DRN-4159649

The complaint

Mr M has complained about the amount Admiral Insurance (Gibraltar) Limited paid in settlement of a claim he made under his motor insurance policy.

What happened

The details of this complaint are well known to both parties, so I will not repeat them again in full detail here. But to briefly summarise, Mr M is unhappy with the valuation placed on his vehicle following a total loss claim under his policy.

Our investigator thought Mr M's claim should be upheld. She said Admiral had based its valuation on only one of the recognised motor industry trade guides. But she felt a fairer settlement was the average of the available valuations from the four guides our service typically relies on. So, she said Admiral should increase the settlement to £11,227.50.

Neither Admiral nor Mr M responded to our investigator's assessment. So, as no agreement has been reached, the complaint has been passed to me 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 agree with the outcome reached by our investigator. But I'm also intending to make an additional award to reflect the fact that Mr M's vehicle had a new engine. I'll explain why in more detail.

Mr M's policy covers him for the market value of his vehicle, at the time of loss – which is fairly standard within the motor insurance industry.

Market value is defined in the policy as:

> *"The cost of replacing your vehicle; with one of a similar make, model, year, mileage and condition based on market prices immediately before the loss happened. Use of the term 'market' refers to where your vehicle was purchased. This value is based on research from industry recognised motor trade guides."*

Admiral initially deemed the market value of Mr M's vehicle to be £9,905 which was later increased to £10,138.82 following a review from one of its engineers. But Mr M complains that the valuation placed on his vehicle by Admiral is too low. He says he is unable to replace his vehicle with one of a similar make and model, in the market, for that amount.

Our investigator obtained her own valuations from the motor trade guides our service typically uses when assessing complaints about motor valuations. She used the correct mileage and date of loss when obtaining these valuations, which provided the following market value figures:

- Glass's: £9,875
- Percayso (formerly Cazoo): £12,580
- CAP: unable to provide a valuation
- AutoTrader: unable to provide a valuation

Our service's normal approach in these types of complaints is to say a valuation within the range of valuations returned by the trade guides is fair, provided there's no other evidence to suggest the lower guide values might not reflect the likely cost of buying a similar vehicle. In this particular case, there's a fair amount of variance between the valuations returned by the motor trade guides, so I've looked at the other evidence available. Namely, advertisements for vehicles similar to Mr M's for sale.

While we don't place as much weight on advertisements as we do on the guides, they do provide a useful check when we are trying to work out what a fair valuation is, in light of a range of values returned by the guides. I do of course appreciate vehicles don't always sell at what their advertised for, but our research suggests there is now much less room for negotiation and many sell at or close to the advertised price.

However, the difficulty in finding a fair value in this particular case, ie the cost of replacing Mr M's vehicle, is that it had a new engine which had only done 70,000 miles. And I think this would most likely have had an impact on the value. It's not been possible to find adverts for a similar vehicle with a new engine and it is not reflected in the guides either. But I do think this would have some impact.

Some of the adverts I have seen, albeit for similar vehicles without a new engine, do have a lower mileage or no mileage shown. But I think they could suggest the higher guide value is the right starting point. However, this has to be balanced against the lower guide value. So, in this particular case, I think to be sure Mr M gets the right amount it is appropriate to start with an average of the guide values available. This is £11,227.50. But I think something needs to be added to this to reflect the fact Mr M's vehicle had a new engine.

I told Admiral I was minded to decide that an increase of 20% on the market value price would be fair and reasonable in the circumstances to reflect the new engine. Admiral responded with comments from one of its in-house engineers, who disagreed that a new engine would have any bearing on the market value of the vehicle at all. He said:

> *"Reviewed in relation to the FOS observations regarding a replacement engine, from an engineering/insurance/resale/part ex prospective a replacement engine would have no material influence on a vehicles saleable market value.*
>
> *An engine is an essential part of any motor vehicle without which a vehicle is not fit for purpose or operational. If then an engine is required and as essential to the vehicle's purpose/use, there is no increase in the value simply because the engine has been replaced."*

I've thought very carefully about the additional evidence Admiral has provided on this point. But having done so, I remain persuaded that a hypothetical, potential buyer would be willing to pay more for a vehicle like Mr M's, with a new engine, than for an identical one without a new engine. For me – it's logical to assume that someone would pay more for the same model of vehicle with a newer engine, because this makes it better in terms of reliability and performance and makes it likely to last longer.

And Admiral's engineer hasn't provided any persuasive supporting evidence that a new engine wouldn't increase the market value. Had he (or Admiral), for example, contacted several dealerships and obtained their view on whether they'd have expected to sell Mr M's vehicle for more than another of the same make, model and mileage but without the newer engine, then this coupled with the engineer's opinion might have persuaded me that the new engine wouldn't increase the value. But based solely on the evidence available, on balance, I remain of the view that it's fair to say the new engine would have increased the market value of Mr M's vehicle by 20%.

I've also considered Mr M's concern that he isn't able to replace his vehicle in the market for the amount paid by Admiral, or the amount suggested by our investigator – based on sales adverts for similar vehicles he's provided to us. As will be clear from what I've said above, I agree with Mr M that he couldn't replace his vehicle for the amount Admiral offered. And, as I've also explained, I think it would cost him about 20% more than our investigator suggested because of the fact that, in theory at least, he'll need to find one with a new engine.

So, in the particular circumstances of this case, I think it would be fair and reasonable for Admiral to add 20% to the increased valuation (£11,227.50) returned by the trade guides. This amounts to £13,473.

Admiral should also add 8% simple interest to the unpaid part of this settlement, calculated from the date Admiral made the decision to settle the claim at £10,138.82 to the date the payment is made. This is to compensate Mr M for being deprived of the use of funds which I think he was reasonably entitled to under the terms of his policy**.**

My final decision

For the reasons I've explained above, I uphold Mr M's complaint.

Admiral Insurance (Gibraltar) Limited must increase the settlement to £13,473 and pay 8% simple interest on any part of the settlement which remains unpaid, calculated from the date it decided to settle the claim at £10,138.82 to the date the payment is made.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 17 August 2023.

Adam Golding
Ombudsman