

The complaint

Mr C has complained about the payment made by KGM Underwriting Services Limited ('KGM') under his motor insurance policy after his car was stolen.

What happened

Mr C purchased a car in April 2021 for £18,500. He used a price comparison website and then spoke to a broker to arrange cover for it after his existing policy expired in August 2021. The broker asked Mr C questions about the car, one of which was about how much Mr C had bought the car for. Mr C told the broker how much he'd paid for the car and it used that figure as its value.

In October 2021 Mr C's car was stolen. KGM said it would pay him £18,500 less his excess of £100 as the car was a total loss. But Mr C found, when he tried to find a replacement car, that it would cost him in the region of £23,000.

Mr C wasn't happy about this and complained to KGM. He wants KGM to pay him an additional amount, which is the difference between the amount it said he insured his car for, and the amount it would have cost him to replace it in October 2021.

KGM wouldn't increase the amount it would pay under his policy. It said the cover provided is set out in the policy wording as:

"Market value – the cost of replacing your vehicle with another of a similar make, model, age, mileage and condition as at the time of the loss or damage, up to the value stated in your policy schedule."

KGM said Mr C's policy would only cover his car up the value on his policy schedule, which was the price he'd told the broker he'd paid for it about five months before.

Mr C remained unhappy so he brought his complaint to this service. An investigator looked into the complaint and upheld it. He said he thought Mr C's policy was one that would give "market value" at the time the car was stolen. He also said that using "up to the value stated in your policy schedule" wasn't a fair term to use as it only benefitted the insurer. Our investigator also said he didn't think it was made clear to Mr C that the value he gave would be used to limit the payout under the policy.

Our investigator also asked KGM whether it would have been able to cover the car for a higher premium if Mr C had declared a higher value, but KGM weren't able to confirm this.

Our investigator said that he would value a replacement around £23,857.50, meaning KGM would need to pay Mr C £5,257.50. Mr C accepted the view, but KGM didn't. It said it felt the term "up to the value stated in your policy schedule" was clear and that as an insurer it had a right to expect to rely on it.

As KGM didn't agree with the view, Mr C's complaint has been passed to me to make a final 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'm upholding his complaint and I'll explain why.

I've looked at the route Mr C took when buying his policy, which started on a price comparison website before he spoke to the broker. On the price comparison website, the information about vehicle value talks about vehicles being replaced with the "same make, model, age, condition, mileage and specification" and that "an approximate value is fine".

The website does mention a possible "guaranteed value" policy, as does the broker's own website when it mentions an "agreed valuation" policy. But I wouldn't expect the type of vehicle being insured by Mr C as being the sort that would be insured under one of this type of policy. If Mr C's policy was one of these, I'd expect a much more detailed explanation of the benefits and limitations of it during the call, so I think it's clear that the policy bought by Mr C is a "market value" policy.

I've carefully listened to the call made by Mr C when he took out his policy. During the call with the broker Mr C isn't specifically asked about the current value of the vehicle, but there is a short conversation about how much he paid for the vehicle. This is recorded on Mr C's policy schedule which says: "Price Paid £18,500".

During the call, Mr C was also made aware that the call handler was only giving him a limited amount of information and that he'd be sent full details of the policy by email, which Mr C agreed with. This is a fairly standard approach to disclosure in the marketplace and I can understand KGM's point that it's Mr C's responsibility to read the policy and make sure it's appropriate for his needs.

The Product Information Document sent to Mr C says:

"What is not insured?

Costs which exceed the market value of your vehicle or the value declared on your policy schedule if the market value is more."

And the policy wording says:

"Market value – the cost of replacing your vehicle with another of a similar make, model, age, mileage and condition as at the time of the loss or damage, up to the value stated in your policy schedule."

But I think it's clear that KGM didn't tell Mr C how important that providing the correct figure was. The conversations I've listened to don't mention how much the vehicle was worth at the time of the call, or when the policy was due to inception, all the call handler wants to know is how much Mr C paid for the vehicle, which was about 5 months beforehand. This part of the conversation is very brief and no significance seems to be attached by the call handler to it.

Mr C has said that he would have expected KGM to have explained the implications of the "Price Paid" figure and have given him the chance to check the market value of it, so he may have been able to insure it for its correct value.

I agree with Mr C that I don't think KGM have reasonably done enough to explain to him the implications of the term it is relying on to limit his claim settlement. I have listened to the call

with Mr C where the call handler tells him about various other limits that apply to the policy, but at no point is Mr C told about the very significant limit that would apply if his vehicle is a total loss.

Mr C also points out in his complaint:

“Do they expect customers to phone up mid policy & update the value”

Again, I agree with Mr C's point. In my opinion the clause that KGM have used isn't fair and reasonable as it can only benefit KGM and may cause inconvenience to its customers like it has done with Mr C here.

KGM aren't able to say how much more premium it may have asked Mr C to pay if it'd known the correct market value of the vehicle, so I'm unable to take this into account in my decision.

Vehicle value

I've mentioned above that I don't think KGM's use of the term limiting its payment is fair and I don't think it was explained to Mr C adequately. So I think it's fair and reasonable to expect KGM to settle Mr C's claim without applying that part of the term, meaning it should pay a "market value" figure.

At the time the vehicle was stolen, various trade guides showed the following values:

- A – £23,750
- B – £20,690
- C – £23,310
- D – £24,030-£24,995 (a mean of £24,512.50)

Where one guide is significantly out of line with the rest, our service thinks it's fair to discount that guide's valuation. On this occasion, that means removing B.

Taking the remaining three valuations gives a mean of £23,857.50 which I think is a fair valuation for Mr C's vehicle at the time of loss.

It's my understanding that KGM has already paid Mr C £18,500 less his excess of £100.

My final decision

It's my final decision that I uphold this complaint. I direct KGM Underwriting Services Limited to pay Mr C:

- £5,257.50, which is made up of the market value at the time of the loss, less the amount already paid to Mr C in partial settlement of his claim.
- Interest at 8% simple on this amount from the date KGM agreed to settle the loss to the date KGM make this payment. If KGM considers that it's required by HM Revenue & Customs to take off income tax from that interest, it should tell Mr C how much it's taken off. It should also give him a certificate showing this if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 9 June 2022.

Richard Sowden
Ombudsman