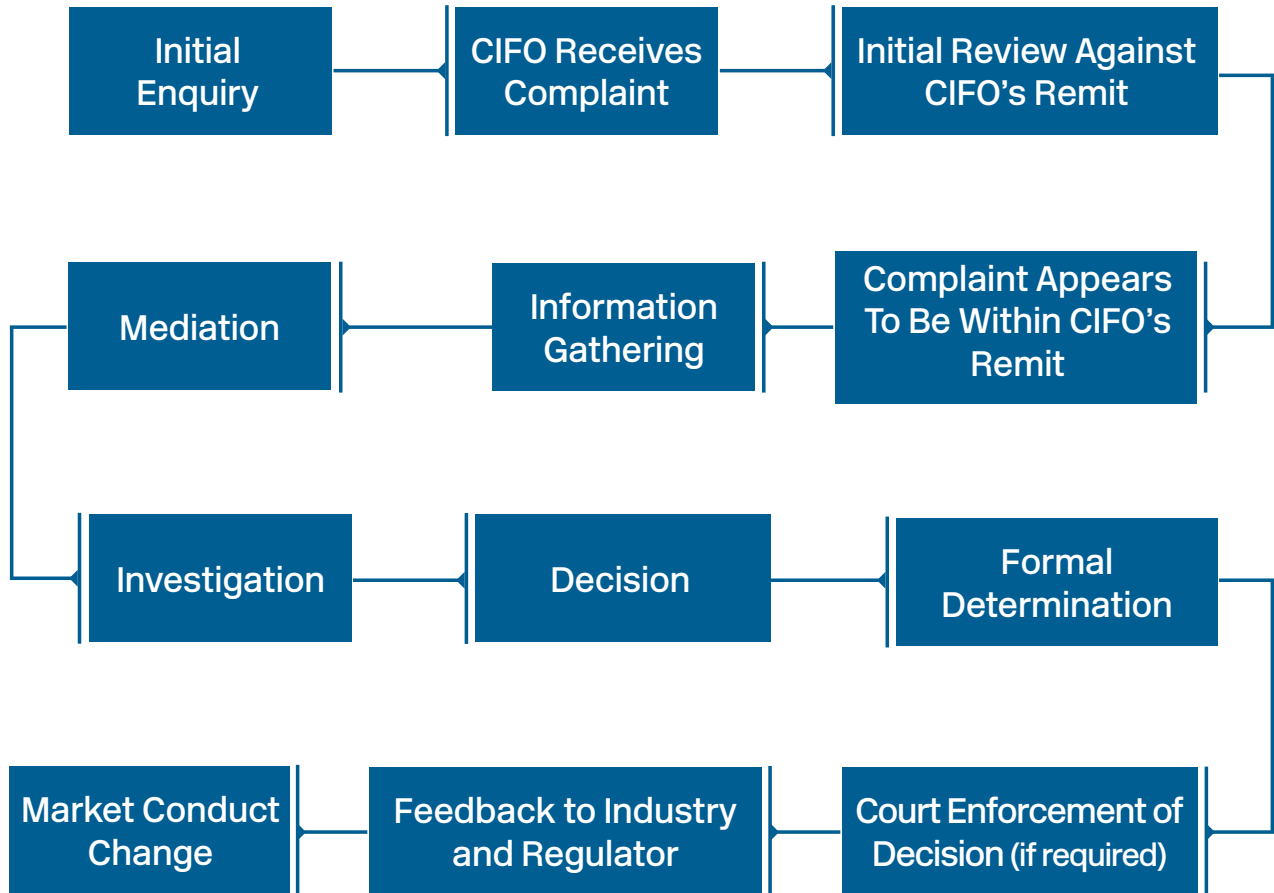
We can require that FSPs pay compensation to the consumer of up to £150,000. We may also determine that compensation for distress and inconvenience is appropriate in the specific circumstances. In some instances, non-financial actions such as correcting a credit reporting agency record may be appropriate.

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

HOUSE INSURANCE

POOR ADMINISTRATION WITH A HOUSE INSURANCE CLAIM

The complaint relates to the handling of a house insurance claim for damages and the inadequate repairs that were completed.

In April, Miss H's property was damaged by water overflow caused from a ground floor drainage problem. Miss H used known contractors to repair the damage, but the damage was found to be widespread. The insurance company appointed a loss adjuster who assessed the damage and selected a contractor to complete the repairs.

The following February, Miss H contacted the insurance company to complain about the quality of the repairs. The insurance company again appointed a loss adjuster who recommended another repair be done, which was completed 11 months later.

Miss H remained unsatisfied and continued to raise her concerns about the poor repair work with her insurance company. Miss H sought additional compensation for the losses she considered had arisen from the time taken to rectify the mishandling of her complaint.

Miss H referred the complaint to CIFO. Due to the complexity of the case, CIFO sought assistance from an independent claims consultant. This independent expert produced a report with several conclusions favourable to Miss H.

Themes

- CIFO awards “exceptional” distress and inconvenience compensation
- Mishandling of damage claim and repairs

CIFO felt that because of the way the insurance company had previously dealt with the claim, it would be in the best interests of both parties for the insurers to provide Miss H with a cash settlement. Miss H could then engage her own preferred contractors to make the required repairs to her specifications.

CIFO requested the independent expert to provide an estimate upon which to base a cash settlement. CIFO added additional expenses incurred by Miss H for alternative accommodation and storage for household items whilst the repairs were being completed. CIFO also concluded that a distress and inconvenience award at the “exceptional” level of £8,000 was warranted to reflect the significant impact caused by the mishandling of the claim.

CIFO upheld this complaint and awarded total compensation of £26,776.

Case Study #2

INVESTMENTS

UNSUITABLE INVESTMENT

The complaint relates to an investment portfolio that Mr G felt was being mismanaged, resulting in a financial loss.

Mr G agreed to a non-discretionary investment contract with an investment manager, meaning Mr G, not the investment manager, would make decisions relating to that investment portfolio. The investment manager applied a medium risk rating to Mr G's portfolio.

Six years later, Mr G complained that decisions were being made without his authority. The investment manager advised that he should change his contract to a discretionary one, meaning the investment manager would make changes going forward without Mr G's consent. Mr G was reluctant, but agreed and completed a questionnaire to identify his knowledge of financial investment products, reduce his risk rating to low risk and to confirm which products he felt comfortable investing in. Mr G confirmed that he did not have a clear knowledge of structured products and that he did not want to invest in them.

Two years later the investment manager invested in a structured product which was appropriate for Mr G's risk rating of medium, as the risk rating for Mr G had not been altered when Mr G had changed contracts. The investment manager also overlooked Mr G's stated desire to avoid investment in structured products. Mr G said he was unaware of the investment in the structured product. Two years later the structured product suffered a substantial loss, but Mr G's overall portfolio had made a healthy return. Mr G complained to the investment manager that, when his contract changed, his reluctance to invest in structured products was not noted. The investment manager stated this was not a clear instruction and reiterated that Mr G's portfolio had made a positive return. However, the investment manager did offer Mr G £5,000 in compensation. Mr G rejected this offer and subsequently complained to CIFO requesting compensation for the full value of the structured product's loss, a total of £30,529.

Themes

- Unsuitable investment advice
- FSP recorded incorrect risk profile
- FSP included inappropriate investment product
- Complaint upheld but no compensation as no loss incurred overall

CIFO investigated and concluded that the investment manager should have taken into consideration at the time the discretionary management was established Mr G's stated desire to avoid any investment in structured products and Mr G's desired reduction to a lower risk rating. CIFO concluded that the structured product, according to the investment manager's own risk assessment of the product, was not an appropriate investment for a low risk profile customer.

However, given the investment strategy had clearly taken a portfolio approach, CIFO felt it fair and reasonable to look at the performance of the portfolio as a whole in determining if there had been a loss and not look only at the performance of the structured product in isolation. CIFO calculated that the portfolio as a whole, benchmarked against a suitable low risk portfolio, produced a return roughly double what a suitable low risk portfolio would have returned. Therefore, the investment manager was not required to compensate Mr G. CIFO upheld the complaint but awarded no compensation.

Case Study #3

BANKING - DEBIT FRAUD

REFUSAL TO REFUND LOSS DUE TO FRAUD ON A BANK ACCOUNT

The complaint relates to the refusal by a bank to reimburse Mr A for funds that had been fraudulently removed from his account.

Mr A went on a holiday overseas. Prior to leaving he contacted his bank to provide notification that he would be abroad. Whilst on holiday, he visited a strip club and made a transaction of £74 on his debit card. According to Mr A, he was then approached by two women in the club.

The next day Mr A noticed that his debit card was not in its usual place in his wallet. He immediately contacted his bank when it was revealed that a number of high value transactions had been made the night before that he was not aware of, totalling £6,136 which had emptied his bank account. The bank immediately cancelled the debit card.

The transactions were mostly for the same amount and were made to two different clubs over a short period of time. Mr A went to the local police station overseas to make a report but was told to go to the central police station. Mr A unfortunately could no longer fund the transport to go to the central police station and therefore had to leave on his scheduled return flight without obtaining a police report from the local authorities. However, Mr A did make the local authorities aware of the suspected fraud upon his return home.

Mr A was advised by the bank that no fraud had been committed as the correct card and PIN number had been used, there was no police report, the high valued transactions were usual amounts for a strip club and his case would therefore be closed. Mr A contacted the bank repeating his explanation of the challenges he had experienced trying to obtain a police report, but the bank confirmed that they would not reimburse his loss.

Themes

- Fraud
- Refusal to reimburse payments
- Bank transaction monitoring system

Mr A was very distressed with this response and referred his complaint to CIFO. CIFO investigated and found that most of the transactions were for the exact same amount and had been debited within a very short period of time, in two different clubs where the two women worked. CIFO therefore concluded that a fraud had taken place. The bank's internal fraud detection system had, in fact, flagged one of the transactions but, because the travel notification had been applied to Mr A's account, the automated fraud alert was overridden. CIFO also noted that this was at odds with the bank's website which indicated that transactions would continue to be monitored while a customer is on holiday.

Based on the bank's demonstrated lack of effective transaction monitoring in this instance, and noting Mr A's attempt to obtain a police report and the nature of the transactions, CIFO upheld the complaint in part. The bank was directed to refund Mr A for 75% of the loss, totalling £4,693, with Mr A responsible for the remainder.

Case Study #4

BUSINESS INTERRUPTION INSURANCE

BUSINESS INTERRUPTION INSURANCE POLICY CLAIM DECLINED

The complaint relates to a rejected business interruption insurance claim, for the loss of trade by the owner of a restaurant, because it was considered a non-insured event.

Miss F, who owned a restaurant, purchased a business interruption insurance policy to cover her for any future potential loss. Unfortunately, the restaurant had to close for just under a month due to a water leak in the building causing a loss of revenue from her business.

The building itself was insured by the landlord, who made a separate insurance claim through his insurer for “material damage” as “actual damage” was an event that was not covered by his policy. The landlord received compensation for surveyor costs, redecoration, loss of rent and a goodwill gesture. The surveyor’s report confirmed that the water leak was not the restaurant’s fault but was caused by moisture from the original masonry and from a freezer located in the premises above the restaurant.

Miss F made a claim to her insurance company for business interruption. This was declined because the damage was caused by dampness from a building construction defect, which was not considered a covered event under the policy. The insurer said the material damage condition would not come into effect because the building owner’s insurer had only approved trace and access costs to identify the source of the water leak, not full coverage for the repair costs. As a result, Miss F’s insurance company agreed to pay Miss F only £500.

Miss F subsequently made a complaint to CIFO. CIFO confirmed that Miss F’s policy showed that business interruption due to damage was an acceptable claim and that the policy would pay for the business revenue lost for the period of closure. The condition of coverage was that the landlord’s insurance was in force, covered the building premises against damage, and that a payment was made or liability admitted. Therefore, as the landlord’s insurance company had made a payment and made an admission of liability, Miss F’s insurance policy should have covered the business interruption.

Themes

- Business interruption risk insurance policy
- Interpretation of misleading or unclear language against the insurer
- Claim rejection

Miss F’s insurance company said that CIFO were interpreting the policy wording incorrectly and that the landlord’s insurer had not paid for “actual damage” but only for “material damage”. Therefore, the landlord’s insurer making a compensation payment or admission of liability did not meet the requirement stated in Miss F’s insurance policy. CIFO determined that this part of Miss F’s insurance policy was not clear, and that the definition of “damage” was open to interpretation and dependent upon the coverage in the landlord’s own insurance policy that had not been known by or provided to Miss F. In Miss F’s policy, damage was defined as “loss destruction or damage” and does not state “actual damage”. In general, when faced with such ambiguity in a policy drafted by the insurer, the ambiguity will be interpreted on the basis favourable to the consumer.

CIFO was minded to uphold the complaint and award Miss F £10,203 in compensation for her claim for lost business revenue and issued a provisional decision for comment by both parties. After additional consideration, the insurer agreed to the payment without the need for CIFO to issue a final binding decision.

Case Study #5

HEALTH INSURANCE

CLAIM REJECTED FOR MEDICAL ISSUE

The complaint relates to the rejection of a health insurance claim, due to a pre-existing health condition.

In July 2016 Mr B took out a medical insurance policy. The policy had a “moratorium underwriting clause” meaning it was not necessary for the complainant to complete a medical declaration form when applying. This was because the insurance policy would exclude all pre-existing medical conditions for a period of 60 months (5 years) prior to cover.

In June 2017 Mr B visited his doctor with chest pains believing it was indigestion. He was referred to a specialist at a chest pain clinic for a scan. The scan revealed that Mr B had “reversible ischaemia” and would require further testing.

Mr B’s doctor wrote to the specialist confirming Mr B’s symptoms were not a pre-existing condition and requested that any further tests be performed under Mr B’s private health care policy. Mr B received no response from the insurers. Subsequently, Mr B advised the insurers that tests were being covered by the National Health Service (NHS) and asked what the process would be to switch these to be covered by his private health care. Mr B again received no response.

In August 2017 Mr B again contacted the health care insurers and this time the insurers responded but rejected his claim. The insurers stated the rejection was because Mr B’s cardiac problems existed before the policy started. Mr B’s doctor wrote to the health insurers confirming that no pre-existing condition was present, but the insurers still rejected the claim.

Themes

- Moratorium clause
- Pre-existing condition
- Claim rejection

In October 2017 Mr B had a triple bypass operation through the NHS. He then made a complaint to the insurance company and received a final response rejecting his complaint.

Mr B complained to CIFO who obtained the opinion of an independent medical expert. The independent medical expert confirmed that Mr B’s condition had not been pre-existing. Based upon this opinion, CIFO upheld the complaint in favour of Mr B and awarded compensation of £7,695. As the medical treatment had been covered by the NHS, Mr B had received no benefit from the policy that he had paid for, so compensation of £8,054 covered Mr B’s policy premiums from inception of the policy, nominal costs of £200 that Mr B had to pay associated with his NHS treatment, and a distress and inconvenience payment of £3,000 due to the significant impact the poor handling this matter had on Mr B. CIFO also claimed reimbursement of £2,492 for the cost of the independent expert engaged to assist the office in reviewing this matter.

Case Study #6

BANKING

BANKING ADMINISTRATION DELAY RESTRICTS ACCESS TO FUNDS

The complaint relates to a delay in Mr E receiving a debit card PIN number, caused by a banking administration error which left Mr E without adequate funds while on vacation.

In October Mr E requested a new debit card as his existing one was damaged. Initially, the bank provided an incorrect card and, when Mr E approached the bank, the correct card was sent. The re-ordered card was received by Mr E, but the associated PIN number was not.

In November Mr E went to the bank as the advised time scale for receipt of the PIN number had passed. During this visit Mr E discussed alternative options to meet his need to access cash, as he was due to go overseas and was concerned he would not receive the PIN number for his new debit card in time. At that time, the bank offered Mr E £50 for his distress and inconvenience, which he accepted.

With the Bank's advice, Mr E made an international transfer to a family member overseas so that he would have enough funds while he was on holiday.

Mr E left on vacation without having received his new PIN number. When Mr E returned, he again complained to the bank as he felt the £50 compensation already offered and accepted did not cover the inconvenience he had suffered while on

Themes

- Administration error
- Delay in receiving debit card and PIN
- No access to funds
- Bank effort to mitigate

vacation. Mr E stated that while he was away, he could not fund three fishing trips without having the use of his debit card to access additional funds from his account. Mr E also said that he believed that the £50 compensation that he had already received was just an initial payment, and that he would get more.

The Bank did not uphold his complaint as they felt they had already provided an appropriate and adequate response to the previous error and the compensation had been accepted by Mr E.

Mr E referred the complaint to CIFO. CIFO investigated and noted that Mr E had accepted compensation and made alternative arrangements upon the advice of his bank to mitigate any concern about access to funds for his planned vacation. CIFO felt that the only compensable loss, which had already been sufficiently addressed, was the initial delay in providing the new PIN number. CIFO did not uphold the complaint.

Case Study #7

HEALTH INSURANCE

CLAIM REJECTED FOR MEDICAL ISSUE

The complaint relates to Mr C's health insurance claim for his partner, which was rejected because the insurance company said the claim related to a pre-existing medical condition.

In April 2017, Mr C took out a health insurance policy to include his partner. It had a "moratorium clause", meaning any claims that were related to any pre-existing symptoms for a period of 5 years prior to the start date of the policy would not be covered.

In December 2017, Mr C's partner suffered from pain due to swollen varicose veins. After visiting the doctor, she was diagnosed with C4 venous disease and varicose eczema. She was referred to a specialist who recommended laser ablation, at a cost of £2,400.

Mr C made a claim to his insurers for this treatment cost, which was rejected on the basis that the insurers believed Mr C's partner was suffering from a pre-existing condition that was not covered due to the moratorium clause.

Mr C brought his complaint to CIFO. CIFO investigated and found that the insurers had been provided with a letter from Mr C's partner's doctor confirming that she has had varicose veins for years, but without causing a problem. CIFO noted that chronic venous disease is

Themes

- Pre-existing condition
- Moratorium clause
- Claim rejection

a progressive medical condition which must involve the condition of varicose veins, which typically occurs early on in the condition.

With this information, CIFO decided that the primary condition of varicose veins was an existing symptom which had arisen during the five-year period prior to the start of the insurance policy. The effect of the policy's moratorium clause and the pre-existing varicose vein condition meant that the treatment for the later-diagnosed and more serious chronic venous disease was not covered by the insurance policy.

CIFO did not uphold this complaint. The insurance company was not liable for the cost of the treatment.

Case Study #8

MOTOR VEHICLE INSURANCE INSURER'S POOR INVESTIGATION OF CLAIM

The complaint relates to the failure by an insurance company to properly investigate a vehicle insurance claim in favour of Mr D who had been involved in a vehicle collision and could demonstrate that he was not at fault.

In January 2018, Mr D was involved in a traffic incident with an emergency services vehicle. Mr D's car, valued at £8,000, was written off. Mr D made a claim to his insurance company claiming to be the innocent party and requesting the full value of his car, along with replacement hire car costs of £1,155 that he had incurred since the accident.

The insurance company investigated the claim and accepted the other party's account that Mr D was liable and in February 2018, they sent a cheque totalling £5,850 for the loss of Mr D's vehicle. Mr D made a complaint to the insurance company, reiterating that he was not at fault. In March 2018 the insurance company reconfirmed their initial position.

Mr D requested access to the police report but, an extract was provided along with the insurance company's statement that Mr D had failed to correctly give way to the emergency services vehicle. No witnesses had been approached by the insurance company, despite the fact that the extract from the police report stated that witnesses were present.

In April 2018, the emergency services vehicle driver received a police caution for his involvement in the collision, as he had committed an offence.

In May 2018, Mr D made a complaint to the insurance company because of their bad service and decision making. He stated that the emergency services vehicle driver had received a caution, which would imply that the collision was his fault and not Mr D's. Mr D also stated that he had been approached by

Themes

- Administration error
- Lack of proper investigation
- Claim denied

witnesses who were at the scene and offered to support him. The insurance company requested witness statements.

In July 2018, the insurance company wrote to Mr D advising they would pay only £615 for the hire car for one week and pay the £150 excess deducted from the value of his car. Mr D again complained and received a final response from the insurance company rejecting his complaint. Mr D brought his complaint to CIFO.

CIFO investigated and found that the insurance company had poorly investigated the claim, used only an extract of the full police report as evidence, and made no effort to locate witness reports until Mr D had complained to them. CIFO upheld the complaint and determined that the insurance company should provide a written apology to Mr D and awarded compensation totalling £3,498. This included a £2,000 distress and inconvenience award, the full hire car costs, the excess fee deducted from the value of his car, plus 8% interest from January 2018 when the compensation should reasonably have been paid.

Case Study #9

HOUSE INSURANCE

REJECTION OF A CLAIM FOLLOWING A THEFT

The complaint relates to the rejection of an insurance claim for the theft of two valuable rings.

In November 2011 Mrs A purchased and had valued two rings. Mrs A then insured the rings for a combined value of £191,250.

In 2015 Mrs A wanted to sell the rings and asked the original dealer, a trusted acquaintance, for advice. Mrs A was introduced to the dealer's jeweller contact who she also knew. This jeweller confirmed that he would keep the rings in his jewellery shop's secure facilities until he could find a buyer. Mrs A agreed and handed the rings over to the jeweller.

As no buyer interest had been shown in the rings, Mrs A asked the jeweller to return them to her. When the rings were returned, one appeared to have been altered, so Mrs A took them to another local jeweller to request an expert opinion. Both rings were found to be fakes. Mrs A immediately requested an explanation from the jeweller. The jeweller stated that his co-director, who had left the firm, may have been responsible for the theft. It was accepted that the real stones had been swapped out and replaced with fake ones.

Mrs A reported the matter to the police and made an insurance claim. The insurance company rejected the claim because a loss through "deception" was not considered a covered insurance event. The swapping of the stones, the insurer argued, was a deception rather than a theft. The insurance company also said that the complainant had failed to advise them that the rings had been transferred to the jewellery shop and that a formal agreement was not in place that would ensure the rings were covered by the jeweller's own insurance policy.

Mrs A was referred to CIFO. CIFO determined that the complainant trusted the original dealer and that this trust extended to his jeweller contact. CIFO felt that Mrs A's transfer of the items for the purpose of sale was neither careless nor irresponsible and the

Themes

- Insurance claim
- Theft
- Reasonable conduct by insured
- interpretation of policy
- Claim denied
- Non-binding recommendation for compensation above CIFO statutory limit

jewellery store's security arrangements were suitable. CIFO also determined that the insurers did not require prior notification of the rings' transfer to the jewellery store because this was not listed as a material change that required notification under Mrs A's insurance policy. Finally, CIFO's investigation noted that the term "deception" relied upon by the insurance company was not a clearly defined term within Mrs A's policy.

CIFO upheld the complaint believing that the rings were lost due to theft and had not been taken by deception after they were transferred to the jeweller in good faith with the view to being sold. CIFO determined that the insurer should pay £150,000 to Mrs A in accordance with CIFO's £150,000 binding compensation limit as set by law. CIFO made a non-binding recommendation that the balance of the amount lost, £41,250, also be paid. The insurer agreed to pay Mrs A the entire amount of £191,250.

Case Study #10

NON-BANK CREDIT

LOAN APPLICANT INCURS LEGAL COSTS FOR WITHDRAWING FROM AGREEMENT

This complaint relates to the fees incurred when Mrs K withdrew from a loan agreement with her credit provider.

In March 2018, Mrs K discussed a loan with a credit provider totalling £250,000 for a 12-month term to assist with a property development. In April 2018, the loan was approved and an offer letter with a quote for the credit provider's legal fees was sent to Mrs K. In April 2018, Mrs K signed and returned the offer letter detailing the interest rates and expected legal costs.

In May 2018, Mrs K contacted the credit provider to withdraw from the loan agreement on the basis that the interest rate and fees were higher than expected and requested a refund of the commitment fee paid.

The credit provider advised that the commitment fee was non-refundable and that the lawyers had already incurred costs which would be passed directly to Mrs K for settlement. An invoice from the lawyers was sent to Mrs K.

Mrs K complained to the credit provider who reconfirmed the costs that Mrs K had to pay. Mrs K brought her complaint to CIFO about the high interest rates, excessive legal costs and the unsuitability of the loan that had been discussed between her and her credit provider.

Themes

- Legal costs
- Loan interest rates
- Suitability of loan agreement

CIFO investigated and noted that the credit provider had advised, on a number of occasions, the interest rate of the loan to Mrs K prior to sending the offer letter. CIFO reviewed the correspondence and was unable to locate evidence for what Mrs K considered was the previously agreed interest rate.

CIFO also investigated the legal costs and found that Mrs K had signed the offer letter that agreed to pay the legal expenses incurred by the credit provider whether the loan went ahead or not. The credit provider's legal costs were just over half their original quoted estimate which CIFO deemed suitable for the work completed.

As Mrs K had signed the offer letter, which advised the terms of the loan and the associated costs if a draft loan agreement was completed. CIFO reviewed the draft loan agreement and felt it was suitable for Mrs K. Based on this information, CIFO did not uphold this complaint.

Case Study #11

BANKING

ACCOUNT CLOSURE WHEN CUSTOMER DOCUMENTATION NOT RECEIVED

The complaint relates to the closure, without notice, of a bank account due to the lack of response by the customer when requested by the bank to provide updated documentation and information.

In October 2018, Mrs J's bank account was closed without warning. The bank apparently had sent a request for updated documentation and information to enable the account to remain open but, this was not received by Mrs J. The bank was also unable to provide confirmation that a letter requesting updated documentation and information was sent to Mrs J.

Mrs J requested the bank account be re-opened but, without the requested documentation and information, the bank was unable to complete this request. The bank also did not provide details of what was actually required by Mrs J and confirmed that it would not be possible to re-open the account. Mrs J complained to the bank.

In April 2019, the bank confirmed that it did not uphold Mrs J's complaint as they believed the correct account closing and process to reclaim the funds in the account had been followed. Mrs J referred her complaint to CIFO.

Themes

- Bank account closure
- Mediation

CIFO investigated and found that Mrs J wished the account to be reopened, but the bank had already proceeded with an account closure and reclaim process. Although, the correspondence between both parties indicated Mrs J's preference to retain the account, this had been overlooked by the bank.

CIFO identified an opportunity to quickly mediate the situation and spoke with both Mrs J and her bank over the phone, enabling the missing information and documentation to be received within a few days. Mrs J's account was successfully reopened shortly thereafter.

Case Study #12

BANKING – FOREIGN EXCHANGE

LOSS FROM TRANSFERRING FUNDS AND CONVERTING CURRENCY

This complaint relates to a transfer of funds from an overseas bank account to a local bank account which incurred high currency conversion charges.

In May 2019, Mr N closed his overseas bank account and transferred the balance to a local bank account. Previously, Mr N had checked the currency conversion mid-market rate to determine what the value of the transferred funds would be in local currency. However, on the day the funds were transferred, Mr N was not happy with the value he received and felt that excessive charges were applied by his bank.

Mr N told CIFO that in his opinion he had been charged the highest currency conversion mid-market rate and had therefore lost the equivalent of £1,280.

The bank confirmed that the foreign exchange rates applied to the transfer were based on the mid-market rate, plus a percentage charge for their commission. The bank believed it had not made an error. The bank did confirm, however, that the mid-market rates Mr N found online did not match their exchange rates and they suggested that Mr N should have contacted the bank to find out what exchange rate he would have received for his proposed transfer.

Themes

- Currency conversion rates
- Bank commission

CIFO found that Mr N had obtained his currency conversion mid-market rate from a website not related to his bank. CIFO also concluded that the bank had applied its standard percentage of commission and had not acted unreasonably by applying this commission to their calculated mid-market rate.

Mr N had not contacted the bank to enquire about the exchange rate offered or contacted his overseas bank to obtain an indication of the rate that may have been applied. Based on this information, CIFO did not uphold this complaint.

Case Study #13

BANKING

CLAIM THAT FUNDS WERE MISLAID WHEN HANDED OVER TO A BANK CLERK

This complaint relates to the loss of £1,000 in cash when Miss M went to pay cash into a newly opened bank account at her bank branch.

In April 2019, Miss M visited the bank and opened a new bank account. Miss M was advised this would take up to 10 working days to finalise.

In May 2019, Miss M visited the bank to complete 4 transactions and to deposit £1,000 in cash. She approached the cashier's desk and placed the envelope containing the cash on the counter. The bank clerk asked her to put her card into the PIN-reader and, because she had no bank account number or paying-in book, she pointed to her new bank account on the bank clerk's screen. Miss M asked for the cash to be deposited to her new bank account but did not recall whether the bank clerk counted the cash and Miss M did not request a receipt.

When Miss M received her first bank statement for the new account, the £1,000 cash deposit was not visible. Miss M immediately contacted the bank who confirmed that the cash had not been credited to her account. The bank reviewed the closed-circuit television (CCTV) footage from the day in question and advised Miss M that it did not show her paying in the cash.

In September 2019, Miss M contacted the branch and asked if the CCTV footage could be reviewed again to see if the envelope with the cash was visible. The bank advised that they had fully satisfied themselves when initially reviewing the CCTV footage that the cash had not been deposited by Miss M and that they did not need to review the CCTV footage again.

Themes

- Inadequate bank recording
- Mislaid funds
- Destroyed CCTV footage

Miss M brought her complaint to CIFO. CIFO investigated and found that the CCTV footage had been deleted by the bank after the complaint was raised. As a result, Miss M no longer had the opportunity to take the matter to the police and have the CCTV evidence available for their review. CIFO recommended that Miss M contact the police to see if any cash was handed in around the time of the loss.

CIFO communicated with the bank and Miss M in an effort to mediate a fair and reasonable outcome. The fact that the cash was not paid into the new account was no longer in dispute, but there was still the question of what had happened to the envelope containing the cash that Miss M believes she had with her in the branch. Had the bank allowed further viewing of the CCTV footage, it might have been possible to determine what had happened to the cash-bearing envelope. As the bank had deleted the CCTV footage during the complaint investigation, the bank offered to compensate Miss M £200, which she accepted.

ANNEX 6

INSIGHT INTO OUR APPROACH

UNDERSTANDING CIFO'S GENERAL APPROACH TO COMPENSATION

If a customer has been affected by an error, there may be different types of compensation to consider. This information is to help stakeholders understand the general approach taken by CIFO in determining fair and reasonable compensation in the circumstances.

When a complaint referred to CIFO is found to have merit, our objective is to restore the customer to the position they would have been in if things had not gone wrong. That can mean awarding money – for example, compensation for financial loss due to unsuitable investment advice or a transaction error, paying an insurance claim, or refunding a fee that was charged incorrectly. But we may also direct FSPs to do something that does not involve money such as correcting information on a credit file, reinstating a no-claims discount, or issuing a written apology.

In some cases, we will award compensation for non-financial loss – for example, for the distress and inconvenience an issue has caused a customer.

TYPES OF COMPENSATION WE CAN AWARD

The [Financial Services Ombudsman \(Jersey\) Law 2014](#) and the [Financial Services Ombudsman \(Bailiwick of Guernsey\) Law, 2014](#) both empower CIFO to make decisions requiring an FSP to pay compensation or directing an FSP to do something. These can include:

- money awards
- awards for distress and inconvenience
- interest awards
- costs awards
- directions

MONEY AWARDS

When a customer has lost out financially, we usually tell the FSP to compensate them for the loss it caused. This can be any amount of money up to our award limit of £150,000 set by law.

Where it's clear how much a customer lost, we will specify the amount of money the FSP needs to pay.

Where it is not clear we will usually set out the basis on which the FSP should compensate a customer,

rather than a specific amount. For example, if a customer was unaware that their mortgage payment had been calculated incorrectly, we might ask the FSP to calculate how much they would have owed if the error had not occurred.

In cases where we think a customer is due more than our statutory award limit of £150,000, we will recommend the additional amount we think the FSP should pay. While CIFO can only make a binding award of compensation up to £150,000, the recommended compensation above £150,000 reflects the total amount of compensation that we believe would be fair and reasonable in the circumstances. Once they understand the basis of CIFO's conclusion, most FSPs decide to pay the full amount.

AWARDS FOR TROUBLE, UPSET, DISTRESS OR INCONVENIENCE

A mistake can affect a customer practically or emotionally, as well as financially. So CIFO can also award fair compensation for any of the following:

- distress
- inconvenience
- pain and suffering
- damage to reputation

We might award these if we feel a customer faced obstacles or difficulties that could have been avoided if the FSP had handled things differently.

EXAMPLES OF AWARDS FOR DISTRESS AND INCONVENIENCE

In considering compensation for distress and inconvenience, CIFO has taken note of, and will generally seek to be consistent with the approach taken and compensation ranges used by the Financial Ombudsman Service in the United Kingdom (UK FOS). The ranges of compensation are as follows:

- Moderate (less than £500)
- Substantial (£500 to £2,000)
- Severe (£2,000 to £5,000)
- Extreme (£5,000 or more)

ANNEX 6 (CONT.)

INSIGHT INTO OUR APPROACH

UNDERSTANDING CIFO'S GENERAL APPROACH TO COMPENSATION

Awards for moderate distress and inconvenience will generally be associated with errors which cause any one or more of:

- A short delay
- Brief upset
- Mild concern
- Minor inconvenience

In considering whether awards for distress and inconvenience in individual complaints should be for an amount falling within the higher ranges noted above, CIFO will generally take into account such aggravating factors as:

- Whether the error was a single incident or a recurring sequence of similar or different incidences;
- The degree of frustration or unnecessary delay caused to the customer;
- The degree of unnecessary and/or ongoing stress and disruption caused to the customer's life and wellbeing;
- The degree of embarrassment caused to the customer;
- The degree of reputational damage and time spent mitigating;
- The degree of disappointment caused to the customer;
- The degree of distress and anxiety caused to the customer;
- The length of time the disruption is caused to the customer;
- The reduced living standard caused to the customer;
- The lost opportunity for a significantly different lifestyle caused to the customer;
- The degree of pain and suffering caused to the customer;
- The degree of vulnerability of the customer;
- The long-term and/or far-reaching consequences caused to the customer; and/or,
- The irreversible changes to the personal or professional life of the customer.

CIFO will also take into account the customer's conduct in determining the amount of any award for distress and inconvenience. CIFO will generally take into account such factors as:

- Whether the customer could have taken reasonable steps to mitigate the effect of the FSP's error; and/or,
- Whether the conduct of the customer contributed to the incident that gave rise to the distress and inconvenience.

An Ombudsman's decision does not set a precedent. This is because each case is decided in accordance with what is fair and reasonable in those specific case circumstances. While it is acknowledged that similar products and services are seen across different cases, the number of variables present (such as different complainants, firms, factual backgrounds and outcomes) mean it would be unreasonable to bind future decisions to the individual circumstances of previous ones.

INTEREST AWARDS

CIFO might tell an FSP to pay interest on top of (or as part of) any payment we recommend. Interest on an award is usually calculated from the date the customer should have had the money until the date it was actually paid. This additional compensation accounts for the fact that the FSP arguably could have, and should have, made the funds available to the customer throughout the period since the incident occurred to when the compensation is paid.

We can award interest in three ways:

- **As part of the award itself.** For example, we might tell the FSP to refund interest it charged the customer on their mortgage if they were incorrectly paying a higher amount.
- **On top of a financial award.** For example, if the customer was 'deprived' of money – meaning they did not have it available to use – we can tell the FSP to pay interest on top of the money award.
- **After the financial award has been calculated.** For example, if there is an unreasonable delay in settling a complaint following an Ombudsman decision. We can decide that 8% simple interest should start to accrue until the award is paid.

ANNEX 6 (CONT.)

INSIGHT INTO OUR APPROACH

UNDERSTANDING CIFO'S GENERAL APPROACH TO COMPENSATION

In most cases, we think a rate of 8% simple interest per year is appropriate to reflect the cost of being deprived of money in the past. We would not normally use the current rates paid on deposit accounts as a benchmark. This is because the rates of interest customers have to pay in order to access funds to replace the funds lost are usually much higher. This rate takes also into account that:

- The rate is gross before tax is deducted;
- It often applies to losses at times when different base rates applied; and,
- Current interest rates charged on overdrafts and loans may not have reduced in line with the base rate.

In some cases, we can use a different rate if we think it is fair to do so. For example, if we think the money a customer was deprived of might have been used to pay a credit card bill, we might use the higher interest rate they were charged on the outstanding credit card balance instead.

We note that most customers will have to pay a basic rate of income tax.

COSTS AWARDS

Occasionally, we might tell an FSP to reimburse some or all of the costs a customer reasonably incurred. Costs awards are not common, but we need to think about what is fair in each individual case. As CIFO is a free service operating in a non-legalistic manner, we do not normally reimburse for legal advice or other professional expenses if, in our view, they were not reasonably required in the circumstances.

Costs awards can also include Interest.

DIRECTIONS

We might decide that an FSP needs to put things right in a way that does not involve paying money. For example, amending an error in a customer's credit file or issuing a letter of apology.

CALCULATING COMPENSATION

Sometimes we will recommend that an FSP follow a formula to work out the right amount of money to pay to the customer.

This might be because the calculations involve information that CIFO does not have, but is on the FSP's own systems or is available from a third party, such as an actuary.

As an example, where we think an FSP gave their customer unsuitable investment advice, we might tell the FSP to compare the value of the actual investment with a suitable investment or benchmark portfolio of suitable investments that was available at the time.

We might also ask an FSP to re-work an account – for example if the customer has been charged an incorrect interest rate and they incurred additional charges or costs as a result. Where we tell the FSP the basis on which to pay compensation, we will always explain the principle behind the calculation to customers so that they can understand what was involved.

HOW COMPENSATION IS PAID

In most cases, FSPs should pay the compensation amount that we award directly to their customer.

But this is not always appropriate. For example, if the customer owes a debt to an FSP, we might say it is reasonable to offset any compensation against the debt owed. CIFO would only do this where we think the complaint has been fairly addressed by doing so.

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 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 regular contact with individual FIN-NET member schemes 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)

CIFO is an active 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. CIFO's Principal Ombudsman serves on the OA board of directors. 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.

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 2019, the UK regulator, following consultations in 2018, changed 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.

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 2019 AUDITED FINANCIAL STATEMENTS

Office of the Financial Services Ombudsman (Guernsey)



OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY
Audited financial statements
for the year ended
31 December 2019

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY

INFORMATION

Directors

David Thomas - Chairman
John Curran
Deborah Guillou
John Mills

Administration Office

Channel Islands Financial Ombudsman
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Independent auditors

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Principal Ombudsman

Douglas Melville

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY

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OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY
CHAIRMAN'S STATEMENT
for the year ended 31 December 2019

1

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 (the "OFSO") established by the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014 and the equivalent body established by law in Jersey. These financial statements reflect the fact that it is part of the joint operation.

The joint operation is provided for in the Memorandum of Understanding between the States of Guernsey and the States of Jersey and in the relevant legislation in each Bailiwick. 2019 will be the last financial year in which the OFSO and its equivalent in Jersey operated separate financial accounts, with operating expenses divided equally between the two bodies. These expenses are covered by annual levies, charged equally by the financial sector in each Bailiwick and supplemented by case fees. The number of financial service providers in each Bailiwick differs, this has meant that the actual levy for similar providers differs depending on which Bailiwick they operate from.

The Board's adoption of a new structure for the annual levies will come into effect from 1 January 2020, with the same annual levy charged to financial service providers active in similar areas of financial services irrespective of the Bailiwick in which they operate. In order to facilitate this, the accounts of the OFSO and its Jersey equivalent will be combined from 1 January 2020. This was put in place by an amended Memorandum of Understanding and amendments to the legislation by the Financial Services Ombudsman (Bailiwick of Guernsey) (Amendment) (No.2) Ordinance 2019 and the 2019 Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) (Amendment) Order, 2019.

The increase in expenditure during 2019 arises mainly from an increase in staff (consistent with the growing workload) and the associated costs of larger office accommodation plus increased case-related costs (such as legal expenditure). As case-related costs are unforeseeable, they are not included in the annual budget and are met from reserves. Because of the case-related costs, the operating surplus during 2019 is lower than budget.

The accumulated surplus at the end of 2019 reflects the operating reserve. This is intended to cover the operating costs payable between the end of the year and levy receipts during the following year. It is also intended to cover the unforeseeable volatility inherent in a demand-led case-working organisation. Increasing or reducing reserves can help the Board to smooth fluctuations in the levy from year to year.

Original signed 27 April 2020

David Thomas
Chairman

The directors present their report and the financial statements for the year ended 31 December 2019.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Report of the Directors 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 Services Ombudsman ("OFSO") and the profit or loss of the OFSO for that period.

In preparing those 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 financial statements and report to the Committee for Economic Development (the "Committee") 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 (Bailiwick of Guernsey) Law 2014. They are responsible for such internal control as they determine is necessary to enable the preparation of the 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 Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 held office 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 Report of the Directors is approved has confirmed

- 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 27 April 2020 and signed on its behalf.

Original signed 27 April 2020

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 of Office of the Financial Services Ombudsman - Guernsey (the "Body Corporate"), which comprise the statement of financial position as at 31 December 2019, 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, in accordance with United Kingdom accounting standards, including FRS 102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland, of the state of affairs of the Body Corporate as at 31 December 2019, and of the Body Corporate's profit for the year then ended; and
- have been prepared in accordance with 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 the terms of our engagement letter. 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.

Other information

The directors are responsible for the other information. The other information comprises the Chairman's statement and the Report of the Directors. 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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

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 the 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.

KPMG Channel Islands Limited

Chartered Accountants

Jersey

27 April 2020

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended 31 December 2019

	Notes	2019 GBP	2018 GBP
Revenue	3	<u>465,946</u>	<u>376,762</u>
Gross profit		465,946	376,762
Administrative expenses	4	<u>(456,408)</u>	<u>(432,946)</u>
Operating profit / (loss)		9,538	(56,184)
Interest receivable		663	295
Profit / (loss) for year		<u>10,201</u>	<u>(55,889)</u>
Retained earnings brought forward		149,608	205,497
Retained earnings carried forward		<u><u>159,809</u></u>	<u><u>149,608</u></u>

All the items dealt with in arriving at the above results relate to continuing operations.

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

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	2019		2018	
		GBP	GBP	GBP	GBP
Fixed assets					
Intangible assets	5		16,235		12,834
Tangible assets	5		451		610
			<u>16,686</u>		<u>13,444</u>
Current assets					
Unbilled income	6	25,000		25,650	
Debtors and prepayments	7	2,895		2,163	
Cash and cash equivalents	8	147,061		138,263	
		<u>174,956</u>		<u>166,076</u>	
Creditors: Amounts falling due within one year					
Creditors and accruals	9	31,833		29,912	
			143,123		136,164
Net current assets					
			<u>159,809</u>		<u>149,608</u>
Capital and reserves					
Accumulated surplus	11		159,809		149,608
			<u>159,809</u>		<u>149,608</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 April 2020.

Original signed 27 April 2020

Director

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

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Notes	2019 GBP	2018 GBP
Cash flows from operating activities			
Profit / (loss) for year		10,201	(55,889)
Adjustments for:			
Interest received		(663)	(295)
Amortisation / Depreciation		5,037	3,776
Decrease / (increase) in unbilled income		650	(2,625)
(Increase) / decrease in debtors and prepayments		(732)	24,629
Increase / (decrease) in creditors and accruals		1,921	(8,314)
Net cash generated from / (used in) operating activities		<u>16,414</u>	<u>(38,718)</u>
Cash flows from investing activities			
Purchase of intangible assets	5	(8,279)	(4,301)
Purchase of tangible assets	5	-	(636)
Interest received		663	295
Net cash used in investing activities		<u>(7,616)</u>	<u>(4,642)</u>
Net decrease in cash and cash equivalents		8,798	(43,360)
Cash and cash equivalents at the beginning of the year		138,263	181,623
Cash and cash equivalents at the end of of the year		<u>147,061</u>	<u>138,263</u>
Cash and cash equivalents at the end of the year comprise:			
Cash and cash equivalents	8	<u>147,061</u>	<u>138,263</u>

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

1 Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the period, and the preceding year, is set out below.

1.1 Basis of preparation of financial statements

The financial statements have been prepared on the historical cost basis 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;
- Case files and associated case fee income is in line with expectations; and
- 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.

In light of the ongoing coronavirus pandemic, management have considered various cashflows including a worst case scenario projection and are confident it is still appropriate for them to adopt the going concern basis in the preparation of these financial statements. Sufficient cash reserves are held to ensure the OFSO is able to meet its obligations when they fall due.

1 Accounting policies - continued

1.3 Revenue

The intent under-pinning the design of the OFSO's funding regime was 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 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, provided 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 2019 is set out in the Financial Services Ombudsman Levy Scheme (Bailiwick of Guernsey) 2019 (the '2019 Guernsey Levy Scheme'). 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 the Guernsey Financial Services Commission ("the Commission") or are licenced or hold a certificate or a 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 (Bailiwick of Guernsey) Law 2014.

The 2019 levy was payable per sector of activity for which, on 2 January 2019, 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 2019 Guernsey Levy Scheme. Levy notices were sent out from March to July 2019 and Registered Providers were required to pay to the OFSO the levy as specified in the levy notice, unless they have certified as zero-rated in accordance with the procedure specified in the levy notice.

The levies raised the funding required for the operation of the OFSO in 2019. 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 to minimise the increases in the total levy amount. To enable the replenishment of the reserves for 2019 the total levy amount required in Guernsey was £436,202, an increase of 33%.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

1 Accounting policies - continued

Levy income is recognised in the period to which the levy relates. No adjustment is made in respect of any changes to providers' licences after 2 January 2019, with any changes in providers' licences coming in to effect from the 2020 year of assessment.

Actual 2019 levy amounts per provider:

	GBP
Banking	218,106
Insurance and/or insurance mediation business	87,204
Investment business	98,384
Money service business	20,124
Registered credit provider	20,124

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 the outcome and the time and other costs incurred relating to the specific case. Each financial services provider ("FSP") 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.

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 and the complaint file has been received from the FSP. 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 cases since the previous case fee invoice (or since the OFSO opened for business) the OFSO may issue an interim case fee invoice.

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, 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 5 years.

The estimated useful lives are as follows:

Website and brand	5 years
Complaint management system	5 years

Intangible asset amortisation commences upon commissioning of the asset in question.

Tangible assets comprises computer equipment. These assets are initially recognised at their purchase price, including any incidental costs of acquisition. Depreciation is calculated to write down the net book value on a straight-line basis over the expected useful economic life of the asset.

The estimated useful life is 4 years.

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 OFSO's cash management.

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, creditors and accruals. There are no other financial instruments in these financial statements.

(i) Financial assets

Unbilled income and debtors are recognised initially at the transaction price adjusted for 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 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

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

(iii) Offsetting

Financial assets and liabilities (and related income and expenses) are only offset and the net amounts presented in the Statement of Financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 Accounting policies - continued

(v) Impairment of assets

At each reporting date, assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.7 Taxation

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

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.

Functional and presentation currency

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the date 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 Accounting policies - continued

1.10 Pensions

The OFSO provides membership to 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 receivable 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.

1.13 Rents

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

1.14 Expenses

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

2 Judgements 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).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

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3 Analysis of revenue

An analysis of revenue is provided below:

	2019 GBP	2018 GBP
Case fees	22,000	24,300
Levies	443,942	348,853
Recovery of case related costs	-	3,590
Interest on overdue levies	4	19
	<u>465,946</u>	<u>376,762</u>

4 Administrative expenses

	2019 GBP	2018 GBP
Directors remuneration	21,000	21,000
Staff salaries	260,276	236,478
Employer social security	13,683	11,752
Staff pension costs	23,365	19,521
Staff training	5,687	9,045
Hotels, travel, subsistence	6,598	7,941
Computer costs	19,737	24,704
Legal and professional fees	613	2,626
Case-related costs	19,148	13,086
Auditor's remuneration	16,385	14,684
Accountancy fees	5,546	13,968
Bad debts	1,118	963
Rent and rates	25,397	21,924
Insurances	17,370	15,109
Recruitment	4,539	3,393
Printing and stationery	1,116	1,751
Postage	640	1,329
Telephone	1,095	552
General office expenses	2,592	1,800
Trade subscriptions	2,365	2,085
Bank charges	582	898
Line of credit charge	1,250	1,563
Administration costs	1,261	2,716
Amortisation / depreciation expense	5,037	3,776
Governance expenses	-	282
Loss on forex	8	-
	<u>456,408</u>	<u>432,946</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

5 Intangible and tangible assets

	Computer equipment GBP	Website and Brand GBP	Complaint Management system GBP	Total GBP
Cost				
At 1 January 2019	636	6,802	13,943	21,381
Additions in year	-	1,545	6,734	8,279
At 31 December 2019	636	8,347	20,677	29,660
Amortisation / Depreciation				
At 1 January 2019	26	3,281	4,630	7,937
Charge for year	159	1,405	3,473	5,037
At 31 December 2019	185	4,686	8,103	12,974
Net book value				
At 31 December 2019	451	3,661	12,574	16,686
At 31 December 2018	610	3,521	9,313	13,444

6 Unbilled income (Net of provision)

	2019 GBP	2018 GBP
Case fees (see note 1.3)	25,000	25,650

7 Debtors and prepayments

	2019 GBP	2018 GBP
Trade debtors	6	982
Prepayments	2,889	1,181
	2,895	2,163

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

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8 Cash and cash equivalents

	2019 GBP	2018 GBP
	147,061	138,263

The OFSO and the equivalent body in Jersey share one current account and one deposit account under the account name "The Offices of the Financial Services Ombudsman - CI". The above balance reflects the OFSO's 39% share of the balance. The current account has an unutilised overdraft facility of £250,000.

The current account has a purchasing card facility of £15,000.

9 Creditors: Amounts falling due within one year

	2019 GBP	2018 GBP
Accruals	15,750	10,362
Trade and other creditors	16,083	19,550
	<u>31,833</u>	<u>29,912</u>

10 Financial instruments

	2019 GBP	2018 GBP
Financial assets		
Financial assets measured at amortised cost	<u>172,067</u>	<u>166,076</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(31,833)</u>	<u>(29,912)</u>

11 Accumulated surplus

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

The Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014 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 2019

12 Other financial commitments

During 2017, the OFSO and 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). On 24 May 2019 a new agreement was entered into, due to OFSO moving to a larger office, with a commencement date of 1 June 2019, fixed until 31 December 2021 (£4,646 per month). The agreement has been classified as an operating lease. The breakdown of the future commitments which have been allocated to the OFSO (50% of the total) are as follows:

	2019 GBP	2018 GBP
Due within one year	27,876	21,924
Due 2 - 5 years	25,553	-
	<u>53,429</u>	<u>21,924</u>

13 Related party transactions

During the year, board remuneration of £12,000 (2018: £12,000) was paid to David Thomas, the chairman, and £9,000 (2018: £9,000) was paid in aggregate to the three non-executive directors. No amounts were outstanding at the year end. (2018: nil)

The principal ombudsman is considered to be key management personnel. Remuneration in respect of the principal ombudsman is £77,604 (2018: £74,942). (Outstanding: nil).

14 Events after the reporting period

The new funding legislation, as referred to in the Chairman's statement, was approved by the States of Guernsey on 27 November 2019, and came in to effect from 1 January 2020. The finances of the OFSO have been amalgamated with the Jersey OFSO and, from 1 January 2020, one set of financial statements will be produced for the Channel Islands Financial Ombudsman.

The COVID-19 public health crisis arose after the reporting date. This is a non-adjusting event and has been considered as part of the going concern assessment detailed in Note 1.2 and no adverse impact is expected.

Victor Hugo statue, Candie Gardens, Guernsey



APPENDIX

APPENDIX 2 2019 AUDITED FINANCIAL STATEMENTS

Office of the Financial Services Ombudsman (Jersey)



OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY
Audited financial statements
for the year ended
31 December 2019

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

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 0WQ

Independent auditors

KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey
JE4 8WQ

Principal Ombudsman

Douglas Melville

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

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**OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY
CHAIRMAN'S STATEMENT
for the year ended 31 December 2019**

1

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 (the "OFSO") established by the Financial Services Ombudsman (Jersey) Law 2014 and the equivalent body established by law in the Bailiwick of Guernsey. These financial statements reflect the fact that it is part of the joint operation.

The joint operation is provided for in the Memorandum of Understanding between the States of Jersey and the States of Guernsey and in the relevant legislation in each Bailiwick. 2019 will be the last financial year in which the OFSO and its equivalent in Guernsey operated separate financial accounts, with operating expenses divided equally between the two bodies. These expenses are covered by annual levies, charged equally by the financial sector in each Bailiwick and supplemented by case fees. The number of financial service providers in each Bailiwick differs, this has meant that the actual levy for similar providers differs depending on which Bailiwick they operate from.

The Board's adoption of a new structure for the annual levies will come into effect from 1 January 2020, with the same annual levy charged to financial service providers active in similar areas of financial services irrespective of the Bailiwick in which they operate. In order to facilitate this, the accounts of the OFSO and its Guernsey equivalent will be combined from 1 January 2020. This was put in place by an amended Memorandum of Understanding and amendments to the legislation by the Financial Services Ombudsman (Case-Fee, Levy and Budget - Amendments No.2) (Jersey) Regulations 2019.

The increase in expenditure during 2019 arises mainly from an increase in staff (consistent with the growing workload) and the associated costs of larger office accommodation plus increased case-related costs (such as legal expenditure). As case-related costs are unforeseeable, they are not included in the annual budget and are met from reserves. Because of the case-related costs, the operating surplus during 2019 is lower than budget.

The accumulated surplus at the end of 2019 reflects the operating reserve. This is intended to cover the operating costs payable between the end of the year and levy receipts during the following year. It is also intended to cover the unforeseeable volatility inherent in a demand-led case-working organisation. Increasing or reducing reserves can help the Board to smooth fluctuations in the levy from year to year.

Original signed 27 April 2020

**David Thomas
Chairman**

The directors present their report and the financial statements for the year ended 31 December 2019.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Report of the Directors 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 Services Ombudsman ("OFSO") and 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 financial statements 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 the 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.

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 held office 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 Report of the Directors is approved has confirmed

- 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 27 April 2020 and signed on its behalf.

Original signed 27 April 2020

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 of Office of the Financial Services Ombudsman - Jersey (the "Body Corporate"), which comprise the statement of financial position as at 31 December 2019, 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, in accordance with United Kingdom accounting standards, including FRS 102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland, of the state of affairs of the Body Corporate as at 31 December 2019, and of the Body Corporate's profit for the year then ended; and
- have been 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 the terms of our engagement letter. 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.

Other information

The directors are responsible for the other information. The other information comprises the Chairman's statement and the Report of the Directors. 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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,

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

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 (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.

Shaun Robert Farley

For and on behalf of KPMG Channel Islands Limited

Chartered Accountants

Jersey

27 April 2020

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended 31 December 2019

	Notes	2019 GBP	2018 GBP
Revenue	3	<u>478,065</u>	<u>405,926</u>
Gross profit		478,065	405,926
Administrative expenses	4	<u>(455,290)</u>	<u>(433,183)</u>
Operating profit / (loss)		22,775	(27,257)
Interest receivable		663	295
Profit / (loss) for year		<u>23,438</u>	<u>(26,962)</u>
Retained earnings brought forward		244,159	271,121
Retained earnings carried forward		<u><u>267,597</u></u>	<u><u>244,159</u></u>

All the items dealt with in arriving at the above results relate to continuing operations.

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

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	2019		2018	
		GBP	GBP	GBP	GBP
Fixed assets					
Intangible assets	5		16,235		12,834
Tangible assets	5		451		610
			<u>16,686</u>		<u>13,444</u>
Current assets					
Unbilled income	6	48,300		63,450	
Debtors and prepayments	7	2,889		4,991	
Cash and cash equivalents	8	231,555		193,233	
		<u>282,744</u>		<u>261,674</u>	
Creditors: Amounts falling due within one year					
Creditors and accruals	9	31,833		30,959	
Net current assets			<u>250,911</u>		<u>230,715</u>
Net assets			<u>267,597</u>		<u>244,159</u>
Capital and reserves					
Accumulated surplus	11		<u>267,597</u>		<u>244,159</u>
			<u>267,597</u>		<u>244,159</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 April 2020

Original signed 27 April 2020

Director

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

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Notes	2019 GBP	2018 GBP
Cash flows from operating activities			
Profit / (loss) for year		23,438	(26,962)
Adjustments for:			
Interest received		(663)	(295)
Amortisation / depreciation		5,037	3,776
Decrease / (increase) in unbilled income		15,150	(26,425)
Decrease in debtors and prepayments		2,102	7,575
Increase / (decrease) in creditors and accruals		874	(7,267)
Net cash generated from / (used in) operating activities		<u>45,938</u>	<u>(49,598)</u>
Cash flows from investing activities			
Purchase of intangible assets	5	(8,279)	(4,301)
Purchase of tangible assets	5	-	(636)
Interest received		663	295
Net cash used in investing activities		<u>(7,616)</u>	<u>(4,642)</u>
Net increase / (decrease) in cash and cash equivalents		38,322	(54,240)
Cash and cash equivalents at the beginning of the year		193,233	247,473
Cash and cash equivalents at the end of of the year		<u>231,555</u>	<u>193,233</u>
Cash and cash equivalents at the end of the year comprise:			
Cash and cash equivalents	8	<u>231,555</u>	<u>193,233</u>

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

1 Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the period, and the preceding year, is set out below.

1.1 Basis of preparation of financial statements

The financial statements have been prepared on the historical cost basis 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;
- Case files and associated case fee income is in line with expectations; and
- 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.

In light of the ongoing coronavirus pandemic, management have considered various cashflows including a worst case scenario projection and are confident it is still appropriate for them to adopt the going concern basis in the preparation of these financial statements. Sufficient cash reserves are held to ensure the OFSO is able to meet its obligations when they fall due.

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 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, provided 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 2019 is set out in the Financial Services Ombudsman Levy Scheme (Jersey) 2019 (the '2019 Jersey Levy Scheme'). 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 licenced or hold a certificate or a 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 2019 levy was payable per sector of activity for which, on 2 January 2019, 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 2019 Jersey Levy Scheme. Levy notices were sent out from March to July 2019 and Registered Providers were required to pay to the OFSO the levy as specified in the levy notice, unless they have certified as zero-rated in accordance with the procedure specified in the levy notice.

The levies raised the funding required for the operation of the OFSO in 2019. 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 to minimise the increases in the total levy amount. To enable the replenishment of the reserves for 2019 the total levy amount required in Jersey was £436,202, an increase of 33%.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

1 Accounting policies - continued

Levy income is recognised in the period to which the levy relates. No adjustment is made in respect of any changes to providers' licences after 2 January 2019, with any changes in providers' licences coming in to effect from the 2020 year of assessment.

Actual 2019 levy amounts per provider:

	GBP
Banking	208,194
Insurance and/or general insurance mediation business	57,400
Investment business and/or fund functionary	102,172
Money service business	33,292
Registered credit provider	28,700

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 ("FSP") 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.

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 and, the complaint file has been received from the FSP. 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 cases since the previous case fee invoice (or since the OFSO opened for business) the OFSO may issue an interim case fee invoice.

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, 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 5 years.

The estimated useful lives are as follows:

Website and brand	5 years
Complaint management system	5 years

Intangible asset amortisation commences upon commissioning of the asset in question.

Tangible assets comprise computer equipment. These assets are initially recognised at their purchase price, including any incidental costs of acquisition. Depreciation is calculated to write down the net book value on a straight-line basis over the expected useful economic life of the asset.

The estimated useful life is 4 years.

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 OFSO's cash management.

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, creditors and accruals. There are no other financial instruments in these financial statements.

(i) Financial assets

Unbilled income and debtors are recognised initially at the transaction price adjusted for 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 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

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

(iii) Offsetting

Financial assets and liabilities (and related income and expenses) are only offset and the net amounts presented in the Statement of Financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 Accounting policies - continued

(v) Impairment of assets

At each reporting date, assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.7 Taxation

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

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.

Functional and presentation currency

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the date 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 Accounting policies - continued

1.10 Pensions

The OFSO provides membership to 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 receivable 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.

1.13 Rents

Rentals under licence agreements are charged to the Statement of Income and Retained Earnings on a straight-line basis over the term of the agreement.

1.14 Expenses

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

2 Judgements 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).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

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3 Analysis of revenue

An analysis of revenue is provided below:

	2019 GBP	2018 GBP
Case fees	48,300	58,400
Levies	429,758	347,503
Interest on overdue levies	7	23
	<u>478,065</u>	<u>405,926</u>

4 Administrative expenses

	2019 GBP	2018 GBP
Directors remuneration	21,000	21,000
Staff salaries	260,276	236,478
Employer social security	13,683	11,752
Staff pension costs	23,365	19,521
Staff training	5,687	9,045
Hotels, travel, subsistence	6,598	7,941
Computer costs	19,737	24,704
Legal and professional fees	613	2,626
Case-related costs	19,148	13,086
Auditor's remuneration	16,385	14,684
Accountancy fees	5,546	13,968
Bad debts	-	1,200
Rent and rates	25,397	21,924
Insurances	17,370	15,109
Recruitment	4,539	3,393
Printing and stationery	1,116	1,751
Postage	640	1,329
Telephone	1,095	552
General office expenses	2,592	1,800
Trade subscriptions	2,365	2,085
Bank charges	582	898
Line of credit charge	1,250	1,563
Administration costs	1,261	2,716
Amortisation / depreciation expense	5,037	3,776
Governance expenses	-	282
Loss on forex	8	-
	<u>455,290</u>	<u>433,183</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

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5 Intangible and tangible assets

	Computer equipment GBP	Website and Brand GBP	Complaint Management system GBP	Total GBP
Cost				
At 1 January 2019	636	6,802	13,943	21,381
Additions in year	-	1,545	6,734	8,279
At 31 December 2019	636	8,347	20,677	29,660
Amortisation / Depreciation				
At 1 January 2019	26	3,281	4,630	7,937
Charge for year	159	1,405	3,473	5,037
At 31 December 2019	185	4,686	8,103	12,974
Net book value				
At 31 December 2019	451	3,661	12,574	16,686
At 31 December 2018	610	3,521	9,313	13,444

6 Unbilled income

	2019 GBP	2018 GBP
Case fees (see note 1.3)	48,300	63,450

7 Debtors and prepayments

	2019 GBP	2018 GBP
Trade debtors	-	3,810
Prepayments	2,889	1,181
	2,889	4,991

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

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8 Cash and cash equivalents

	2019 GBP	2018 GBP
Cash at bank	231,555	193,233

The OFSO and the equivalent body in Guernsey share one current account and one deposit account under the account name "The Offices of the Financial Services Ombudsman - CI". The above balance reflects the OFSO's 61% share of the balance. The current account has an unutilised overdraft facility of £250,000.

The current account has a purchasing card facility of £15,000.

9 Creditors: Amounts falling due within one year

	2019 GBP	2018 GBP
Accruals	15,750	19,550
Trade and other creditors	16,083	11,409
	<u>31,833</u>	<u>30,959</u>

10 Financial instruments

	2019 GBP	2018 GBP
Financial assets		
Financial assets measured at amortised cost	<u>279,855</u>	<u>261,674</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(31,833)</u>	<u>(30,959)</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 2019

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12 Other financial commitments

During 2017, the OFSO and the equivalent body in Guernsey 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). On 24 May 2019 a new agreement was entered into, due to OFSO moving to a larger office, with a commencement date of 1 June 2019, fixed until 31 December 2021 (£4,646 per month). The agreement has been classified as an operating lease. The breakdown of the future commitments which have been allocated to the OFSO (50% of the total) are as follows:

	2019 GBP	2018 GBP
Due within one year	27,876	21,924
Due 2 - 5 years	25,553	-
	<u>53,429</u>	<u>21,924</u>

13 Related party transactions

During the year, board remuneration of £12,000 (2018: £12,000) was paid to David Thomas, the chairman, and £9,000 (2018: £9,000) was paid in aggregate to the three non-executive directors. No amounts were outstanding at the year end. (2018: nil).

The principal ombudsman is considered to be key management personnel. Remuneration in respect of the principal ombudsman is £77,604 (2018: £74,942). (Outstanding: nil).

14 Events after the reporting period

The new funding legislation, as referred to in the Chairman's statement, was approved by the States of Jersey on 12 November 2019, and came in to effect from 1 January 2020. The finances of the OFSO have been amalgamated with the Guernsey OFSO and, from 1 January 2020, one set of financial statements will be produced for the Channel Islands Financial Ombudsman.


The COVID-19 public health crisis arose after the reporting date. This is a non-adjusting event and has been considered as part of the going concern assessment detailed in Note 1.2 and no adverse impact is expected.

Air Raid Shelter in Jersey War Tunnels, Jersey



W  D
**AIR RAID
SHELTER**
MAX PERSONS 150
By Order WAR OFFICE

AIR RAID
SHELTER



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

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