

The complaint

Mr O complains that Covea Insurance plc's offer to settle a claim on his motor insurance is unfair.

What happened

Mr O had a motor insurance policy with Covea. In or around August 2023, he was involved in a road accident which damaged his vehicle. He reported this to Covea, who used photos of the vehicle to assess the damage and settle his claim.

Covea told Mr O the cost of repairing the damage was more than the vehicle's value. It offered him a settlement based on the vehicle's market value which it calculated as the average of four trade guide valuations. The trade guides used the same make, model, and approximate mileage of the vehicle.

Covea also told Mr O its engineer had reviewed the photos and found that some of the damage was unrelated to the accident. Specifically, it said the rear tailgate was misaligned and water had entered the vehicle through this. Covea reduced its valuation by just over £1,000 to reflect this pre-accident damage. It also deducted the £450 policy excess.

Mr O didn't accept this and complained to us. Our investigator recommended that his complaint should be upheld. She didn't think Covea had acted fairly by applying the pre-accident damage deduction when it calculated the market value of Mr O's vehicle. She recommended that Covea settle his claim based on the highest of the trade guide valuations without this deduction, plus interest. She also thought Covea should pay Mr O £150 to reflect the distress and inconvenience it caused him while handling his claim.

Covea disagreed with our investigator, so the case was passed to me to make 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.

First, ombudsmen decisions are published so are written in a way that prevents the customer from being identified. The unusual circumstances of Mr O's accident are known to both parties so I'm not going to set them out here. If I'm vague about them it's to keep Mr O from being identified, not because I've ignored them or think them irrelevant.

Covea's liability under Mr O's motor insurance policy is limited to the market value of the vehicle immediately before the accident. Existing damage can have a detrimental effect on a vehicle's market value, so there's nothing inherently wrong with Covea making a deduction for this. And, as Covea says, our general approach when estimating the cost of repairing pre-accident damage is to divide that figure by two and to deduct that figure from the settlement.

However, Covea needs to show that any deduction is reasonable. And I don't think it's done that in this case.

Covea didn't agree to Mr O's request to send an engineer to inspect the vehicle and its engineer reached his conclusions from photos. He said the damage was too low and no further back than the rear door and this wouldn't have affected the vehicle's structure.

However, there's clearly considerable damage on the rear passenger side, close to the tailgate. I think it's possible the damage extends further than the photos show. Mr O also told us the tailgate worked before the accident but hasn't since. That isn't something that Covea's engineer can assess from photos. I've also studied a photo of the vehicle's tailgate before the accident and compared this to photos of similar vehicles. I can't see any difference.

It's also difficult for me to understand how water damage could only be present in the front passenger footwell if water entered via the misaligned rear tailgate, as Covea suggests. I think Mr O's description of how this happened – water washed in through the passenger door after the vehicle came to rest in the ditch – is more likely.

On balance, I don't think Covea has done enough to show that the tailgate damage was present before the accident. It's also worth noting that Covea hasn't provided evidence for its estimate that this would cost over £2,000 to fix.

For these reasons, I think Covea should settle Mr O's claim without making any deduction for pre-accident damage.

Covea based the vehicle's market value on the average of four trade guide valuations. The difference between the highest and lowest is over £800 (more than 13% of the low value). I've also reviewed adverts for similar vehicles provided by both parties, as well as some that I found myself. Covea has reasonably pointed out that adverts only show asking prices and are, of course, subject to negotiation, but they're still helpful.

In this case I think Covea should base the vehicle's market value on the highest of the trade guide valuations quoted in its 26 September 2023 letter. For the avoidance of doubt, Covea can deduct the policy excess from its settlement offer, in line with the policy terms.

Like our investigator, I think Covea caused Mr O unnecessary inconvenience in its handling of his claim. I've thought about the awards this service makes in similar circumstances and agree that £150 is appropriate compensation for this.

My final decision

My final decision is that I uphold the complaint and order Covea Insurance plc to:

- Settle Mr O's claim based on a vehicle valuation of £7,106, less the policy excess.
- Add interest to this amount at 8% simple per year from the date it first made a settlement offer to the date of settlement.
- Pay Mr O £150 to reflect the inconvenience its handling of the claim caused him.

If Covea considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr O how much it's taken off. It should also give Mr O a certificate showing this 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 O to accept or

reject my decision before 10 July 2024.

Simon Begley
Ombudsman