DRN-4876873

The complaint

Mrs T complains about the settlement paid by esure Insurance Limited when she mad a claim on a motor insurance policy.

What happened

Mrs T insured a car with esure. She made a claim following a collision and esure said the car should be written off. esure made an offer to settle the claim but Mrs T thought this amount was too low. She complained to esure, as she was also unhappy about the length of time it had taken to speak with esure on the phone.

esure said it was satisfied its offer to settle the claim was fair, and in line with the market value of Mrs T's car. It offered £50 compensation to recognise the poor service she'd received when she phoned.

Mrs T referred the complaint to our service. Our investigator thought the settlement offered by esure was too low, and it should increase the amount it paid. She also said esure should pay £100 compensation to recognise this, although its £50 offer for the poor service was fair.

esure disagreed with our investigator. It considered the additional amount our investigator said should be paid to be minimal and in any case its offer was fair. Mrs T also disagreed, as she considered it wouldn't have been possible to purchase a replacement car for the higher value our investigator had concluded should form the basis of the settlement.

As no agreement could be reached, Mrs T's complaint has come 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.

esure's settlement of the claim was based on what it said was the "*market value*" of Mrs T's car at the time of the collision. The market value is defined in the policy as:

the amount you could reasonably have expected to sell your car for on the open market immediately before your accident or loss. Our assessment of the value is based on cars of the same make and model and of a similar age, condition and mileage at the time of accident or loss. This value is based on research from motor trade guides including: Glass's, Parkers and CAP. This may not be the price you paid when you purchased the car.

esure's settlement offer to Mrs T was for £4,737. This was the average of the values given for Mrs T's car by three motor trade valuation tools, which were £4,648, £4,580 and £5,003.

Our service has, in the last 12 months, reviewed the way we think insurers should approach settlements based on the market value of cars. Previously, we considered that, unless there was compelling evidence to show the tools were wrong, it was generally fair for an insurer to make a settlement which was within the range of values given by these tools (once any obvious outliers had been excluded).

However, considering our duty to reach fair and reasonable outcomes, we've changed how we think the values given by the tools should be used to calculate a fair market value. This is for a number of reasons, including trends in the used car market and consideration of the data which is used to reach these values.

In effect, we now believe that the starting point in establishing a fair market value is the highest value given by any of the valuation tools. An insurer should use that as the basis for a settlement, unless specific evidence in the form of adverts or similar can be provided to show a lower value is enough to allow a replacement vehicle of the same make and model of a similar age and condition to be purchased by the policyholder.

In this case, the highest value given by any valuation tool was £5,003, which is more than esure offered in settlement of the claim. It said that the data which supported that higher value included adverts for less than £4,737, the amount it offered. I've considered whether that means the offer it made was fair.

I don't think this shows the offer was reasonable, for two main reasons. Firstly, and most importantly, those advertised prices went towards calculating a value of £5,003 for the car. If esure were to rely on those advertised prices, I'd have to ignore that the same prices went towards establishing a higher value for the car. Secondly, the advertised prices contain limited information about the cars being sold and don't, for example, tell us about the condition of them.

I've also considered esure's argument that the increase in the settlement recommended by our investigator was relatively minor, of around £250. While I acknowledge this, I do reach a conclusion that the settlement offered wasn't a fair reflection of the market value and that the settlement should be increased, even if this is, in percentage terms, a relatively minor increase. I have to consider whether the valuation offered was reasonable, and for the reasons I've given above, I don't think it was. The amount of the increase isn't a reason for me to say esure did nothing wrong.

Finally, I've considered Mrs T's argument that even the increased amount being suggested doesn't represent a fair market value, based on advertised prices from the time of the claim. However, having said I don't believe the advertised prices found by esure could reasonably be relied on to reduce the settlement, I similarly have to conclude that higher advertised prices shouldn't be relied on to increase the settlement further. I think the fairest way to establish the market value of the car is to take the highest value given by the tools, which is £5,003.

For these reasons, I conclude that the fair market value of Mrs T's car at the time of the claim was £5,003. To put things right, esure should make a further settlement to Mrs T for the difference between its original calculated value of £4,737 and this value. It should also pay 8% simple interest on this amount from the date of its original settlement to the date of final settlement. This is in line with our usual approach where a settlement made by an insurer is less than it should have been.

Our investigator also thought esure should pay £100 compensation in recognition of the distress and inconvenience caused by it making an unreasonable settlement offer. I agree with this. Mrs T has been caused distress by receiving a settlement for less than she should have and has been inconvenienced by having to undertake her own enquiries into the possible value of her car. She was also caused inconvenience by having to try and seek a replacement car with a settlement that was less than it should reasonably have been. I think £100 fairly compensates Mrs T for the avoidable upset caused.

Finally, I note esure has offered £50 compensation for the distress and inconvenience caused by long wait times when Mrs T phoned it. I think this is a fair offer which properly recognises the inconvenience caused by being on the phone for longer than expected to try and resolve the claim and that Mrs T would have been distressed by this.

My final decision

I uphold Mrs T's complaint. To put things right, esure Insurance Limited must:

- Make a further settlement to Mrs T reflecting a market value of £5,003 for her car. It must also pay 8% simple interest on this further payment from the date of the original settlement to the date of final settlement.
- Pay £100 compensation to Mrs T. esure must pay this within 28 days of us telling it Mrs T accepts our final decision. If it does not, it must pay simple interest at a rate of 8% on this amount from that date to the date of final settlement.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T to accept or reject my decision before 18 October 2024.

Ben Williams
Ombudsman