

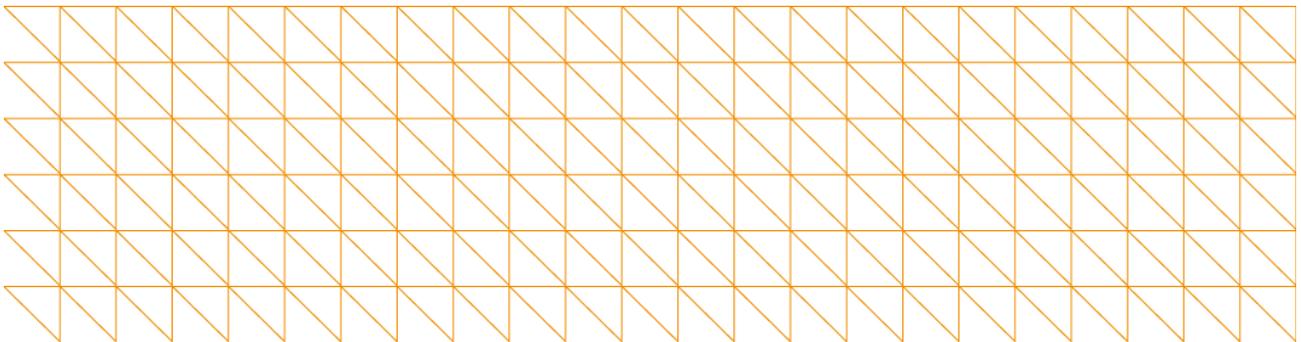


Ministry
of Justice

The Legal Ombudsman and complaints about claims management companies

Summary of responses to the consultation on the fee framework

This response is published on 3 November 2014





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Response to consultation carried out by the Ministry of Justice.

This information is also available on-line at <https://consult.justice.gov.uk/>

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Introduction and contact details

This document is the post-consultation report for the consultation paper, The Legal Ombudsman and complaints about claims management companies: consultation on the fee framework.

It will cover:

- the background to the consultation
- a summary of the responses to the consultation
- a detailed response to the specific questions raised in the consultation
- the next steps following this consultation.

Further copies of this report and the consultation paper can be obtained by contacting **John Russell** at the address below:

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This report is also available on-line at <https://consult.justice.gov.uk/>

Alternative format versions of this publication can be requested from John.Russell2@justice.gsi.gov.uk

Complaints or comments

If you have any complaints or comments about the consultation process you should contact the Ministry of Justice at the above address.

Consultation outcome / Executive Summary

1. In August 2012 the government announced its intention to commence section 161 of the Legal Services Act 2007, to extend the Legal Ombudsman's remit to enable it to consider complaints from customers about the service provided by regulated claims management companies. The Legal Ombudsman will provide a new avenue of redress for clients of claims management companies and will assist the Claims Management Regulator in driving out poor standards and practices in the market.
2. The Legal Ombudsman is a free service to consumers, with its costs being met by the regulated businesses that fall within its jurisdiction. It remains the government's intention that the full costs the Legal Ombudsman incurs in dealing with complaints about claims management companies should be recovered from the claims industry.
3. The consultation paper 'The Legal Ombudsman and complaints about claims management companies' was published on 7 May 2014. It invited comments on the fees we intend to charge claims management companies to recover the costs associated with the Legal Ombudsman dealing with complaints about the industry, once the Legal Ombudsman's remit is extended. The fee structure proposed was a sliding scale of fees based on companies' turnover. This approach was proposed as a way of enabling the Lord Chancellor to recover costs without putting an excessive burden on smaller claims management companies.
4. The overall response to the consultation on the proposed fee framework was mixed: while a number of respondents, including those from claims management companies, were in favour of the proposed fee framework, others were opposed. Of those opposed, most objected to the fee framework on the grounds that larger firms will pay higher fees to subsidise lower fees for smaller firms, which may have poorer customer services and complaints records. There were also conflicting views on the Legal Ombudsman's estimate for the number of complaints about claims management companies it expects to investigate. While some respondents thought that the estimate of complaints cases was too high, and therefore the estimated costs and fee levels were too high, others thought the estimate was too low and therefore the estimated costs and fee levels were too low. Of those that suggested alternative fee structures, most thought that the fee structure should incorporate a greater proportion of the costs falling on those companies or claims sectors attracting the most complaints.
5. The responses to the consultation raised no unforeseen issues with the proposed fee framework or new evidence or arguments on the impact of the fees. Therefore, following careful consideration of the responses, we have decided to proceed with the fee framework as set out in the consultation document. The consultation document was clear that the proposed fee framework creates a cross-subsidy whereby firms with a larger turnover will pay higher fees to subsidise lower fees for smaller firms, but that in these circumstances we believe this is justified as the Government is committed to recovering the whole of the Legal Ombudsman's claims management costs (less the Legal Ombudsman's case fee income) from the regulated claims management industry, and other ways of structuring the fees would put a disproportionate burden on smaller claims management firms. No novel arguments were put forward during the consultation to change our belief that the approach is justified in these circumstances.

6. The alternative fee structures proposed by respondents would not enable the government to achieve full cost recovery, without putting a disproportionate burden on smaller claims management companies, or were not appropriate because they suggested apportioning the costs based on the current level of complaints levels per claims sector to the Claims Management Regulator for each claims sector. The Legal Ombudsman has a broader remit and greater powers of redress than the Claims Management Regulator, which will affect the types of complaints it considers. The fee framework, will, however, be kept under review and, dependent on the trends in claims management complaints to the Legal Ombudsman, we will consider whether the structure should be altered to incorporate a greater 'polluter pays' element in the future.

Timing

7. The timetable for implementation of the Legal Ombudsman taking complaints about claims management companies has been slightly revised. It is now expected that the Legal Ombudsman will begin taking complaints about claims management companies at the end of January 2015. At this stage, we are working to a start date of 28 January 2015. The fees for the 2014/2015 financial year have therefore been revised accordingly, to reflect that there will be two months of operation in the 2014/15 financial year as opposed to four months of operation (as outlined in the consultation paper). The revised fees for the 2014/15 financial year have been calculated on a pro rata basis, based on the fees consulted on for a full financial year. The revised fees are set out at Annex B.

Background

1. In August 2012 the government announced its intention to commence section 161 of the Legal Services Act 2007, so that complaints about poor customer service by regulated claims management companies can be dealt with by the Legal Ombudsman. Implementation of this policy was delayed as the proposed mechanism in the Act for funding this work could not be imposed. This was resolved through provisions in the Financial Services (Banking Reform) Act 2013 which amended the Legal Services Act 2007 to provide the Lord Chancellor with a new fee raising power to recover the costs of the Legal Ombudsman from claims management companies.
2. The consultation paper 'The Legal Ombudsman and complaints about claims management companies' was published on 7 May 2014. It set out the estimated costs the Legal Ombudsman will incur in dealing with complaints about claims management companies and how it was proposed that the Lord Chancellor's new fee raising power under the Financial Services (Banking Reform) Act 2013 would be exercised. The consultation document invited comments on the fees it is intended to charge claims management companies to recover the costs associated with the Legal Ombudsman dealing with complaints about the industry, once the Legal Ombudsman's remit is extended.
3. The consultation paper was sent to all authorised claims management companies and the Claims Management Regulatory Consultative Group. It was also made available on the Ministry of Justice on-line consultation hub and responses from the public and other interested bodies were welcome.
4. The consultation period closed on 6 June 2014. A total of 24 responses to the consultation paper were received. Of these, Approximately 18 of the responses were from claims management companies or firms of solicitors that are associated with claims management companies, 5 were from other interested bodies and 1 was from a member of the public This report summarises the responses, including how the consultation process influenced the final shape of the fees consulted upon.
5. A full Impact Assessment has been published alongside this consultation response document.
6. A Welsh language version of this response paper is available on request.
7. A list of respondents is at Annex A.

Summary of responses to the consultation question

Do you have any comments in relation to the fees framework proposed to meet the costs of handling complaints about claims management companies by the Legal Ombudsman?

A sliding scale of fees based on turnover

1. Of the 24 responses received to the consultation, 11 were supportive of the proposal to charge fees on a sliding scale based on companies' relevant turnover. 8 responses were opposed to the fee structure and the remaining 5 responses did not comment on the fee structure. A number of those that supported the proposed fee structure thought that it offered a fair and proportionate way of recovering the costs associated with the Legal Ombudsman dealing with complaints about claims management companies. Of those that were opposed, some thought that the fee levels for smaller businesses were too low or felt that it was unfair that 'well behaved' larger businesses would be subsidising others with poor practice in the claims management industry. A number of these respondents also felt that the fee structure did not offer sufficient incentive for companies with poor complaint handling arrangements to improve. Other respondents thought that the fee structure should reflect the levels of complaints deriving from the different claims sectors, based on current levels of complaints made to the Claims Management Regulation Unit in the MoJ; with those working in claims sectors generating higher levels of complaints paying a greater proportion of the costs.
2. Most of the alternative fee structures suggested by respondents included an increased element of 'polluter pays' within the fee structure, where companies or sectors would pay more in relation to the number of complaints received about them. These included suggestions that the total costs should be recovered from a single fee charged to companies per complaint; that fees should be calculated based on a combination of turnover and the number of complaints received about a company; or that costs should be apportioned across different claims sectors or types of business, dependent on the proportion of complaints arising from the different claims sectors or type of claims business (such as new businesses or those with a poor conduct record). One respondent suggested that consumers should also pay a fee to refer a complaint to the Ombudsman, which might be refunded if found in their favour, another suggested that all of the costs should fall on those businesses with a turnover above £60,000.
3. Some respondents queried the accuracy of turnover data provided by some authorised claims management companies to the Claims Management Regulation Unit on authorisation or renewal, on which their complaints fee would be calculated. These respondents sought clarification on what checks are undertaken on the data. Some suggested that claims management companies should be required to submit an audited statement of accounts or random sampling of the data should be undertaken to assess the accuracy of the turnover data supplied.

Complaints volumes and costs

4. A number of responses queried the basis of the Legal Ombudsman's estimate that approximately 3,000 complaints cases per year would be considered and sought more information on how the estimate was calculated. 4 responses to the consultation thought that the Legal Ombudsman's estimate of 3,000 complaints cases requiring

investigation per year was too high, while 3 thought that the 3,000 complaints cases estimate was too low. Accordingly, those that thought the case volume estimate was too high thought the estimated costs, and therefore the fee levels, were too high, while those who thought that the case estimate was too low, thought that therefore the estimated costs and fee levels were too low.

5. Those that thought the Legal Ombudsman's estimate of 3,000 complaints cases per year was too high based this view on factors such as the current number of authorised claims management companies and overall contraction in the claims market; the numbers of complaints respondent companies had received, the number of complaints claim management trade associations had received about their members and the number of investigations undertaken by the Claims Management Regulation Unit.
6. Those that thought the Legal Ombudsman's estimate of 3,000 complaints cases per year was too low gave the reason for this as the number of contacts the Claims Management Regulation Unit receives from the customers of claims management services; the number of complaints finance, consumer credit and Banking trade associations have had reported to them about claims management companies from their members and the extent of claims management companies' activity in Payment Protection Insurance complaints about which complaints to the Legal Ombudsman may be made.
7. Due to the concern about the difficulty in accurately estimating the number of complaints cases, two respondents suggested a trial period should be undertaken before fee levels are set.
8. Some additional comments were made by respondents on the estimated costs, separate from the predicted case volume. Two respondents queried the cost levels with regard to the apparently high 'cost per case.' One respondent thought that the Legal Ombudsman was predicting a surplus in the first year and should ensure a neutral budget. Two respondents sought assurance that any shortfall in the costs the Ministry of Justice recovers would not be met by the Claims Management Regulator's annual regulation fee or would effect the Ministry's ability to deliver 'business as usual' activities.

In year adjustment of fees

9. Two responses noted that the potential to make in-year adjustments to the Lord Chancellor's complaints cost recovery fees could make it difficult for businesses to undertake financial planning; a further respondent noted that they would be concerned if fees had to be raised unexpectedly.

Legal Ombudsman's Case Fee

10. Under the Legal Services Act 2007, the Legal Ombudsman has to charge a case fee for each case it considers against a respondent business. Case fees are paid directly to the Legal Ombudsman on closure of a case by the respondent business. The Legal Ombudsman's case fee operates separately from the Lord Chancellor's complaints fee and was therefore out of scope of the Lord Chancellor's fees framework. However, a number of respondents returned comments on the operation of the Legal Ombudsman's case fee.

11. Some respondents were in favour of the Legal Ombudsman's case fee providing an element of 'polluter pays' in the overall cost recovery framework. One respondent thought that the £400 case fee was too high, on the basis that in comparison to the complaints the Ombudsman deals with about legal professionals, complaints about claims management companies should be simpler. Another respondent suggested that companies should not incur the case fee until a certain number of complaints were received by the Ombudsman and suggested that the case fee should be tiered to reflect the seriousness of the issues presented by the case. Others thought that the case fee was too low. Some respondents thought the case fee should be higher to meet the costs of the Ombudsman and potentially be used to build a contingency fund to meet any additional costs. Others thought that a higher case fee should be charged (with no complaints fee) to reflect their preferred cost recovery model of charging per complaints case. These comments will be passed to the Legal Ombudsman.

Claims Management Regulation Fee and Complaints Fee

12. Some respondents objected to additional fees being charged to recover the costs of the Legal Ombudsman dealing with complaints about claims management companies on the grounds that charging an additional fee to the Claims Management Regulator's annual regulation fee constituted paying for duplication in regulation. These respondents tended to be companies that had business models which meant that they paid fees in respect of regulation by the Solicitors Regulation Authority but were also contributors to entities regulated by the Claims Management Regulator. A further two respondents queried whether there would be a reduction in the Claims Management Regulator's annual regulation fee when the Legal Ombudsman begins dealing with complaints about claims management companies.

Other comments

13. Some respondents raised issues out of the scope of the consultation on the fee framework. These included comments and questions about the wider plans associated with the Legal Ombudsman taking complaints about claims management companies and other separate regulatory matters. Comments on other aspects of the Legal Ombudsman taking claims management complaints included those on the interaction between the Legal Ombudsman and the Financial Ombudsman Service, how the Legal Ombudsman's decisions will be enforced and how customers will be made aware that complaints can be referred to the Legal Ombudsman. With regard to wider regulatory matters, comments referred to the impact of recent policy changes on claims management companies and suggestions for other changes to regulatory requirements, such as requiring those undertaking claims work to have specific qualifications. As these issues are beyond the scope of this consultation they have not been addressed formally in the response to this consultation. However, we have passed them to the Legal Ombudsman or the Claims Management Regulation Unit as appropriate.

Conclusion and next steps

A sliding scale of fees based on turnover

1. Of the 19 respondents who commented on the intention to charge a sliding scale of fees based on companies' turnover, 11 supported the measure. A number noted that they thought the fee framework was 'fair', 'reasonable' and/or 'proportionate.' These respondents included a number of claims management companies. Of those that were opposed, most thought that companies with high turnover would be unfairly subsidising others in the claims industry, including those with poor complaints handling records.
2. Several respondents suggested that there should be an increased element of 'polluter pays' in the fee framework. The two main alternative approaches suggested were a 'pure polluter pays' model, where the total costs would be recovered from a single fee charged to companies per complaint, and a 'sector polluter pays' model, where the costs would be apportioned across the different claims sectors dependent on the proportion of complaints arising from each particular claims sector. It was suggested that this should be based on current complaints levels to the Claims Management Regulator.
3. The 'pure polluter pays' model does not offer an appropriate model for enabling total cost recovery, as the cost per complaint would also have to encompass, in addition to the cost of investigating each complaint, the wider costs of the Legal Ombudsman. This includes the Legal Ombudsman's standing costs, such as staffing and infrastructure, which are incurred regardless of the number of complaints received. The Legal Ombudsman will also handle initial calls and contacts from consumers that may not lead to complaint investigations or the Ombudsman may begin complaint investigations that are abandoned by the complainant prior to resolution. The costs of the Legal Ombudsman's wider work, including providing consumer information services, working with consumer groups; engaging with the industry as a whole and data sharing also have to be taken into account. The level of the fee would also depend on whether it is payable for all complaints investigated, or waived in certain cases as is currently the case. As a result, a 'cost per complaint' model would place a disproportionate burden on smaller claims companies and could result in a significant number of them being forced out of the market with the costs being too high. In addition, individual firms would not have certainty about the number of complaints likely to be made against them and therefore the likely level of fees to be paid.
4. As was set out in the consultation document, whilst it is recognised that the proposed fee framework means that companies with a higher turnover will pay higher fees, regardless of complaints levels, all claims management companies will benefit from being able to sell their services as being within the remit of the Legal Ombudsman and from improvements in the reputation of the industry as better complaints handling improves the experience of consumers. The presence of the Legal Ombudsman's case fee (subject to charge by the Ombudsman directly to a respondent business for each case it considers, other than when waived) offers an element of 'polluter pays' within the cost recovery model and is designed to incentivise improved complaints handling processes within companies.

5. The 'sector polluter pays' model, where the costs would be apportioned across the different claims sectors dependent on the proportion of complaints arising from each particular claims sector, is problematic in terms of implementation at the inception of the Legal Ombudsman taking complaints about claims management companies. The Legal Ombudsman has a different remit and different powers to the Claims Management Regulator in relation to the complaints it can consider. Although the Claims Management Regulator can work informally with consumers to resolve complaints, it can only formally investigate complaints arising from breaches of its Conduct Rules. The Legal Ombudsman has a broader remit to consider general complaints about the service a customer has received and will have a retrospective jurisdiction, subject to the Ombudsman's Scheme Rules. This means that the profile of the complaints the Legal Ombudsman receives, in terms of their substance and the claims sectors from which they arise, may be different from that received by the Claims Management Regulator. As a result, it is not appropriate to apportion the costs of the Legal Ombudsman across the claims management industry based on the profile of the complaints made to the Claims Management Regulator.
6. For the reasons set out above and because no novel arguments or evidence were put forward during the consultation to change our belief that the cross-subsidy inherent in the proposed fee framework is justified in these circumstances, we have concluded that the proposed fee framework remains the best way of enabling full cost recovery, whilst not putting a disproportionate cost burden on smaller claims management companies. However, the government will keep the fee framework under review and dependent on the trends in claims management complaints to the Legal Ombudsman, we will consider whether the structure should be altered to incorporate a greater 'polluter pays' element in the future.
7. Further comments on the fee framework related to the accuracy of turnover data supplied to the Claims Management Regulator. To ensure that administrative burdens are kept to a minimum, the intention is to use the turnover data supplied to the Claims Management Regulator, on authorisation or renewal, to calculate the fee for recovering the costs associated with the Legal Ombudsman. The Claims Management Regulator has the power to verify turnover information. Regulated businesses are required to cooperate with the Regulator and any failure to do so can result in enforcement action being taken, including the suspension or cancellation of their authorisation.

Complaints volumes and costs

8. A number of responses queried the basis of the Legal Ombudsman's estimate that approximately 3,000 complaints cases per year would be considered and sought more information on how the estimate was calculated. Some thought the complaints volume estimate was too high, while others thought it was too low. The Legal Ombudsman will provide a new route of redress for customers of regulated claims management companies and, as noted above, the remit and powers it has to consider complaints are different to that of the Claims Management Regulator. This makes it difficult to predict the number of complaints the Legal Ombudsman will receive about claims management companies. However, the Legal Ombudsman developed an estimate of 3,000 complaints cases per year through an analysis of the Claims Management Regulator's complaints data.

9. In conducting the analysis of the Claims Management Regulator's complaints data, the Legal Ombudsman compared the nature of the complaints the Claims Management Regulator received against the remit of the Legal Ombudsman. For example, the Legal Ombudsman will only have jurisdiction over claims management companies authorised by the Regulator at the time of the complaint (whereas the Regulator may prosecute unauthorised businesses undertaking regulated claims activities), and so the Ombudsman only looked at the volume of complaints about authorised businesses. The Legal Ombudsman also considered whether the complaints might be best classed as Conduct complaints or referred to another body, and therefore less likely to be dealt with by the Legal Ombudsman. They also took into account their retrospective jurisdiction and the possibility that there might be greater interest from consumers in making complaints given the additional powers available to the Legal Ombudsman, including the ability to award compensation.
10. Some respondents suggested that a 'trial period' may be beneficial in order to test the accuracy of complaints level estimates. As outlined in the consultation paper, it is the intention to adjust fee levels annually, if needed (or in year in exceptional circumstances) to reflect changes to the Legal Ombudsman's estimates of expected complaint volumes, associated costs and anticipated case fee income, as well as changes to the claims management market. We consider that this approach is more appropriate than a trial and provides sufficient flexibility to be able to respond to any unexpected difficulties with our proposed approach.
11. Other respondents suggested collecting higher fees to build a contingency fund to meet higher case volumes than estimated. In line with *Managing Public Money*,¹ the intention is only to recover the costs incurred in delivering the service.
12. Some respondents noted the apparent 'high cost per case'. The '3,000 complaints cases' refers to cases requiring investigation, as opposed to initial contacts with the Ombudsman which are expected to be much higher. The cost estimates outlined in the consultation paper took account of the total costs to the Ombudsman of dealing with complaints about claims management companies and so included the cost of dealing with complaints, responding to initial contacts, undertaking related wider work, such as providing consumer information services and engaging with the claims industry as a whole, a proportion of the Ombudsman's standing costs (such as staff and infrastructure), as well as implementation costs incurred in preparation for taking complaints about claims management companies (such as recruitment, training and marketing). As set out in the consultation document, the Legal Ombudsman is a free service to consumers, with its costs being met by the regulated businesses that fall within its jurisdiction and it is the government's intention that the full costs of the Legal Ombudsman in dealing with complaints about claims management companies should be recovered from the claims industry.

¹ *Managing Public Money* is an HM Treasury publication offering guidance on how to handle public funds and is available at this link -<https://www.gov.uk/government/publications/managing-public-money>

In year adjustment of fees

13. Some respondents raised the impact on their financial planning should fees be raised in year. As noted in the consultation paper, any changes to the Lord Chancellor's cost recovery fees must be made by amendment to statutory instrument and be approved by Parliament. While it is therefore possible to adjust fees in year, we would only anticipate doing so in very exceptional circumstances, such as where there are significantly more complaints than expected, to ensure the Lord Chancellor can recover the total costs incurred by the Legal Ombudsman dealing with complaints about claims management companies.

Legal Ombudsman's Case Fee

14. The Legal Services Act 2007 stipulates that the Legal Ombudsman scheme rules must make provision for a fee to be payable by respondents to complaints. The Legal Ombudsman charges this 'case fee' for cases it considers against a respondent business. Case fees are paid directly to the Legal Ombudsman on closure of a case by the respondent business. The current case fee provided for in the scheme rules is £400.
15. Rather than cover the total costs of dealing with complaints, the case fee is instead intended to encourage good complaints handling within businesses. Accordingly, in certain circumstances the case fee is waived, such as where a complaint is resolved in favour of the respondent business and the ombudsman is satisfied that the respondent took all reasonable steps to try and resolve the complaint under their in-house complaint procedure.
16. The Legal Ombudsman's case fee operates separately from the Lord Chancellor's complaints fee and is therefore out of scope of the Lord Chancellor's fees framework. Accordingly, the comments received on the Legal Ombudsman's case fee have been passed to the Legal Ombudsman. The Legal Ombudsman has confirmed that it intends to monitor the structure and level of the case fee, once the Legal Ombudsman's remit is extended to include regulated claims management companies, to ensure that it remains appropriate. Any significant change to the Legal Ombudsman's case fee will be consulted on by the Legal Ombudsman.

Claims Management Regulation Fee and Complaints Fee

17. Some respondents thought that charging separate fees, in order to recover the costs associated with the Legal Ombudsman dealing with complaints about claims management companies, in addition to the Claims Management Regulator's annual fees to meet the costs of regulation, constituted 'double-charging' for regulation. However, the Legal Ombudsman performs a different function, and has different powers, to that of the Claims Management Regulator.
18. The Compensation Act 2006 provided the legislative framework for the establishment of the Claims Management Regulator and a regulatory regime for the claims management industry. Claims Management Regulation is delivered by the MoJ's Claims Management Regulation Unit, which is responsible for managing the operation of the regulatory system, which includes handling applications for authorisation, monitoring compliance, investigating malpractice and taking enforcement action. The Legal Ombudsman was established under the Legal Services Act 2007 as a consumer complaint and redress scheme. The Legal Ombudsman will not undertake regulatory

activities and will have no power to, for example, suspend or revoke a company's authorisation.

19. At present the Claims Management Regulator can undertake some complaints handling, although its powers in relation to complaint handling are limited. Once the Legal Ombudsman's jurisdiction has been extended the Claims Management Regulator's powers to order redress in individual consumer complaints will be removed. Following the Legal Ombudsman taking on complaint handling, the Regulator will continue to receive contacts from consumers relating to the conduct of claims management companies but it is likely that this will be at a reduced volume. The Regulator anticipates that there will be no direct reduction in regulatory costs as resource will be refocused to enforcement work.

Next Steps

20. The timetable for implementation of the Legal Ombudsman taking complaints about claims management companies has been revised. The Legal Ombudsman will begin taking complaints about claims management companies at the end of January 2015. At this stage we are working to a start date of 28 January 2015. The fees that we consulted on for the 2014/2015 financial year have therefore been revised accordingly, based on two months of operation in the 2014/15 financial year. The revised fees for the 2014/15 financial year have been calculated on a pro rata basis, based on the fees consulted on for a full financial year. The revised fees are set out at Annex B.
21. We expect to lay the statutory instrument, setting out the fees, before Parliament for debate and approval when Parliament returns from recess in October 2014. Subsequent to this, section 161 of the Legal Services Act 2007 will be commenced. It is intended that this will come into force for the Legal Ombudsman to begin taking complaints from 28 January 2015.

Consultation principles

The principles that Government departments and other public bodies should adopt for engaging stakeholders when developing policy and legislation are set out in the consultation principles.

<https://www.gov.uk/government/publications/consultation-principles-guidance>

Annex A – List of respondents

Express Solicitors Ltd

EMCAS

Professional Financial Claims Association

Association of Regulated Claims Management Companies

The UK Cards Association

National Accident Helpline

British Bankers Association

Finance and Leasing Association

Gladstone Brookes

Injury Lawyers 4u

BCP Advisory Services

Lower Cost Complaints Ltd

Claim 2 Gain Ltd

Nationwide Debt Solutions

Liberty Financial Claims Ltd

Claim 4 Disputes

Fair Advice Ltd

PPI Facts

First4Lawyers

Easy Claim Ltd

Allixium Ltd T/A Writefully Yours

Credo Claims Limited

Money Boomerang Ltd

A member of the public

Annex B – Fee Framework

Scenario 1: Fees for full financial year (based on current expectations of complaints volumes, costs and the claims management market)

Where the annual turnover of an authorised claims management company is £163,636 or less, then the amount payable will be a fixed fee of:

Turnover band £	Annual Fee
£0 – £4,999.99	£75
£5,000 – £14,999.99	£150
£15,000 – £24,999.99	£250
£25,000 – £74,999.99	£340
£75,000 – £163,636	£540

Where the annual turnover of an authorised claims management company is over £163,636 then authorised businesses shall pay an amount equal to 0.33% of annual turnover up to £1 million, plus 0.22% of annual turnover between £1 million and £5 million, plus 0.18% of annual turnover above £5 million.

* These fees would be subject to a cap of £40,000.

* This fee scale assumes a number of market exits and entrances across the year.

Where a claims management company is authorised part-way through the year, the amount payable will be calculated on a pro-rata basis.

Part Year Fees (assuming 2 months of operation in 2014/2015)

The intention at present is for the Legal Ombudsman to start taking complaints about claims management companies in January 2015. Should the scheme commence at this time there would be costs for the last 2 months of this financial year, including a proportion of the start up costs. The Lord Chancellor would charge fees to recover his costs in relation to Legal Ombudsman complaints handling for a part financial year.

In scenario 2, the operating costs are applied pro rata for 2 months of the year, giving operating costs of around £0.5m. Implementation cost would still be spread over 3 full years; in this case they would be applied pro-rata for 2 months of that 3 year period, giving implementation costs of around £50k. The Legal Ombudsman has estimated case fee income for a full year on a volume of 3000 cases per annum, would be around £0.8m. This is applied pro-rata for 2 months of the year, giving case fee income of around £0.1m. A total cost of around £0.4m is therefore to be recovered from the claims management industry. The fees to recover this amount would be:

Scenario 2: Fees for part year

Where the annual turnover of an authorised claims management company is £163,636 or less, then the amount payable will be a fixed fee of:

Turnover band £	Annual Fee
£0 – £4,999.99	£13
£5,000 – £14,999.99	£25
£15,000 – £24,999.99	£42
£25,000 – £74,999.99	£57
£75,000 – £163,636	£90

Where the annual turnover of an authorised claims management company is over £163,636 then authorised businesses shall pay an amount equal to 0.055% of annual turnover up to £1 million, plus 0.037% of annual turnover between £1 million and £5 million, plus 0.030% of annual turnover above £5 million.

* These fees will be subject to a cap of £6,667

Where a claims management company is authorised part-way through this period, the amount payable will be calculated on a pro rata basis.



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