

Financial Ombudsman Service
Exchange Tower
London
E14 9SR

8th October 2025

To Whom It May Concern,

Financial Ombudsman Service consultation: Evolving our funding model

We welcome the opportunity to respond to this consultation. ABCUL is the primary trade association representing credit unions in England, Scotland and Wales with around two-thirds of credit unions in mainland Great Britain affiliated to the Association.

Credit unions are co-operative societies that provide financial services – primarily savings and loan facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. As deposit-takers, they are dual-regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Credit unions have since their inception in Britain in 1964 been closely associated with anti-poverty and financial inclusion. They tend to provide savings and loan facilities to those with limited or no access to financial services from mainstream providers, generally due to their low income and/or lack of a developed credit profile. They have been a central element of numerous government and philanthropic initiatives to extend financial inclusion and address the lack of adequate provision of affordable credit and secure savings facilities for large sections of the population. They are capped in the interest that they can charge at 42.6% APR under the Credit Union Act 1979 and provide credit in competition with high-cost lenders.

They are numerous, with over 215 credit unions active in Great Britain today with more than 1.5 million members and £2.7 billion in assets under management. They range from mid-sized businesses of up to 50 staff to small voluntary organisations.

Question 1: What do you think of the proposal to differentiate case fees based on case stage, where cases closed earlier in our complaint journey would attract lower fees than those closed later in our complaint journey?

ABCUL somewhat agrees to the proposals to differentiate case fees based on case stage. ABCUL supports the early resolution of complaints and believes in most cases, this would be in the best interests of a firm and the complainant. We support the process to encourage proactive engagement in resolving complaints. However, we would like to have more information on what impact the implementation of differential case fees for professional representatives in April this year has had on annual complaints data. This would provide a good evidence base for how any of the proposed changes could impact on FOS operations through a reduced volume of cases. With HMT also consulting on a review of the FOS and the potential impact of the proposals it may be best to consult on the differentiated case fees once HMT have produced their policy position.

ABCUL also recognises the practical economic considerations of the proposals to vary case fees according to case stage and understands the FOS's reasoning for this differentiation, as a complaint with greater FOS involvement would naturally incur higher costs.

Question 2: What risks do you foresee with the introduction of differentiated case fees based on case stage? Do you feel these risks can be sufficiently mitigated?

ABCUL acknowledges that the Financial Ombudsman Service (FOS) has concerns that income may decline due to an increase in cases being closed at an earlier stage through proactive settlements. We argue that proactive settlements can be the best practical outcome. However, we strongly urge the recovery of case fee prices to not be achieved through a blanket increase in fees.

Instead, we advocate for a more intentional approach based on the principle of "polluter pays." This means that entities causing the most workload for the FOS, such as unsubstantiated claims or the high volume of complaints from Claims Management Companies and Professional Representatives, should help cover the deficit. According to the FOS's annual complaints data and insights for 2024/25, nearly half of the complaints in 2024 were initiated by professional representatives. As referenced in our response to question 1 we would encourage the FOS to delay any changes to case fees until analysis of the implemented changes to CMC's and PR's case fees have been undertaken. We also

note again HMT's consultation on Review of the FOS and the FCA/FOS CP25/22 could impact on FOS's proposal. Creating a complaints process that penalises low-quality and unsubstantiated complaints, whilst still allowing professional representatives to bring cases forward that are legitimate complaints, is necessary.

Question 3: What do you think of the proposal to differentiate case fees based on case outcome where cases that are not upheld would attract lower fees than those cases which are upheld?

We would reiterate the concept of "polluter pays" as referenced in our response to question 2. ABCUL generally supports the proposal that cases not upheld would attract a lower fee than cases which are upheld. This would better reflect the effort and the cost the FOS incurs investigating cases and could support the early resolution of complaints. As the previous case fee basis was flawed by firms having to pay the standard case fee of £650 regardless of the outcome or stage it was resolved, which seems very disproportionate.

Question 4: What risks do you foresee with the introduction of differentiated case fees based on case outcome? Do you feel these risks can be sufficiently mitigated?

As with any change to a process, there are risks associated some of which will not be fully identified until the outcomes of CP25/22 and HMT's Review of the FOS have been published. Some firms may resist early settlements (since settlement could be seen as an admission leading to higher fees), or conversely, settle unmeritorious cases just to avoid potential higher charges. Smaller firms and credit unions with low complaint volumes could face greater volatility, one upheld complaint might represent a large cost relative to turnover, undermining proportionality.

If fees depend on whether a case is upheld, FOS decisions may be seen as financially biased or at least open to accusations of bias. This could be mitigated by ensuring the fee-setting and adjudication are institutionally separated, and also by publishing transparent methodology and independent auditing of case outcomes. By introducing independent oversight and quarterly/annual reporting on uphold rates vs fee revenue correlation could help to demonstrate impartiality. Even if unfounded, the perception could undermine public trust. If firms' costs vary with outcome, some may argue that FOS (or claim management companies) are incentivised to pursue marginal cases, or that customers are encouraged to escalate complaints even when weak.

Question 5: If in favour of differentiation, do you think we should differentiate by case stage, case outcome or both?

ABCUL believes that the FOS should differentiate by case stage and not both. As previously stated, we believe it is in the best interest of the complainant and, respondent to reach a proactive settlement.

Reaching a proactive settlement, for example, still requires the review process of the FOS to ensure that there is a fair process for both parties.

However has stated above we would urge the FOS to delay any changes to case fees until the outcome of the two other consultations by HMT and FCA/FOS.

Question 6: Do you agree with the change from a free case count allowance to a monetary allowance? If you prefer an alternative approach, why do you consider that proposed alternative approach to be simpler and fairer than the current or proposed approach?

ABCUL partially agrees with the transition from a free case count allowance to a monetary allowance. Under the current structure most firms receive 3 free case fees, however we note the figures in the examples provided in Annex A-C are illustrative figures. We would want the FOS to ensure that any changes to the monetary allowance should be reflective of ensuring that firms are not negatively impacted by any potential changes to case fees by having the monetary allowance be an equivalent to three times the maximum fee charge.

Question 7: Do you think the indicative monetary allowance level of £2,000 for both respondent businesses and professional representatives is a reasonable equivalent to the current free case count?

This change is unlikely to significantly impact credit unions that pay for case fees. The new £2,000 allowance, which replaces the three free cases currently in place, would still allow for three full-value cases (non-represented) at £650 each. Additionally, it would effectively provide four free cases at £475 each if the case is found in favour of the respondent firm. However, we note that the figures in Annex A-C are for illustrative purposes only, so we find it difficult to support any proposal without having firm case fees. Our response to

question 6 highlights that any changes to a monetary allowance should not be to the detriment of firms.

Question 8: Are you in favour of moving to quarterly billing in advance for respondent businesses and professional representatives with higher volumes of complaints?

ABCUL notes that this won't have any significant material effect on our member credit unions.

Question 9: Do you agree that a forecast of 25 cases to be closed per year is the right threshold to trigger quarterly billing in advance?

ABCUL notes that this won't have any significant material effect on our member credit unions. However, the 25-case threshold should be adjusted and monitored to ensure it does not impact on smaller firms.

Question 11: What do you think of our proposal to reduce the time limit for disputing case fees to six months if we introduced billing quarterly in advance for more firms?

ABCUL is minded to support the proposal to reduce the time limit for disputing case fees to six months if quarterly billing in advance is introduced, providing the FOS still produces the monthly statement to allow firms to track their forecast against actual cases.

Please contact us at advocacy@abcuk.org if you have any questions about our response to your consultation.

Kind regards,



Natalie McQuade
Head of Advocacy and Regulatory Affairs
ABCUL