DRN-4722895

The complaint

Mr G complains that Nelson Insurance Company Ltd hasn't offered a fair value for his car following it being written off after an accident.

What happened

Mr G has a private and public hire insurance policy with Nelson. In May 2023 Mr G's car was damaged in an accident. The costs of repair exceeded the car's value and Nelson explained it would be written off.

Nelson offered Mr G £13,000 for his car, less the £500 excess and the remaining finance on it. Nelson said it uses the average of three valuation guides to obtain a fair valuation, unless one of the guides is significantly higher or lower. In this case, one guide was significantly higher at £14,550. So it used the average of the two lower guide prices of £13,595 and £13,695 to give a figure of £13,645, which it reduced to £13,000 due to the car's condition. It sent Mr G adverts for two cars which it said were similar to his on sale for less than £13,000.

Mr G didn't agree the valuation was fair, but he accepted £13,000 as an interim payment. He thought his car was worth more than £15,000 and sent Nelson adverts in support of this. He said the adverts provided by Nelson were for cars with significantly higher mileage. Having contacted the owners of those cars, he said one didn't have a full service history where his own car had been serviced at a main dealer every 10,000 miles. He said the other car had been previously damaged in an accident.

Nelson's motor engineer reviewed the valuation but thought it was fair. He said Mr G's adverts were for cars with much lower mileage of between 33,000 and 85,000, where his car's mileage was just over 106,700. The engineer provided further adverts from November 2023 for a car with similar mileage for sale at £11,495 and cars with a much lower mileage on sale for £13,995 and £14,200.

Mr G came to us. Our Investigator looked at the available valuation guides. He ran his own valuations to verify those obtained by Nelson. Those valuations were for £13,439, £13,497, £12,750, and £14,620 respectively. He said it was reasonable for Nelson to match the highest of the trade guide valuations unless it could provide adverts to show a lower valuation was fair. He didn't consider the adverts Nelson had supplied were like for like for Mr G's car at the time of the accident. So he recommended that Nelson pay Mr G an additional £1,620 (£14,620 - £13,000) plus 8% simple interest.

Nelson didn't agree with our Investigator's conclusions. It said it aimed to treat its customers fairly and had offered Mr G a fair amount in line with this Service's longstanding approach.

Following an initial review, our Investigator explained why we thought it fair that Nelson pay Mr G the higher of the valuation guides and referred it to guidance on our website. As Nelson didn't respond 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.

It's not my role to work out the exact value of an individual vehicle. I decide whether Nelson has applied its policy terms and conditions when reaching its market value and whether it has done so in a fair and reasonable way. Based on the evidence I don't consider it has paid Mr G a fair value so I'm upholding his complaint. I'll explain my reasons.

Where a car has been written off as a result of an accident, it's usual for the insurer to pay the policy holder the market value of the car immediately before the accident. This is what Mr G's policy provides. The policy defines market value as:

> *"The cost of replacing your vehicle as far as may be practical with one of the same make, model, year, type, mileage, and condition at the time of the loss or your estimated value last declared to us; whichever is the lower amount but not exceeding the purchase price paid by you."*

We use the same guides as Nelson – in addition to one other – to help decide if a settlement offer is fair when valuing second-hand cars. Having considered these guides, I note that the highest of these valuations is £14,620.

I understand Nelson has settled Mr G's claim based on the average of the lower two valuation guides, reduced to £13,000 because of the car's 'fair' condition. But as our Investigator has explained, we now generally expect insurers to pay the highest of the valuation guides, unless they are able to provide us with evidence which supports a lower valuation. This is because we typically find the guides show a range of values and we think going by the highest will ensure policy holders have received a fair offer, allowing them to replace their car with one of the same make, model and specification in line with the policy terms.

I've looked at the adverts Nelson obtained around the time of the accident. But I'm not persuaded that these adverts support its lower valuation of £13,000 based on its own policy definition of market value. I say this because the adverts are for cars with significantly higher mileage than Mr G's car. Mr G has explained why he thinks the cars were not similar to his car. Nelson has not suggested the information Mr G provided to it about the advertised cars' service history and previous accident record was incorrect.

Nelson also obtained adverts for cars with similar mileage to Mr G. But those were for cars being advertised for sale around six months after the accident. So I don't consider they provide persuasive evidence that it was fair for Nelson to pay Mr G less than the highest of the valuation guides.

I've looked at the engineer's report, which says that the car was in 'fair' condition. But I don't think Nelson has given us any specific evidence to show that it could fairly make an additional deduction for the car's condition; for example, a deduction for pre-accident damage.

It follows that I consider a fair outcome to this complaint is for Nelson to pay Mr G £1,620; that being the difference between the highest trade value of £14,620 and the value of £13,000 it actually paid to him before the deductions of the excess and car finance. Nelson should add simple interest to the £1,620 payment at the rate of 8% per year starting from one month after the claim was made until the date it makes the payment to him.

My final decision

My final decision is that I uphold this complaint. I require Nelson Insurance Company Ltd to pay Mr G £1,620, together with simple interest* on £1,620 at the rate of 8% per year starting from one month after the claim was made until the date it makes payment to him.

*If Nelson considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr G how much it's taken off. It should also give Mr G a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 10 July 2024.

Amanda Maycock
Ombudsman