

The complaint

Miss H complains about the settlement payment AA underwriting Insurance Company Limited (AA) offered her following an accident when her car was considered a total loss, under her motor insurance policy.

What happened

In July 2022 Miss H was involved in a car accident. She made a claim to AA, and it determined her car was an economic write-off. Its engineer estimated the car's market value, using two of the industry trade-guides, at £5,885. AA offered this as a settlement payment to Miss H minus the policy excess.

Miss H didn't think this was a fair offer. From her research she found prices advertised between £8,790 and £10,850. She complained to AA, and after waiting ten weeks for a response, was told its position hadn't changed. AA did, however, offer £50 for the delay in its response.

Miss H wasn't satisfied with AA's response and referred the matter to our service. Our investigator upheld her complaint. She obtained valuations from two different trade guides, which gave valuations of £6,690 and £6,430. Our investigator thought it was fair that AA paid the average of all four valuations, which came to £6,223.75. In addition, she says AA should pay 8% simple interest on the difference between AA's valuation and the higher figure she confirmed.

AA didn't agree. It says it had acted in line with our services guidelines when valuing Miss H's car. Miss H also disagreed with our investigator's findings. She maintains that her car is worth more than the amount proposed based on advertisements she has seen.

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 Miss H wants the best settlement she can achieve for the loss of her car. In her complaint she says the advertised for-sale prices she's found for similar cars are around 40% higher than the payment AA offered her. I've looked at her policy terms to understand what cover is provided in these circumstances.

AA's engineer determined Miss H's car was an economic total loss and confirmed it would be written off as a category 'N'. In this scenario the policy terms say AA will pay for the loss of the insured car and that, "*The maximum amount payable will be the Market Value*".

The policy defines market value as, "*The cost of replacing the Insured Car with one of the same make, model, age, mileage, specification and condition at the date of accident or loss.*"

I can't see that the policy terms define how AA will establish the market value in these circumstances. However, AA refers to following the approach our service considers reasonable.

We don't provide valuations for cars, but we will look to see whether the insurer's offer is reasonable. In assessing whether a reasonable offer has been made, we obtain valuations from the 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 consider regional variations. We take all other available evidence into account as well, for example, engineer's reports.

Miss H refers to examples of similar cars she found advertised. I acknowledge her comments that these cars are advertised at a higher price than AA's settlement offer. However, we don't generally find advertisements particularly persuasive. This is because these are essentially asking prices and not selling prices. It's generally accepted that advertised for sale prices are higher than the actual selling price. It's for this reason that the trade guides are used as they provide evidence of likely retail selling prices.

AA's settlement offer fell within the range of the two valuations it obtained. I can see that it used the correct loss date, mileage, make, model, and age for Miss H's car. Our investigator obtained valuations from two further trade guides. These gave higher valuations. Again, I can see the correct details were used when obtaining these valuations. The average of all four trade guide valuations came to £6,223.75.

I think the approach our investigator took to valuing Miss H's car was fair. Valuing second-hand cars isn't an exact science so I would expect there to be a range of values showing between the trade guides. When considering the value of Miss H's car, the difference between AA's settlement offer and our investigators average valuation, isn't an insignificant amount. Because of this I think it's fair that AA pays this higher amount in settlement of Miss H's claim.

I acknowledge AA's concern that it was acting in line with our approach when valuing Miss H's car in the way it did. But our guidance does say we will compare an insurer's valuation against the online motor trade guides to see if it's fair. The guide sets out the four guides we will look at, which includes all the valuations obtained by both AA and our investigator in this case.

I acknowledge there was a delay in AA responding to Miss H's complaint. AA sent Miss H a cheque for £50 to acknowledge this. However, complaint handling isn't a regulated activity in itself. This means I'm not able to consider this point here.

Having considered all of this I don't think AA treated Miss H fairly in the settlement payment it offered, given the higher valuations our service has seen. So, I think it's fair that AA pays Miss H a total payment of £6,223.75 in settlement of her claim, in addition to 8% simple interest on the difference between this and AA's original offer.

My final decision

My final decision is that I uphold this complaint. AA Underwriting Insurance Company Limited should:

- pay Miss H a total of £6,223.75 in settlement of her claim, plus 8% simple interest to be paid on the difference between its offer and this higher amount until payment is made. *If AA considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Miss H how much it's taken off. It should

also give Miss H a certificate showing this if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 17 April 2023.

Mike Waldron
Ombudsman