

The complaint

Mrs S has complained about the amount paid in settlement of her claim under her Motor Insurance policy with Acromas Insurance Company Limited. She's also unhappy about the service she received from Acromas on the claim.

The service provided on Mrs S's claim was provided under a brand, but, as far as I can tell, it was Acromas's staff who actually provided the service. So, I have only referred to Acromas in this decision.

Mrs S is represented by Mr S, who is a named driver under her policy.

What happened

Mr and Mrs S's car was damaged in a non-fault accident. Mrs S made a claim under her policy. Acromas had the car taken to one of its approved repairers for inspection. The repairer provided an estimate for repairing it of just over £3,000. Acromas used two motor industry valuation guides to work out what it considered it would cost Mr and Mrs S to replace their car with one of the same make, model and mileage. As a result, it initially offered Mrs S £2,000, less a deduction if she wanted to keep the car and get it repaired.

Mr S wasn't happy about this and complained to Acromas on behalf of Mrs S. In its final response to Mrs S's complaint Acromas increased its offer to £2,583. It also acknowledged some service issues and paid Mrs S £150 because Mr and Mrs S's hire car was taken back earlier due to poor communication on the part of Acromas.

Mr and Mrs S remained dissatisfied and Mr S asked us to consider Mrs S's complaint. One of our investigators did this. He said Acromas's offer for Mr and Mrs S's car was fair. But he thought Acromas had provided an unacceptable level of service due to poor communication and he suggested Acromas paid a further £100 in compensation for this.

Acromas agreed to do this. But Mr S isn't happy with the investigator's view and has asked for an ombudsman's decision. He has reiterated the central point of Mrs S's complaint, which is that there was a non-fault collision caused by another driver's careless driving and there is a written admission of guilt. So, he doesn't understand why he and Mrs S are expected to bear a loss of several thousand pounds due to the false premise of market value. In Mr S's opinion it was not possible to replace their car with one of the same make, model and mileage with the amount Mrs S eventually received from Acromas. As far as he is concerned Mrs S should have received the 'true value' of their car not the market value. He also thinks Acromas should have got a second opinion on whether their car should have been written-off. In essence Mr S considers the process used to settle Mrs S's claim was unfair and that the Financial Ombudsman Service should be challenging it.

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.

Mrs S's policy required Acromas to settle her claim by paying her no more than the 'market value' of the insured car, less any excess applicable. 'Market value' is defined in Mrs S's policy as 'The cost of replacing your vehicle with a vehicle of the same make, model, specification, age, mileage and condition as your vehicle was immediately before the loss or damage you are claiming for'. And I'm satisfied that the market value Acromas used to settle Mrs S's claim was in accordance with this definition and correct.

I can of course appreciate Mr S's frustration if he and Mrs S couldn't find a suitable replacement car for the amount Mrs S received in settlement of her claim. But I should explain that we use four valuation guides, although only three of them returned a valuation for Mr and Mrs S's car due to its age. And these guides actually provide the likely selling price of vehicles based on market research, which includes advertised prices. This means that the guide values obtained for Mr and Mrs S's car reflected what similar vehicles with the same mileage were likely to have been selling for at the time their vehicle was damaged. So, while it is not always possible for a customer to find a replacement vehicle they are happy with when they start searching for one, the guides are actually a good indication of what a suitable replacement is likely to cost.

We expect an insurer to use the highest guide value, as we feel this is the safest way of making sure the customer receives a settlement based on the likely cost of replacing their car. And, in this case, this was exactly what Acromas provided following Mrs S's complaint. So, I am satisfied Mr and Mrs S should have been able to find a suitable replacement for this amount, albeit I acknowledge that timing and location do not always make this easy. But I believe using the guides is the fairest way for insurers to settle claims where it is appropriate to write-off a vehicle. And I do not consider this process to be in any way flawed.

Whether a customer was at fault for the accident has no bearing on what they are entitled to receive for their car if it is a write-off. Whether they claim under their own policy or from the other driver's insurer, the most they will ever receive is the cost of replacing their car with one of the same make, model and mileage, i.e. the market value. The guides are usually the best way to determine what this is, unless the vehicle is very rare or has unusual features.

Whether it is appropriate for an insurer to write-off a car will depend on the repair cost compared to the market value and the amount an insurer will get for the damaged car from its salvage dealer. If the repair cost is more than the difference between the market value and the salvage value, as a general rule, the insurer will write-off the car because it will cost them less to settle the claim as a result of doing so. Of course, it can mean that cars are written-off when the repair cost is only 60-70% of the market value. But we consider this to be acceptable for economic reasons from the insurer's point of view. This in turn keeps claims costs down and means that premiums overall are likely to be lower across the industry. Of course if a customer wants to keep their car, despite it being a write-off, we'd expect an insurer to allow this, especially where it is safe to repair it. But we would allow the insurer to deduct what it would have got if it had kept the car and passed it to its salvage dealer, as otherwise the insurer would lose out financially by letting its customer keep the damaged car.

In Mr and Mrs S's case the cost of repairing their car to Acromas was considerably more than its market value, so I consider Acromas's decision to write it off was reasonable. And it did of course offer Mrs S the option to keep the car and have it repaired, subject to a deduction of what it thought it would have got for the damaged car from its salvage dealer. I do of course appreciate the repairer suggested to Mr and Mrs S it could repair their car for less than it would have charged Acromas, which I do find surprising, as usually repairers give insurers preferential rates. But I am not sure what parts it was planning to use if it did do the repair at the price quoted to Mr and Mrs S. And – in any event – even at the lower cost it suggested to Mr and Mrs S I would still have expected Acromas to write-off the car.

Mr and Mrs S did lose their hire car early. And, although the provision of this had nothing to do with Acromas, I can see that it was in part due to poor communication with the hire car company by Acromas. And this is why it paid Mr S £150 in compensation. This wasn't meant to reflect what it would have cost Mr and Mrs S to hire a car, as they didn't actually do this. It was meant to reflect the level of inconvenience they experienced as a result of not having a car for a period in which they should have actually had one. And I consider it was a fair and reasonable amount for Acromas to pay Mrs S for this.

There were some other service failings on the part of Acromas, particularly around communication, which it admitted to. And that is why our investigator suggested Acromas should pay Mrs S a further £100. I agree this is appropriate and I am pleased Acromas has agreed to do this.

In summary, for the reasons I've explained, I'm satisfied what Acromas paid in settlement of Mrs S's claim was appropriate. And I'm also satisfied its decision to write-off Mr and Mrs S's car was reasonable. As well as this, I think what Acromas paid Mrs S for its part in her and Mrs S having the hire car withdrawn early was fair. But I do think Acromas needs to pay Mrs S a further £100 in compensation for the poor service it provided on her claim generally.

Putting things right

For the reasons set out above, I am upholding Mrs S's complaint in part and I have decided Acromas should pay her a further £100 in compensation for distress and inconvenience.

My final decision

I uphold Mrs S's complaint in part and order Acromas Insurance Company Limited to pay her a further £100 in compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 7 March 2024.

Robert Short
Ombudsman