

## **The complaint**

Mr B has complained that Somerset Bridge Insurance Services Limited has charged excessive fees when it was processing the cancellation of his motor policy.

## **What happened**

Mr B bought a motor policy through an aggregator website where Somerset was the broker. The policy started on 2 September 2023.

Somerset said it sent all the relevant documents to Mr B at the time he bought his policy which included details of its fees.

Somerset said Mr B's premium instalment failed to go through in November 2023. Both the credit finance company and Somerset sent Mr B varying letters notifying him of this and that he needed to pay his premium instalment by 25 November 2023. As Mr B didn't pay his premium instalment his policy was cancelled.

Somerset then sent Mr B a letter on 10 December 2023 explaining that given the time on risk plus the varying fees, Mr B still owed it £405.04. This is because Mr B had already paid £314.73 in premium plus £168.70 as a deposit. Mr B told Somerset he wasn't happy with the amount he now had to pay and confirmed he disputed the cancellation fees or any other fees that had also been applied.

Somerset said it decided to waive its cancellation fee of £75 and offered Mr B a five-month payment plan to pay £330.04. Mr B continued to dispute the level of fees applied. Mr B complained but Somerset didn't change its stance. So, Mr B brought his complaint to us. The investigator thought it should be upheld. However, he thought that Somerset were entitled to their cancellation fee of £75, but he didn't think it was either reasonable or fair that it charged him an arrangement fee of £307.53 despite the fact that Somerset had told Mr B upfront about this fee and its amount. The investigator concluded the arrangement fee was unreasonably high. He felt a more reasonable arrangement fee should be £100. Therefore, allowing Somerset its cancellation fee of £75 but reducing its arrangement fee down to £100 meant that Mr B should need to pay Somerset £197.51.

Somerset didn't agree and responded well after the time limit set by the investigator. It said it didn't have another income stream of commission and its arrangement fee was charged in lieu of this. And it's calculated in anticipation of the predicted level of interaction that would be required throughout the policy. It said it was liable for fees incurred through any policies when taken out through a comparison website. And although it cancelled prior to the end of the policy term, there is still administration required on its part following any such cancellation. The fee is also calculated to be competitive in the wider market to offer value for the customer and is commercially viable. It reiterated all its remuneration methods and fees were outlined in the terms of business which the consumer sees before the policy is inception.

So as Somerset didn't agree, Mr B's complaint has been passed to me to decide.

## **What I've decided – and why**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so, I'm upholding this complaint along the same lines as the investigator. I'll now explain why.

There is no dispute that Somerset did indeed provide all the necessary documents including its terms of business detailing the fees that would be applied to Mr B's policy for varying scenarios including the cancellation of his policy. There's also no dispute that those fees listed the cancellation fee as being £75 and the arrangement fee as being £307.53.

However, Somerset is also well aware of our stance on this issue, namely that all fees charged on whatever post inception event that occurs must be fair and reasonable too. And more importantly they must be proportionate to the service actually provided by Somerset at the time.

Mr B was charged the following by Somerset given his policy was cancelled due to the fact his direct debit for his premium instalment due in November 2023 didn't go through:

- £293.46 for time on risk
- £97.66 for interest charged by the credit finance company
- £89.82 for an add on product to his motor policy
- £307.53 arrangement fee
- £25 direct debit set up fee
- £75 cancellation fee

This totalled £888.47

Mr B had already paid £168.70 as a deposit initially and had paid £314.73 in premium instalments so Somerset said he still owed a total of £405.04. It then waived the cancellation fee of £75 making the total amount then owed by Mr B to be £330.04.

Like the investigator I consider that if Mr B is unhappy with the time on risk charge and/or the add on product fee, he needs to complaint directly to the insurer/underwriter of his motor policy and also the add on cover. Likewise, if Mr B is unhappy with the interest charged, he needs to complain direct to the credit finance company.

All the other fees listed are payable to Somerset.

Mr B said that his direct debit didn't go through as his employer didn't pay him, so he didn't have the funds. Mr B also initially didn't explain this thoroughly to Somerset so it could possibly help him given these circumstances. There is evidence of some calls dropping but Mr B didn't call back. Further it appears these calls happened after the cancellation rather than before to explain why the direct debit didn't go through. So, I don't think it was wrong that Mr B's policy was cancelled in these circumstances. Indeed, following this Somerset have offered Mr B a five-month payment plan to try and spread his repayments. I consider this is reasonable and in line with both our approach on such matters and treating customers fairly.

And again, like the investigator, I think in these circumstances Somerset remains entitled to charge a cancellation fee. Further I don't consider the amount of £75 for the cancellation fee to be unreasonable either. As there are letters to prepare and send to Mr B in these circumstances too. Therefore, although it waived this fee for Mr B I think it's ultimately reasonable it should charge it.

I don't think there is anything untoward in charging the direct debit arrangement fee of £25 either. Again, I consider that's reasonable too.

However, I consider the arrangement fee of £307.53 to be exceptionally high taking everything together. I consider charging an arrangement fee is not unreasonable at all, but it must be proportionate and I'm struggling to see how a fee of £307.53 is proportionate given it's also entitled to charge a direct debit arrangement fee of £25 plus a cancellation fee of £75. So, in effect this arrangement fee is solely for setting up the policy and sending out the policy documents. The investigator asked Somerset to explain it. But none of its explanations showed reasonably why it was set at this high price.

Latterly just before I was assigned this complaint, Somerset provided further information. It said its costs remained the same whether the policy lasts the full term or not so this fee is charged in lieu of that. However, in its terms of business it also charges a mid-term adjustment fee of £25 if the adjustment is made before the policy start date and £50 if it is made after the policy start date. And it charges £10 for every non-standard letter required throughout the policy term. So, any post inception admin required is then obviously covered by these fees too.

Its terms of business also state the policy arrangement fee is dependent on the insurer the policy is placed with and is calculated as a percentage of the premium charged. And what Somerset said so recently to us is that it's charged as it doesn't have another stream of commission on the sale of the policy, so the arrangement fee is in lieu of that. And further that it's calculated on the predicted level of interaction and work anticipated throughout the policy year. So, it's intended to cover any attributing costs on interactions with the policyholder such as validation and cancellation. However, it also charges further fees for some of those interactions as I've already detailed.

So, I don't consider all this is that persuasive, since the only activity not being charged a fee otherwise appears to be the validation of the policyholder's application for the policy. Much of which is covered by such things as the provisions of the Consumer Insurance (Disclosures and Representations) Act 2012 in any event so the effort required by Somerset is somewhat offset by these provisions in reality. So consequently, I don't consider Somerset has shown me that the extent of its arrangement fee of £307.53 is proportionate or indeed justified.

Further the Consumer Duty which Somerset must take into account, requires that the price consumers pay for a product or service, in this case a motor policy, should be reasonable compared to the overall benefit. Again, Somerset hasn't justified that to me either.

So, taking all this into account, I consider the amount of this arrangement fee to be unreasonable and not proportionate. I agree with the investigator that a more reasonable and proportionate arrangement fee is £100. I consider this is fair in the particular circumstances of this complaint plus given our general stance on this issue to now include Somerset's responsibilities under the Consumer Duty.

So as Mr B was due to pay £405.04 which is inclusive of the £75 cancellation fee, which I now think Mr B should pay, and then if we deduct £207.53 from the arrangement fee leaving it at £100 instead of £307.53, then all Somerset should be asking Mr B to pay is £197.51. I

consider it's reasonable that Somerset continue to offer Mr B a repayment plan for this amount too.

### **My final decision**

So, for these reasons it's my final decision that I uphold this complaint.

I now require Somerset Bridge Insurance Services Limited to do the following:

- Reduce its arrangement fee to £100.
- Recalculate what it should have asked Mr B to pay to include the £75 cancellation fee which comes to £197.51 ensuring that if required Mr B has the benefit of a repayment plan to repay this amount.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 2 January 2025.

Rona Doyle  
**Ombudsman**