

The complaint

Mr H complains about the settlement AA Underwriting Insurance Company Limited paid him for the loss of his car following a claim made on his motor insurance policy.

What happened

Mr H's car was damaged in an accident and AA deemed it to be beyond economical repair. AA offered Mr H £6,257 in settlement of his claim. But Mr H said he couldn't replace his car for this amount, and he was out of pocket. He thought AA should increase his settlement to the value of the car stated on his policy.

Our Investigator recommended that the complaint should be upheld. He thought AA hadn't carried out its valuation of the market value of Mr H's car in keeping with our approach. He found that the average valuation for the car provided by the four trade guides we use was £6,713. And so he thought AA should increase its settlement to this amount and pay Mr H the difference with interest.

Mr H agreed. But AA replied that it thought its approach provided a fair and reasonable valuation for Mr H's car. As AA didn't agree, 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, and I can see that it's now some time since his car accident. Mr H thought AA should pay him the value stated on his policy documents. But his policy wasn't an "agreed value" policy. I can see that his policy provides for his car's market value in the case of total loss. This is stated on his policy schedule next to the valuation of his car.

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 four 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.

AA found valuations for Mr H's car in two of the trade guides we use, and it offered Mr H the average of these. But this isn't in keeping with our long-standing approach. And I think it should reasonably have looked for valuations in all four of the guides we use to provide a fair valuation for Mr H's car.

Our Investigator thought that AA's settlement offer was too low. So I've reviewed 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 specification as Mr H's car at the date of its loss. He found four valuations which were evenly spread. So, in keeping with our

approach, he took an average of these. The average was £6,713, which wasn't in the range of AA's offer.

So I agree that AA's offer wasn't fair and reasonable as it wasn't made in keeping with our approach and this produced an unfair result for Mr H. I think AA should increase its settlement for the loss of Mr H's car by £456 to £6,713. And, as Mr H has been without his money for some time, I think it should reasonably add interest to this difference.

Putting things right

I require AA Underwriting Insurance Company Limited to pay Mr H £456 more in settlement of his claim, adding interest to this amount at the rate of 8% simple per annum from the date of the initial payment to the date of settlement.

If AA 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 AA Underwriting 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 16 May 2023.

Phillip Berechree
Ombudsman