

The complaint

Mr M complains about the settlement that Haven Insurance Company Limited paid him after a claim made on his commercial motor insurance policy.

What happened

Mr M's van was damaged by fire and declared to be a total loss. Haven offered him £5,564 in settlement of his claim less the £900 policy excess and £1,124 for the outstanding premium. Mr M said he couldn't replace his van for this amount.

Our Investigator recommended that the complaint should be upheld in part. She thought Haven's settlement offer for the van's market value was fair and reasonable. And she thought the deduction for the excess was correct. But she thought it was unfair for Haven to deduct the outstanding premium from the settlement. She thought Haven should have allowed Mr M to continue his monthly payments or add a replacement van onto the policy. She thought Haven should pay Mr M £300 compensation for the trouble and upset this had caused.

Haven replied that it had deducted the outstanding premium in keeping with the policy's terms and conditions. Haven 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.

Mr M said he'd had his van for only five weeks before it caught fire. He said he'd paid £7,500 for the van. He said he wasn't able to replace it with Haven's settlement of £3,539 for its pre-accident value after the deductions.

I can see that the policy provides for the van'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.

Haven looked for valuations of Mr M's van in the motor trade guides we use. I can see that it looked for the correct make, model, age, mileage and condition as Mr M's van at its date of loss. It found three valuations and it offered Mr M the highest of these. So, as the valuation was made correctly according to our approach, I can't say that it wasn't fair and reasonable.

Haven then deducted the policy excess which was £900. I can see that this was correctly calculated as set out on the table included in the policy schedule. The policy excess is always the first part of a claim to be paid. And so I think Haven reasonably deducted this from the settlement.

Haven said it had also deducted the outstanding premium in keeping with the policy's terms and conditions. It relied on the following which is on page 12 of the policy booklet:

"12. If We make settlement of the Market Value of Your Vehicle or the Limit of Coverage in settlement of a claim under sections B1 and / or B2:

d) We will deduct any outstanding premiums from any settlement due."

But I don't think this was fair and reasonable in Mr M's circumstances. This is because Mr M was repaying a finance company for his annual premium with interest in monthly instalments.

The standard industry practice is that where a claim has been made no premium is refundable, even if the van is written-off during the policy year, as in Mr M's case. Where the consumer was paying the yearly premium by monthly instalments, they must still pay the outstanding instalments after the vehicle is written-off.

But our approach is that we might not think it's fair if the insurer requires the outstanding amount in one lump sum where they could just continue to collect it by instalments.

Also, when an insurer declares a vehicle a total loss, we expect it to offer the consumer the option of bringing a replacement vehicle onto the insurance policy (subject to its underwriting criteria) so that the remainder of the policy term can be used.

So I think Haven should have allowed Mr M the option to carry on paying the premium in instalments, which was his preferred option when he took out the policy. And I think Haven should also have allowed Mr M to put another van on the policy and it could then have adjusted the premium, if needed, unless it was unable to insure the van.

But it didn't do this. So I don't think Haven treated Mr M fairly and reasonably when it deducted the remaining premium and didn't offer him the option to keep repaying it by instalments or adding a replacement van to the policy.

This caused Mr M financial loss as he was then unable to replace his van with Haven's settlement and so he lost earnings. Our Investigator recommended that Haven should pay him £300 compensation for this. And I think that's fair and reasonable as it's in keeping with our published guidance.

Our Investigator asked Haven how much Mr M paid for the outstanding premium and how this was calculated. Haven said this was the responsibility of Mr M's broker. But I disagree as I think the broker did this on Haven's behalf. I think Haven should provide Mr M with a breakdown of how his outstanding premium was calculated. If Mr M thinks this wasn't correctly calculated, he can always raise this as a further complaint against Haven.

Putting things right

I require Haven Insurance Company Limited to pay Mr M £300 compensation for the distress and inconvenience caused by its handling of his claim and to provide him with a breakdown of the calculation of his outstanding premium.

My final decision

For the reasons given above, my final decision is that I uphold this complaint. I require Haven 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 M to accept or reject my decision before 20 March 2023.

Phillip Berechree
Ombudsman