

The complaint

Mrs E is unhappy with the amount Tesco Underwriting Limited paid in settlement of her motor insurance claim.

What happened

Mrs E was involved in a car accident and made a claim on her car insurance policy. Tesco deemed the car a total loss and decided to settle the claim by paying its market value. It initially valued Mrs E's car at £6,990 but she thought it was too low and after further discussions it increased its valuation to £7,988.

Mrs E still wasn't happy with its offer, but Tesco thought its valuation was fair. It said it consulted two motor valuation guides and used the average of their values. Mrs E wasn't happy with this and brought her complaint to our service, she said the mileage on her car was below average, it had a full-service history and was in excellent condition. Mrs E says the market for second-hand cars is high and it would cost more to replace her car at this time.

Our investigator didn't think the complaint should be upheld. After carrying out his own research using the valuation guides, he thought Tesco's offer was fair. Mrs E didn't accept our investigator's opinion. She doesn't think the guide prices are accurate because they rely on historic prices. Mrs E thinks actual prices in the current market should be used, and not prices from October 2022. As an agreement couldn't be reached, I've been asked to decide.

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 reached a different outcome to our investigator and I'll explain why.

This service's role isn't to work out exactly what the value of an individual vehicle is. We look at whether the insurer has applied the terms of the policy correctly and valued the vehicle fairly. Under the terms of Mrs E's policy, Tesco must pay her the market value of the car.

The policy defines the market value as:

"The cost of replacing the car with one of similar age, type, specification, mileage and condition, immediately before the loss or damage happened."

Mrs E says in the current market she couldn't replace her car for the amount Tesco paid her. The valuation of a used car isn't an exact science and it is standard practice for the industry to use valuation guides to work out the estimated market value of a car. And I don't find it unreasonable that it does so, as the valuations the guides give are based on national research on likely selling prices of similar cars with similar age and mileage for sale at the time of loss.

We don't tend to find adverts as reliable as the motor guides and the reason for this is

because it is difficult to know what a car will eventually sell for from the advert; and advertised prices can vary widely – and variations, such as age and mileage, can significantly impact the eventual price a car is sold for. However, adverts have their place and are a good indication as to whether the values produced by the guides are reasonable.

I wrote to both parties and explained that Tesco relied on values from two valuation guides, CAP and Glass's, which produced figures of £8,095 and £7,880, respectively. But, as per our usual approach, I've considered figures from four valuation guides, CAP, Glass's, Cazoo and Autotrader. I've also considered examples of advertised prices for similar cars sold around the time of the loss, as well as others sold more recently. Further still, I've considered advertised prices for similar cars currently available in the market. In my research I only found one car that sold for around the amount Tesco offered Mrs E. All other examples priced similar cars higher than has been offered. So, I think it's unlikely Mrs E would have been able to replace her car for £7,988, particularly once I've taken into consideration it's lower than average mileage.

I think it's fair to exclude Glass's valuation of £7,880 from calculations, as this is lower than any of the advertised prices I've seen. From our research CAP produced a value of £7,995. Even if I were to rely on the value Tesco obtained from CAP of £8,095, I don't find this fairly reflects prices for similar cars I've seen. So, I think it's fair to exclude its valuation from its calculations also.

Our investigator's research found, the other two guides valued Mrs E's car at £8,583 and £8,757. I find these valuations are more in line with what I've seen. So, I think a fair way to resolve things would be to rely on the average of these values. So, I think Tesco should increase its valuation of Mrs E's car to £8,670. Tesco should also pay 8% simple interest per annum on the difference from the date it first paid Mrs E to the date the additional payment is made. Tesco already accepted this, but Mrs E still thinks its low based on adverts she has seen.

As I said above the valuation of a used car is not an exact science and can be challenging. I think it's important to also note that cars don't always sell for the price advertised once negotiations take place. All things considered, I'm satisfied this is a fair way to settle things.

My final decision

For the reasons I've set out above, I've decided to uphold this complaint and require Tesco Underwriting Limited to:

- Increase its valuation to £8,670 and pay Mrs E the difference between this figure and what it's already paid her.
- It should pay 8% simple interest per annum on the difference from the date it made its initial settlement payment to the date the additional payment is made. *

**If Tesco Underwriting Limited considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mrs E how much it's taken off. It should also give her a tax deduction certificate 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 Mrs E to accept or reject my decision before 14 April 2023.

Oluwatobi Balogun

Ombudsman