

The complaint

A limited company, which I will refer to as Y, has complained about charges made by Nova Insurance Limited in relation to a motor insurance policy.

Mr L, as a director of Y, has brought the complaint on its behalf.

What happened

In April 2024, Nova, acting as an insurance intermediary, arranged fleet motor insurance for Y. At end May 2024, Y sold one of the vehicles covered under the policy and so asked Nova to remove this vehicle from the policy and get a refund of the insurance premium on a pro rata basis. However, when Y received the refund of premium, it was less than it was expecting because Nova had clawed-back the commission that it would have received on the refunded part of the premium.

Mr L complained about this because he says he was not aware Nova had received commission on the sale of insurance from the insurer, in addition to the commission Y had already paid to arrange the insurance on its behalf. Mr L also says that Y was planning to sell some of its vehicles when it took out the cover through Nova in April 2024 and therefore asked Nova specifically if there would be any charges if it amended the cover mid-term and Nova told it that there would be no charges.

Nova does not accept that it has done anything wrong. It said its 'Terms of Business' which were sent to Y, set out how it is paid for its services and if Y had asked about the level of commission, it would have disclosed it. Nova said the total commission it received was 10% of the premium (less insurance premium tax) so it earned just over £700 in this case. The returned premium for the change to the policy made in May 2024 was £668.79 and it retained £59.71 from that.

Nova says it agreed at inception not to charge the standard £50 mid-term amendment fee if any vehicles were removed or changed but everything else charged was in accordance with its standard terms and it did not agree to waive any commission.

As Mr L remained unhappy with Nova's response to the complaint, he referred the matter to us. Mr L says that he never had any documentation showing the commission that Nova received and as he was not aware it would receive commission, he had no reason to ask how much it was. He stresses again that Nova was asked how much Y would be charged if it changed the insurance mid-term and was not told that there would be commission clawed-back.

One of our Investigators looked into the matter. He recommended that the complaint be upheld, as he didn't think it was fair for Nova to keep the commission when it hadn't let Y know how much commission would be retained if the cover was amended mid-term. To put things right, he recommended that Nova refund the commission retained from the returned premium, plus interest at our usual rate. The Investigator also recommended that Nova pay Y an additional £200 for the inconvenience it caused.

Mr L accepted the investigator's recommendation but Nova did not, as it didn't think it needed to disclose the exact amount of commission it would retain, unless Y had asked.

Nova says it has acted in line with the Financial Conduct Authority rules. Nova also says that it sent Y documents that set out that it earns commission from insurers and that it would retain those commission earnings from any returned premiums. Nova says it is not possible to set out in advance exactly how much the commission will be, as it varies.

As the Investigator was unable to resolve the complaint, it has been passed to me.

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.

Intermediaries such as Nova, are entitled to receive commission from the insurers they work with. However, I need to consider whether it is fair and reasonable in all the circumstances of this complaint that Nova retain commission from the part of the premium refunded to Y.

The "our service" document which Nova says it provided to Y says: *"Commission You may ask us to full details of our commission and earnings under your policy"*.

The 'terms of business' document also says:

"Service Charges When we sell you a policy the insurer will usually pay us a commission from the premium you pay. We may also charge you a fee (see below). Where we receive no commission from the insurer, we will apply a fee in lieu of commission which will be included in the total quote before you agree to buy".

The documents also set out the following information about charges in the event of a change being made to the policy: *"Making a significant change to a policy £50.00 + Retained Commission in Case of Return Premiums."*

Nova says that the documents set out its terms of business properly and it does not need to disclose the actual commission received unless asked. It also says that it is the £50 fee referred to above that it agreed to waive but it is entitled to retain the commission.

Mr L says he had no reason to ask about commission received from the insurer because he didn't know Nova was getting any commission. I can see some force in what he says. I say this because, Y paid what it thought was commission to Nova for its services and the section under "service charges" above suggests Nova will charge the customer only if it does not get commission from the insurer.

In any event, even if I thought the documentation was sufficiently clear about the fact Nova would receive commission from the insurer and that commission would be retained in the event of an amendment of the policy mid-term, Y says it also asked Nova a specific question about charges if it changed the cover mid-term. I have seen an email from Y to Nova dated March 2024, before the policy started, to say it was thinking of selling three vans and asking *"how much admin fees do we have to pay if we amend the policy"*. The response from Nova said that as Y had told it in advance, it would waive any admin fees.

While I can see that Y did not ask about commission, I think it is reasonable to conclude that Y wanted to know what it would be charged in the event of changes being made to the cover. I therefore think it was incumbent on Nova at that time to point out that there would be additional costs to Y in the event of amending the policy by way of clawback of commission.

Nova is required to treat its customers fairly and provide information that is clear, fair and not misleading. While the relevant Financial Conduct Authority rules don't require an intermediary to disclose the amount of commission unless it's asked, I don't think it's fair and reasonable for a broker to claw back that commission if the policy is changed, if it didn't let the policyholder know what that cost would be when it sold the policy, or in response to a specific question as posed by Y here.

While I also accept that Nova may not have been able to provide a precise figure for the amount that would be clawed back, it seems to me it could have given the percentage commission it earned (which it has said is 10% in its response to this complaint) which would have allowed Y to have made a reasonable estimate of the commission that would be taken from any premium refund. Because Nova did not do this, Y was charged an amount that wasn't clear when it bought the policy and so it entered a contract without fully understanding its terms.

To put things right, I agree with Investigator that Nova should refund the £59.71 commission it retained. Due to the time Y has been without money this money that it should have had, Nova should add interest to this amount at a rate of 8% simple per year, from the date of the cancellation to the date it makes payment. I also agree that Nova should pay Y the sum of £200 compensation for how it handled the cancellation.

My final decision

My final decision I uphold this complaint and require Nova Insurance Limited to do the following:

1. pay Y the sum of £59.71 to refund the commission it retained together with interest on that amount at a rate of 8% simple per year, from the date of the policy amendment in May 2024 to the date of payment; and
2. pay Y the sum of £200 to compensate for the inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Y to accept or reject my decision before 15 July 2025.

Harriet McCarthy
Ombudsman