

The complaint

Mr H complains about the settlement Highway Insurance Company Limited paid him for the market value of his car after a claim made on his motor insurance policy. He wants it to increase the valuation to take into account his car's modifications.

What happened

Mr H's car was declared to be beyond economical repair following an incident. Highway offered Mr H £24,978, less the policy excess, in settlement of his claim. But Mr H thought his car was worth more due to modifications that he had made to the car.

Our Investigator recommended that the complaint should be upheld. He looked in the motor trade guides we use for cars similar to Mr H's and found four valuations. The guides didn't value non-standard modifications, only factory-fitted optional extras. He discounted the outlier valuation and then took an average of the rest. This gave a market value of £26,658. So he thought Highway's valuation was unfair and it should pay Mr H the difference, adding interest from the date of the initial settlement to the date of payment.

Highway asked for an Ombudsman's review, so the complaint has come to me for 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.

I can understand that Mr H wants a fair settlement for the loss of his car. I can see that his policy provides for the car's market value in the case of its total loss. The Investigator has explained this service's approach to car valuations. We don't provide valuations for cars but look to whether the insurer's offer is reasonable.

In assessing whether a reasonable offer has been made, we obtain valuations from motor-trade guides. These are used for valuing second-hand vehicles. We find these guides to be particularly persuasive, largely because their valuations are based on nationwide research and likely sales figures. The guides also take into account regional variations. We also take all other available evidence into account, for example, engineer's reports.

From what I can see, Highway's valuation of Mr H's car was based on engineers' assessments. These included valuations taken from two of the trade guides we use. But insufficient detail has been provided so that I can't verify that these were correctly made. So I have discounted them. And I think Highway should have looked for valuations in all four of the guides, in keeping with our approach.

The Investigator thought Highway's valuation of Mr H's car's market value was too low and that it should be increased. So I've checked how he came to this conclusion. I can see that he looked in the four trade guides we use for cars of the same make, model, age, mileage, condition and optional extras as Mr H's car at the date of its loss. The guides don't provide valuations for non-standard after-market modifications, just for factory-fitted options.

The valuations that the Investigator found had a wide range, so he discounted the outlier and then took an average of the remaining three. I'm satisfied that this is in keeping with our approach. The average was £26,658, which was significantly higher than Highway's settlement offer, £24,978.

So I agree that Highway's offer wasn't reasonable, and I think Highway should increase its settlement to £26,658. As Mr H has been without his money for some time, I think Highway should reasonably add interest to the increase over its initial payment from the date of its initial payment to the date of settlement.

Putting things right

I require Highway Insurance Company Limited to increase its settlement offer for the loss of Mr H's car to £26,658. It should add interest to the increase at the rate of 8% simple per annum from the date of the initial payment to the date of settlement.

If Highway considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr H how much it's taken off. It should also give Mr H a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

For the reasons given above, my final decision is that I uphold this complaint. I require Highway Insurance Company Limited to carry out the redress set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 15 December 2022.

Phillip Berechree
Ombudsman