

The complaint

Mrs C and Mr C complain about the amount of commission charged by Arthur J. Gallagher Insurance Brokers Limited ("AJG") to arrange their home insurance policy.

Mr C has acted as the main representative during the complaint process. So, for ease of reference, I will refer to any actions taken, or comments made, by either Mrs C or Mr C as "Mr C" throughout the decision.

What happened

Mr C has a high value household policy and AJG, for many years now, have acted as a broker and assisted him in finding and placing a policy. In the course of arranging Mr C's cover for the 2024 policy year, Mr C asked AJG for details of the commission they'd earned. AJG provided Mr C with a figure representing the amount of commission they'd earned and the percentage this represented of the premium.

Mr C complained about the level of commission he'd been charged. Mr C said the breakdown AJG provided showed they earned approximately £21,000 in commission and administration fees over 17 years. Mr C set out the work he'd been carrying out each year, such as preparing supporting schedules and updating any changes. He said he therefore couldn't understand why AJG had charged the levels of commission they had. Mr C said he could understand commission levels between 7.5%-10%, but not the levels charged by AJG which were in the region of 30%-32.5%. Mr C said AJG hadn't informed him about the commission charged.

AJG responded and explained their role is as a broker, so they search the market for the most economical quotes for the most appropriate cover to meet Mr C's described needs. AJG said this involved a fair amount of work for them. They said they'd assessed Mr C's described needs in order to source the appropriate cover and deal with the discussions needed with the insurers they approached on Mr C's behalf in order to ensure the terms they offered would meet Mr C's needs, as well as attempting to negotiate on Mr C's behalf in order that they offered the cheapest price. AJG said they get paid for these services by the commission they make from the insurers they place a customer's cover with. They said this is standard practice within the industry and not therefore unusual. AJG also said their documents did make it clear how they're paid and referred Mr C to the most recent renewal which noted AJG were paid for their services by commission.

Our investigator looked into things for Mrs C and Mr C. She thought AJG hadn't treated them unfairly in charging commission. Mrs C and Mr C disagreed so the matter has come to me for a decision.

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've decided not to uphold the complaint. I understand Mrs C and Mr C will be disappointed by this but I'll explain why I have made this decision.

I'll start by saying, our investigator has explained why she has considered only the policy years which fall within the previous six years from when Mr C brought his complaint to our service. Our investigator has explained our jurisdiction and the relevant rules which apply. I can't see either party has challenged this, so beside saying I agree with the investigator's findings in this respect, I won't be commenting on this further.

The role of this service when looking at complaints about commission charges isn't to tell a business what they should charge or to determine a commission level for the services they offer. This is a commercial judgement and will generally be agreed between a broker and the insurer. But we can look to see whether we agree a consumer has been treated fairly – so is there anything which demonstrates they've been treated differently or less favourably. If we think a consumer has been treated unfairly, we can set out what we think is right to address this unfairness.

The first point I've considered is what AJG were required to do when selling the policy. I've looked at renewal quotation reports provided by AJG to Mr C in advance of the renewal date – and I've taken the 2020 report as an example. The policy was sold on an advised basis – that means AJG are recommending (or advising) that Mr C buy a particular policy. The report includes reference to Mr C's demands and needs – together with a recommendation from AJG.

Looking at the report, I've matched this to the corresponding policy schedule, and I'm satisfied the policy covers the listed demands and needs. I can see there were always discussions between AJG and Mr C during the renewal stage to enable AJG to understand if there were any changes to be made to the policy. For example, I can see in 2022, and a few other policy years, Mr C emailed AJG and provided details of additional contents he wanted to add – and these were passed on to the insurer. AJG also set out their reasons for recommending the particular insurer. The report says this policy met Mr C's requirements to have a high value household product for the levels of cover they'd discussed. AJG went further to say this policy met Mr C's individual requirements including the price, extent of cover and policy benefits provided by the insurer. The report sets out how AJG made their selection, and says, they decided to approach a limited number of insurers. Taking this into account, I think AJG have acted in line with the requirements and agreements set out in the report.

Turning now to the specific issue in relation to the commission charged. I've started by considering whether there was a requirement for AJG to disclose the details of their commission. The Insurance Conduct of Business Sourcebook ("ICOBS") covers commission disclosure for customers. ICOBS 4.3 R sets out the remuneration disclosure rule and says:

"In good time before the conclusion of the initial contract of insurance...an insurance intermediary must provide the customer with information:

- (1) on the nature of the remuneration received in relation to the contract of insurance:*
- (2) about whether in relation to the contract it works on the basis of:
(b) a commission of any kind, that is the remuneration included in the premium"*

I've looked at AJG's terms of business agreement, this sets out their contractual relationship with Mr C. In 2019, at the same time as sending Mr C renewal terms, AJG also enclosed an 'Initial Disclosure Document' ("IDD") which said, *"Payment for our services may be by way of:...Brokerage/commission, which is a percentage of the insurance premium paid by you and given to us by the insurers with whom we place your business..."* It went further and said, *"...brokerage/commission and fees are earned when we arrange an insurance policy*

for you..." The IDD also said, "*Upon request, we will be pleased to provide details of any income we are due or have received as a result of placing your business.*" Thereafter, and for each policy year up to and including 2023, I can see an IDD was issued to Mr C which explained AJG may earn commission. Then in 2024, a Terms of Business document was also sent to Mr C and this explained, under a heading 'Our Service & Remuneration', that AJG's services would be paid for by commission.

The information provided in 2024 clearly sets out that commission will be charged. Prior to this, the information sets out that commission may be charged. The information prior to 2024 doesn't confirm commission is guaranteed. Instead, it puts Mr C on notice that this is something AJG '*may*' receive. And the information that has been provided does meet the requirements as set out within ICOBS.

So, while I'm satisfied the position around commission was clear in 2024, I've thought about the position prior to this. And, for a number of reasons, I'm not persuaded Mr C has been treated unfairly. Firstly, the IDD did make it clear that commission was earned at the point AJG arranged an insurance policy for Mr C and this was different to any fees/charges they'd agreed with Mr C in advance. So, I believe this would've created a reasonable expectation on Mr C's part that any fee agreed in advance wouldn't be the only payment received by AJG. Secondly, it's standard practice within the insurance industry for a broker to charge commission for their services. The expected source of income for insurance brokers generally is the commission earned when selling/arranging/administering the insurance policy. And I think it's a fair starting position to expect that the insurance broker is paid for their service.

Thirdly, I think it's important to recognise here that, there doesn't appear to be any dispute between the parties around AJG charging commission as Mr C says he could understand commission levels of between 7.5%-10%. So, I think this demonstrates a level of expectation and understanding on Mr C's part that AJG were earning commission.

Finally, I've also considered what, if anything, would likely have been different if AJG had, as they did in 2024, confirmed they would earn commission as opposed to saying they '*may*'. I'm not persuaded this would likely have led to Mr C finding an alternative broker. As I've mentioned, it's standard practice for brokers to earn commission, so that likely would've applied to any alternative brokers. And, I'm not persuaded Mr C would likely have found a policy directly with an insurer for the same terms and price, as I can see evidence of AJG using their working relationship with the insurers to secure discounts and cover terms on behalf of Mr C. For example, I can see AJG entered into discussions with insurers in 2022 and 2023, and used their working relationship, to secure discounts for Mr C. So, in relation to the disclosure of commission, I'm satisfied AJG have acted in line with ICOBS, and I haven't seen any information which persuades me that the term '*may*' has led to Mr C being treated unfairly.

I think it's also important to mention, I can't see Mr C requested any details of AJG's commission until 2024. And I've seen, when requested by Mr C, AJG sent Mr C details of their commission both in terms of the actual amount, and as a percentage of the premium. So, I can't say AJG have acted unfairly here. There was no requirement for them to disclose their commission rate – and once this was requested, they provided details of the commission they'd earned.

The next point I've looked into is Mr C's concern about the amount charged. Our service doesn't have the power to set a commission rate for all brokers to follow, but we can look to see whether a consumer has been treated fairly – and if they haven't, we can direct them to put things right. In this case, Mr C, in his complaint to AJG, said he hadn't been treated fairly as he believes AJG ought to have charged commission between 7.5%-10%. And, in

response to our investigator's view, Mr C said he has no objection to a broker charging a reasonable level of commission for the service they provide – and he referred to 10%-15% being reasonable. In this case, the information shows AJG charged commission between 25%-32.5% So, I've looked into whether Mr C has been treated unfairly here, and considered whether I'm satisfied AJG's commission of between 25%-32.5% is broadly proportionate to the work carried out.

I've already mentioned, above, the work which AJG carried out in order to recommend a policy each year. In addition to this, and as already mentioned also, I can see they negotiated with the insurer on behalf of Mr C to secure discounts. From reports and emails I've seen, AJG also searched the market to find the most competitive policy for Mr C which would meet his demands and needs. AJG say they have more involvement in this type of policy due to the more bespoke nature of the cover which is placed under a high value household policy. I've seen emails between AJG and some insurers during the renewal stage and this shows extensive discussions around features and cover offered by the policy. For example, I can see discussions around tenants' improvement insurance and features of Mr C's property to enable the insurer to accurately assess the risk. I think it's also important to recognise that there is a value which needs to be applied to a broker's expertise within a market. This can range from recognising specific features a bespoke product should include to having established working relationships with insurers – both of which I can see AJG have provided here. So, AJG have demonstrated they've carried out work for the commission - and from the information I've seen, I can't say this wasn't proportionate to the 25%-32.5% they received.

I've also considered whether AJG were treating Mr C unfairly by recommending a particular insurer based on the commission rates they could achieve. I haven't seen any evidence AJG's recommendations were based on the commission rates or of them placing their own interests above that of Mr C's. I've seen information which shows AJG made it clear what their market search involved and what their recommendation was based on. I've referred to a few examples here. The information shows in 2023, AJG obtained more than one quote and recommended the policy which offered the most competitive price. This policy also generated the lowest commission for AJG. I think it's important here to also mention that one of the alternative policies which AJG didn't decide to recommend was from the insurer they'd placed Mr C's policy with for the previous 15 years – and which would've generated a higher amount of commission for that year.

Then in 2024, AJG weren't able to find a more competitive quote than the one they recommended and if they were to move Mr C's policy to another insurer then it would've involved a downgrade in Mr C's insurance cover. And, when AJG placed the policy with Mr C's insurer in 2024, they agreed with the insurer to lower their commission from 32.5%, which is what they earned in 2023, to 25% to ensure the price was more affordable for Mr C. Given the information I've seen, I can't say there's any evidence which suggests AJG's recommendations were based on the levels of commission they could earn, or that they'd otherwise treated Mr C unfairly here. And, as already mentioned above, I'm satisfied that AJG recommended the policies they did, based on it meeting Mr C's requirements.

Mr C has raised a number of points about the value of the service provided by AJG and whether this does indeed represent fair value. He has questioned the overall commission received and whether there was value added by AJG. He doesn't think the level of commission they received is fair.

When looking at the policies they offered, AJG needs to ensure the product provides fair value. Chapter 4 of the Product Governance (PROD) sourcebook sets out what is expected when thinking about this and the need for firms to ensure that any product approval identifies whether the product provides fair value to their customers in the target market.

I acknowledge Mr C has set out the work he has been carrying out each year, such as preparing supporting schedules and updating any changes, and he questions the level of work AJG have carried out to justify their commission.

I appreciate why Mr C feels the service provided is limited to his renewal and that this might not be labour intensive. However, the work AJG undertakes on a regular basis is not just limited to the conversation with Mr C at each renewal. There will be a cost to them in maintaining relationships with insurers as well as providing support if claims are raised. And this is in addition to the general costs associated with running their business. I've also already mentioned above the value AJG has brought given the bespoke nature of the product and the need for expertise to ensure Mr C has the right level and range of cover.

From the information AJG has shared about what they offer and can offer to Mr C depending on his circumstances and needs, I think there is value added. And I'm satisfied there is a difference with the level of service provided and what Mr C might achieve when compared to what might be available if AJG wasn't offering this.

Overall, I am satisfied that AJG is providing value to Mr C with the service they're providing with his insurance, and this could be said to be fair.

I understand Mr C will be disappointed with my decision. I do wish to reassure him I've read and carefully considered everything he has sent in, but if I haven't mentioned a particular point or piece of evidence, it isn't because I haven't seen it or thought about it. It's just that I don't feel I need to reference it to explain my decision. This isn't intended as a discourtesy and is a reflection of the informal nature of our service.

My final decision

For the reasons I have given, it is my final decision that the complaint is not upheld.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C and Mr C to accept or reject my decision before 16 July 2025.

Paviter Dhaddy
Ombudsman