

The complaint

J, a limited company, complains about how Allianz Insurance Plc settled a claim made on its commercial motor insurance policy. It wants an increase in the settlement.

What happened

J's car was involved in a collision, and it was later deemed to be a total loss. J had previously declared to Allianz that the car was a previous Category S total loss and had been modified. J initially dealt with the other driver's insurer to reach a settlement. But, three months after the accident, J made a claim to Allianz. By that time, J had stripped the car and rebuilt another car with some of the parts.

Allianz inspected the damaged car and made J an offer for its total loss, less the policy excess. It said this took into account the car's insured value, its previous Category S write off, and it included an amount for modified parts. But it wouldn't pay for the cost of the rebuild as it said this was an uninsured loss. J said if it hadn't stripped the car then Allianz would have valued it with the modifications. J said it was out of pocket by £10,000. It thought Allianz could recoup its outlay from the other insurer.

Our Investigator recommended that the complaint should be upheld in part. She thought it wasn't Allianz's fault that it inspected the car later as a claim wasn't made until three months after the incident. She thought Allianz's valuation of the car's base value was fair and reasonable as it was within the range of valuations she found in keeping our approach. She thought J had reduced the value of the car by stripping it and retaining the parts. So she thought Allianz's offer for the cost of replacing some parts was fair and reasonable.

But she thought Allianz should also pay J for the labour costs it had incurred when it rebuilt the car, at cost-only rates, with interest. This was to restore J's position so it could buy a car of the same specification and quality, in keeping with the policy's terms and conditions.

Allianz agreed to do this. But J said it was offering only half the labour costs incurred. It thought Allianz should cover the full costs of the claim and recover this outlay from the other driver's insurer. J asked for an Ombudsman's review, so 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 J wants a fair settlement for the loss of its car. Our approach in cases like this is to consider whether the insurer's acted in line with the terms and conditions of the policy and fairly and reasonably.

I've looked at J's policy and I can see that under Indemnity 2 – Damage, it states:

"We will indemnify You against loss of or damage to the Insured Vehicle up to the Insured Value. If We agree to pay for damage to be repaired We may decide to use suitable parts which are not supplied by the original manufacturer."

In the event of a total loss payment in respect of an Insured Vehicle, then We shall become entitled to possession and ownership of the vehicle."

Insured Value:

"The sum for which the Rental Vehicle or a vehicle of equivalent quality and specification could have been purchased by You at the time of the loss."

So I'd usually expect that following a claim for damage Allianz would assess the car's value, including the value of the declared modifications. If a total loss payment was made, then Allianz would retain the salvage. But this wasn't possible in J's circumstances as it had already stripped the car before Allianz could assess it. And it retained parts that should have been Allianz's possessions if it had included them in its total loss payment.

So I'm satisfied that a fair and reasonable way to resolve the matter was to obtain a valuation for the car's base, and then to add an amount for the parts that needed to be replaced, and to include the labour costs for the rebuild. I think this would fulfil Allianz's obligations under the policy's terms and conditions to pay a sum for the cost of a car of equivalent quality and specification.

Our Investigator thought that Allianz's valuation for the car's base was fair and reasonable. So I've checked how she came to this conclusion. 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 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.

Our Investigator looked in the trade guides we use for cars of the same make, model, age, mileage, condition and specification as J's car at the date of its loss. The valuation Allianz offered was within the range of those she found. And so I think, in keeping with our approach, Allianz's valuation of the car's base market value was fair and reasonable.

Allianz then deducted 20% for the car being a previous total loss, and I think that's also in keeping with our approach. So I'm satisfied its starting valuation of £7,300, less the policy excess, was fair.

Allianz then added an amount for parts that needed to be replaced. J thought it should cover the costs of a list of extras added to the car. But these had been removed when Allianz made its inspection and used to build another car. I can understand that J was keen to replace the damaged car. But I can't hold Allianz responsible for its decisions to not make a claim for three months and to strip the car before the inspection.

Also, J had the benefit of the parts it removed that should have belonged to Allianz following the total loss. So I think Allianz's offer of £688 for the parts that needed to be replaced as they had been damaged in the accident was fair and reasonable.

Allianz has already agreed to pay for the labour costs J incurred in the rebuild. And I think that's fair and reasonable as it meets its obligation under the policy's terms and conditions to provide an amount to buy a car of equivalent quality and condition. And I'm satisfied that Allianz needs only to pay the labour costs without a profit element for J as it can't profit from a claim.

J said its labour cost of £2,009.75 was calculated at the standard rate it charges its customers. So I think this should be recalculated to a cost-only figure so that Allianz would pay the labour costs less any element of profit. J has been without its money for some time, so I think Allianz should reasonably add interest to this amount, calculated from a month after the claim was made when I would expect it to have been paid.

J thought Allianz should recover the full claim costs from the other insurer. But Allianz is required to justify its costs and so I can't say that would be fair or reasonable.

Putting things right

I require Allianz Insurance Plc to reimburse J for the labour costs of the rebuild of its car, calculated at cost-only, adding interest to this amount at the rate of 8% simple from a month after the date of the claim to the date of payment, as it's already agreed to do.

My final decision

For the reasons given above, my final decision is that I uphold this complaint in part. I require Allianz Insurance Plc to carry out the redress set out above, as it's already agreed to do.

Under the rules of the Financial Ombudsman Service, I'm required to ask J to accept or reject my decision before 21 August 2023.

Phillip Berechree
Ombudsman