

The complaint

Mr K complains about the settlement Liverpool Victoria Insurance Company Limited (LV) offered him for the loss of his car following a claim on his motor insurance policy. He's also unhappy with the amount it deducted for salvage.

What happened

Mr K's car was deemed uneconomical to repair following an incident. LV eventually offered Mr K £22,990, less the policy excess, as the market value of his car at the date of its loss. As Mr K wanted to retain the car's salvage, LV deducted £9,800 for the salvage. Mr K thought his car was worth more due to its optional extras. And he thought the salvage deduction was unfair.

Our Investigator recommended that the complaint should be upheld in part. She checked the motor trade guides we use for the market value of Mr K's car at the date of its loss. And she thought LV's valuation was higher than those she found. So she thought this was fair and reasonable. But LV couldn't provide evidence to show what it would receive for the car's salvage. So she thought it hadn't justified its deduction and it should reduce this to 30% of the car's value and refund Mr K the difference, with interest.

Mr K replied that he agreed with the salvage assessment. But he thought his car was worth much more, between £26,000 and £29,000. He said LV should offer him like for like, but it hadn't matched the car's mileage and specification. LV replied that it had provided evidence justifying the salvage deduction. As the parties didn't agree, 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 Mr K wants a fair settlement for the loss of his car and a fair deduction for the retained salvage. He's explained to us that the actual repair costs he incurred were greater than he'd expected. But as it was Mr K's decision to retain the salvage, I can't hold LV responsible for his repair costs.

Mr K thought LV's valuation of his car was too low. He said that he'd seen similar cars advertised for about £5,000 more and so he was disappointed with LV's offer. Mr K's policy provides for the car's market value in the case of its total loss. I can see that this is defined in the policy booklet as:

“the cost of replacing your car with the same make, model and specification. Age, mileage and condition will be taken into account. We'll ask an engineer for advice, use motor trade guides and other sources to determine the market value at the time of the accident or loss.”

The Investigator has explained this service's approach to car valuations. We don't provide valuations for cars but look to see whether the insurer's offer is reasonable. In most cases, we assess the market value as the price which the consumer would have had to pay for a comparable vehicle across the various markets, immediately before the time of the damage or loss.

This could be slightly less than advertised retail prices, although this will depend on the most likely market for the particular age and model of vehicle. Because of recent changes in the market, we are increasingly hearing of cars selling either for or close to their advertised price.

Assessing the value of a used vehicle isn't an exact science. We generally find the valuations given in motor-trade guides most persuasive. These guides are based on extensive nationwide research of likely selling prices. We also take all other available evidence into account, for example, engineer's reports, advertised prices and independent valuations.

Our Investigator thought LV's settlement offer was fair and reasonable. So I've checked how she came to this conclusion. I can see that she looked in the motor trade guides we use for cars of the same make, model, age, mileage, condition and optional extras as Mr K's car at the date of its loss.

Mr K provided adverts for similar cars advertised at higher prices. But we don't find advertisements particularly persuasive as these are essentially asking prices and aren't selling prices. It's for this reason that the trade guides are used as they provide evidence of likely retail selling prices. But I have considered these and looked to see where the advertised cars are identical to Mr K's.

Given the current challenges in the used car market the motor valuation guides have a wider range of values than we have seen previously. And we think going by the highest will ensure consumers have received a fair offer, allowing them to replace their car with one of the same make, model and specification. So we now expect insurers to pay the highest of the trade guides, unless they are able to provide us with evidence which supports a lower valuation.

LV had provided a valuation of £22,990, which was higher than the valuations provided by the guides we use. This took into account the car's lower than average mileage and the optional extras. And so I agree that LV's offer was fair and reasonable as it was made in keeping with our approach and the policy's terms and conditions. I don't require it to increase this.

Mr K was also unhappy that LV deducted £9,800 from his settlement for the value of the car's salvage.

As our Investigator has explained, when an insurer settles a total loss claim it retains the car's salvage amount. When the consumer retains the salvage the insurer usually deducts what it would have received for disposing of the salvage under its commercial arrangement within a salvage dealer. This is sometimes a percentage of the car's pre-accident market value and sometimes the amount the salvage dealer sells it for at auction.

When we see disputes about this, our approach is to assess whether the deduction by the business is fair and reasonable, in the circumstances of the case. When considering what's fair and reasonable we first need to ask the business to provide evidence to confirm what it would receive from its salvage scheme.

LV said it does not have this evidence but instead supplied a list of similar vehicles and the salvage amounts received. I'm satisfied that this isn't sufficient as it doesn't show the amount LV would have received in the case of Mr K's car.

Our approach where an insurer can't provide sufficient evidence, is to ask it to pay the cost of the vehicle repairs. But in this case the cost of repairs exceeded the pre accident value of the car so it wouldn't be fair to ask this.

Instead, I've thought about what a fair and reasonable deduction would be. And I'm satisfied that LV should deduct 30% of the market value of the car for the salvage, £6,897. As this is less than LV deducted from Mr K's settlement, it should now pay him the difference. And, as Mr K has been without his money for some time, I think it should add interest to this amount.

Putting things right

I require Liverpool Victoria Insurance Company Limited to do the following:

Pay Mr K the difference between £9,800 and £6,897, adding interest to this amount at the rate of 8% simple per annum from the date of the initial settlement to the date of payment.

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

My final decision

For the reasons given above, my final decision is that I uphold this complaint in part. I require Liverpool Victoria Insurance Company Limited to carry out the redress set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 22 July 2024.

Phillip Berechree
Ombudsman