

The complaint

Mr B complains about AA Underwriting Insurance Company Limited (AAIC), and the valuation placed on his car after it was deemed a total loss.

What happened

Mr B held a motor insurance policy, underwritten by AAIC. Unfortunately, in July 2021, Mr B's car was involved in a non-fault road traffic accident. And the damage his car sustained led to it being deemed a total loss.

AAIC offered Mr B a pre-accident valuation (PAV) payment of £1,255, based on the trade guide estimated valuations they were able to obtain. This was made difficult due to Mr B's car being registered in 2006, when the same make, model and specification of car was discontinued in 2005.

Mr B didn't think this valuation was fair, so he raised a complaint. Mr B thought the PAV offer put to him by AAIC was too low, and he felt a more realistic value was between £1,800 to £2,500. He explained AAIC's offer wouldn't allow him to purchase a similar car of a similar specification and so, he wanted the offer to be increased.

AAIC responded to the complaint and didn't uphold it. They thought they'd acted fairly when valuing Mr B's car, using the trade guides that were able to provide valuations. And they explained the payment was designed to provide Mr B with the market value of the car, which can differ from the actual cost to replace it. So, AAIC didn't think they needed to do anything more. Mr B remained unhappy with this response, so he referred his complaint to us.

Our investigator looked into the complaint and upheld it. They recognised the difficulties in obtaining an exact valuation of Mr B's car, and that none of the trade guides were able to provide a direct valuation. But our investigator explained that, alongside the two trade guide valuations AAIC had found, our service had found another trade guide valuation which valued Mr B's car at significantly higher. So, as none of the valuations were a direct valuation for Mr B's car, our investigator thought the fairest approach would be to take an average of all three valuations found and pay Mr B this amount. In this situation, the average amounted to £1,455 rather than the initial £1,255 valuation Mr B was offered. So, our investigator thought AAIC should value the car at this amount and pay Mr B any outstanding amount that remained owed to him.

Mr B accepted this recommendation. But AAIC didn't. They felt the third valuation our service found was substantially higher and so, under standard approach, should be discarded. And in this situation, their original valuation was an average of the other two valuations available. So, they felt their original valuation was fair.

Our investigator considered these comments, but their view remained unchanged, explaining that, as no exact valuation could be found, they felt taking an average of all three valuations was the fairest approach on this occasion. AAIC didn't provide any further comments and so, as AAIC hadn't accepted our investigators recommendation, the complaint has been passed to me for a 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.

Having done so, I'm upholding the complaint for broadly the same reasons as the investigator. I've focused my comments on what I think is relevant. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome.

I think it's accepted that, due to the registration of Mr B's car, an exact valuation of its market value hasn't been possible to find. I've seen the engineer's report which explains the struggles they encountered when attempting to value Mr B's car. And both AAIC and our service have encountered the same difficulties when using the trade guides.

Using these guides to obtain the closest possible valuations, which is standard industry approach, I've seen that three valuations have been found for £1,175, £1,335, and £1,857. And the average of these three valuations amounts to £1,455.

In general, standard industry approach states that, where one valuation is significantly different to the others obtained, this valuation can be discarded, and an average of the closer valuations used to calculate a PAV payment. So, I understand why AAIC feel they have acted fairly when calculating the PAV based on the two lower valuations, as they are much closer in value.

But crucially, this is a standard approach, not a rule. So, I don't think this means the approach should, and must, be followed in all situations. Instead, I'd only expect a business to rely on this approach where it seems fair to do so. In this situation, none of the valuations are an exact valuation for Mr B's car that was deemed a total loss, due to the issue presented by its registration. And because of this, I don't think it would be fair to discard any of the valuations that are able to be obtained, as neither AAIC nor our service are able to determine which of the valuations are the closest match to the exact, make, model and specifications of Mr B's car.

So, in this situation, I think a fair valuation of Mr B's car would be the value of £1,455 which considers all the trade guide valuations. And as AAIC have offered PAV payment for less than this amount, I don't think I'm able to say they've acted fairly on this occasion.

Putting things right

As I don't think AAIC have acted fairly, I've then turned to what I think AAIC should do to put things right. Any award or direction I make is intended to place Mr B back in the position he would've been in, had AAIC acted fairly in the first instance.

In this situation, had AAIC acted fairly, I think they would've offered Mr B a PAV payment of £1,455, rather than £1,255. So, this is what I think AAIC should do. If AAIC have already made a payment to Mr B for his car, then I think AAIC should pay Mr B any outstanding amount, to ensure Mr B received the total payment he would've received had the car been valued at £1,455.

My final decision

For the reasons outlined above, I uphold Mr B's complaint about AA Underwriting Insurance Company Limited and I direct them to take the following action:

- Pay Mr B any amount that is outstanding to ensure he receives the full PAV payment he would've been entitled to had his car been valued at £1,455.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 27 April 2023.

Josh Haskey
Ombudsman