

The complaint

Mr and Mrs C complain about the way AA Underwriting Insurance Company Limited (AA) handled and settled a claim on their motor insurance policy.

Reference to AA includes agents acting on its behalf.

What happened

Mr and Mrs C had a motor insurance policy with AA. Mr C was the named driver on his wife's policy. In April 2022 Mr and Mrs C told AA the engine on the car had caught alight while Mr C was driving it and the car had been destroyed. AA deemed the car a total loss and said it would settle the claim by paying the car's market value. But AA noticed that a mistake had been made when the policy had been set up, which meant insurance shouldn't have been offered. It said it could either cancel the policy, which would mean it wouldn't pay the claim. Or it could remove Mr C from the policy and continue with the claim. Mr and Mrs C agreed to remove Mr C from the policy. AA valued Mr and Mrs C's car at £3,425, less the excess of £400.

Mr and Mrs C complained. They weren't happy with the valuation, or with the service AA had provided. In particular, they felt Mr C had been accused of dishonesty when buying the insurance policy, despite answering all of AA's questions honestly and accurately.

AA explained how they'd valued Mr and Mrs C's car, and thought the valuation was fair. It recognised Mr and Mrs C's frustration that Mr C had to be removed from the policy but thought this was a reasonable alternative to voiding (cancelling) the policy. AA recognised it hadn't logged and addressed their complaint properly and offered £150 for that oversight.

Our investigator partly upheld the complaint. He thought the valuation was fair. But he thought AA should reinstate Mr C to the policy as no misrepresentation had been made. And refund the fees it had charged for removing Mr C from the policy. He also thought AA should pay £250 rather than the £150 it had offered, for the delays, distress and inconvenience caused.

As AA disagreed with our investigator's view, this complaint was passed to me to make a final decision. I came to a different conclusion to our investigator, so I sent a provisional decision to Mr and Mrs C and AA to give them an opportunity to comment. Mr and Mrs C said they were happy with the outcome and AA didn't have anything to add. So, my findings and my decision below are substantially the same as set out in my provisional 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.

There are two main aspects to Mr and Mrs C's complaint. The amount AA offered in settlement for their car. And the service it provided. I'll look at each in turn.

The valuation

The terms and conditions of Mr and Mrs C's policy says that if AA deem their car a total loss, they will pay them the market value. The policy defines market value as "the cost of replacing the Insured Car with one of the same make, model, age, mileage, specification and condition at the date of accident or loss."

Our service doesn't value cars. Instead we check to see that the insurer's valuation is fair and reasonable and in line with the terms and conditions of the policy. To do this we tend to use motor valuation guides. I usually find these persuasive as they're based on nationwide research and work out the likely retail selling price rather than advertised asking prices.

Three of the four valuation guides we use provided values of £2,670, £3,177 and £3,575. The fourth guide didn't provide a value due to the age of the car. I understand Mr and Mrs C bought the car less than a year before the incident for an amount closer to £5,000. And as they said the car was in good condition before the incident, they feel as though AA's valuation was unfair.

But I'm not persuaded AA's valuation is unreasonable. I say this because AA valued Mr and Mrs C's car at £3,425, which was the higher of the two valuations in the trade guides it used. And that valuation is within the range of valuations in the guides we use. Mr and Mrs C have pointed to some advertised asking prices that are higher than the valuation offered by AA but their policy says AA will pay the market value of the car at the time of loss. And in light of the information I've seen, I'm satisfied AA has done that.

I appreciate this isn't the answer Mr and Mrs C were hoping for. But I'm not persuaded AA has acted unfairly by offering them £3,425 as the market value for their car. It follows that I don't think AA need to do anything more with regard to the valuation.

The service provided

When AA set up Mr and Mrs C's car insurance policy, it asked them whether they had been involved in any previous accidents or claims in the last five years. And whether they'd had any convictions or penalties endorsed on their licences. I've listened to this call and it's clear that Mr C provided the correct information. He told AA he'd been involved in an accident previously when he'd been deemed as being at fault. And that he'd been convicted of two speeding offences within the last five years.

AA has shown us evidence that, had it set up the policy correctly, and recorded the previous claim and the two endorsements against Mr C alone, it wouldn't have offered them insurance. That's because their underwriting criteria says policies can only have one fault claim and two convictions if the claim and convictions are for different drivers. For whatever reason, AA recorded the previous (fault) claim against Mrs C rather than Mr C, which meant the policy could continue. But AA noticed the error when Mr and Mrs C made their claim.

At this point, AA recognised it had made a mistake when setting up the policy. So, rather than cancelling the policy outright, which would have meant not acting on Mr and Mrs C's claim, it offered to remove Mr C from the policy, thus complying with its underwriting criteria. Mr and Mrs C accepted the offer and AA was able to continue with the claim.

This was a pragmatic and fair way of resolving the situation and I think AA acted reasonably in giving Mr and Mrs C the opportunity to have their claim considered.

Unfortunately, however, the way AA communicated that decision was poor. It didn't explain the situation clearly and repeatedly referred to "undisclosed" information. Mr and Mrs C said

they felt as though they'd been accused of fraud when they knew they'd given AA the correct information it had asked for. It was only about a week after Mr and Mrs C made their claim that two calls were made which helped to clarify the situation.

Putting things right

So, what do AA need to do to put things right? AA has shown us its underwriting criteria and I'm satisfied it wouldn't have offered insurance to Mr C had it recorded the information about previous claims and convictions correctly. So, I don't think it would be fair and reasonable to ask AA to reinstate him to the policy. That would be going against its own underwriting criteria.

AA acted fairly by continuing to consider Mr and Mrs C's claim, having removed Mr C from the policy. As I say, I think that was a pragmatic and reasonable way of resolving the situation. But I do think AA should do more to compensate Mr and Mrs C for the distress and inconvenience they experienced due to the mistake made by AA when setting up the policy and the poor communication that followed the claim. Mr C said he felt as though he'd been accused of fraud and I can understand why he said that. Although AA acted within a few days to explain the situation, AA continued to refer to 'undisclosed' information and I can understand the worry and frustration that will have caused.

AA paid Mr and Mrs C £150 for not recording and addressing their complaint properly. But it has not, up to now, recognised the impact of the original mistake it made when setting up the policy, and the poor communication that followed the claim. I think AA should pay Mr and Mrs C £200 for the distress and inconvenience caused by that poor service, in addition to the £150 already paid. I think that's a fair and reasonable amount in light of the particular circumstances of this complaint.

AA should also take steps to make sure it has recorded the previous claims and convictions correctly, including the claim made by Mr and Mrs C in April 2022.

Finally, AA should refund any fees paid by Mr and Mrs C when it removed Mr C from the policy, if it has not done that already.

My final decision

For the reasons given above, my final decision is that AA Underwriting Insurance Company Limited should do the following:

- Pay Mr and Mrs C a further £200 in addition to the £150 it's already paid.
- Take action to ensure it has recorded the previous claims and convictions correctly, including the claim made by Mr and Mrs C in April 2022.
- Refund any fees paid by Mr and Mrs C when it removed Mr C from the policy, if it has not done that already.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs C to accept or reject my decision before 20 June 2023.

Richard Walker
Ombudsman