DRN-4932478

The complaint

Mr W complains about how his insurer, U K Insurance Limited trading as Direct Line (Direct Line), valued his vehicle as a total loss following an accident.

Any reference to Direct Line in this decision includes their agents.

This decision covers Mr W's complaint to this Service about Direct Line in April 2024. In his complaint, Mr W said he raised several issues in his earlier complaint to Direct Line, but they had been settled apart from the valuation of his vehicle as a total loss. So, this decision only covers the valuation issue, not the other elements of Mr W's complaint to Direct Line.

What happened

Mr W was involved in an accident (a collision with a third party vehicle) in February 2024. He contacted Direct Line to tell them about the accident. Direct Line arranged for the vehicle to be inspected by an engineer the following week, who concluded the vehicle a total loss. However, Direct Line didn't call Mr W to tell him this, sending a text message with the total loss valuation they'd calculated for the vehicle (£14,446). Deducting the policy excess of £350 meant a net payment of £14,096.

Mr W was unhappy at having no communication from Direct Line since the vehicle was recovered, before receiving the valuation. He also disputed he'd accepted the valuation, as he thought it too low (he thought £16,000 more appropriate). So, Mr W complained.

Direct Line didn't uphold the complaint. They said when their engineers assessed a vehicle's total loss valuation, they took account of the make, model and individual specification and cross referenced them to recognised industry valuation guides. In respect of Mr W's vehicle, they'd used four recognised industry guides with valuations ranging from £14,279 to £14,746. Where the guide valuations didn't match exactly, they applied an average of the valuations – in this case £14,446.

Regarding Mr W's vehicle, the engineer couldn't locate a comparable vehicle advertised for sale (though advertised prices would be subject to negotiation leading to an actual sale price). Direct Line said the guide valuations were persuasive because they were based on nationwide research and likely sale values and were constantly updated for current market trends. Because Mr W was unhappy with the valuation of his vehicle, a second engineer had reviewed the valuation and agreed an increase wasn't justified.

Mr W then complained to this Service. He said the settlement hadn't enabled him to purchase a replacement vehicle of the same make, type and year – even though the policy said [market value] was the cost or replacing a vehicle with another of the same make and model, and of a similar age and condition at the time of the accident. Having looked at vehicles on websites, replacing his vehicle would cost between £16,500 and £17,000.

He'd had to make up the difference between Direct Line's offer and what it cost him to purchase a replacement vehicle (he'd had to make a purchase quickly as a hire car was coming to an end). He'd paid £17,900 for a vehicle of the same model and year from the same dealer as his previous vehicle (albeit with a lower mileage). He thought Direct Line's offer was based on trade values, not retail values.

Our investigator upheld the complaint, concluding Direct Line hadn't acted fairly. He noted our Service's approach to valuations, expecting insurers to review relevant industry valuation guides as a starting point. Looking at the valuation figures from Direct Line, they used the correct details when obtaining valuations from three of the four guides, which he thought were accurate. One of the valuations didn't include the date of the accident but inserting this gave a valuation very close to the figure from Direct Line. However, the average valuation used by Direct Line in their offer was in line with some of the lower valuations, but they hadn't shown why this was fair, or that Mr W could replace his vehicle with a similar one for the amount offered. As they hadn't provided any evidence to show their valuation was fair (such as vehicles advertised for sale around the time of the loss) then to avoid loss to Mr W, then the investigator thought a fair market valuation would be based on the highest of the four valuation figures (£14,746).

While Mr W referred to vehicles he'd seen advertised around the time of the incident for between £16,500 and £17,000, he hadn't provided evidence to support these figures. In those circumstances, the investigator couldn't reasonably ask Direct Line to pay a higher figure. On Mr W purchasing a replacement vehicle of a similar age to his previous vehicle, the investigator noted it was a petrol model (not diesel) with a considerably lower mileage. So, the two vehicles weren't directly comparable. To put things right, the investigator thought Direct Line should increase their valuation to £14,746 (an increase of £300) and pay interest form the date of their settlement to the date they paid the difference.

Mr W disagreed with the investigator's view and asked that an Ombudsman review the complaint. He said the increased valuation was at least £2,000 less than that which would have allowed him to purchase a similar make, model, style and mileage as his vehicle. The valuation guides didn't reflect the actual price consumers were able to purchase vehicles. Taking the purchase price of his previous vehicle and applying depreciation calculated on a website, this gave an estimated forecourt value of £17,200. He'd looked on the manufacturer used vehicle website and found six vehicles of similar age, mileage and specification as his vehicle, with an average price of £17,293. He thought an additional settlement of £2,500 (including the £300 recommended by the investigator) would be appropriate. He also provided advertisements of vehicles for sale at higher valuations.

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.

My role here is to decide whether Direct Line has acted fairly towards Mr W.

The key issue in Mr W's complaint is the valuation of his vehicle as the basis for Direct Line's settlement. He says Direct Line's valuation of £14,446 isn't sufficient for him to purchase an equivalent replacement vehicle, which he thinks would be £16,500 to £17,000 (he purchased a replacement, lower mileage vehicle for £17,900). Direct Line say their valuation is fair, based on the average from four recognised industry valuation guides.
Having considered the available evidence and information, I'm not upholding the complaint. I know this will be disappointing to Mr W, so I'll set out why I've come to this conclusion.
As a Service, our approach to vehicle valuations starts by looking at an insurer's valuation, which we generally expect to be based on relevant industry valuation guides (which is also the approach we adopt as a Service). We'd expect the insurer's valuation to be within a certain percentage of the highest valuation guide figure (or higher). If it was then we are

likely to say it's fair. Unless there is other evidence to say this is unfair (and an insurer can evidence its offer is fair and reasonable when it's lower than the highest guide value).

Turning to the industry valuation guides, from the information provided by Direct Line, included in their final response, they used four guides, based on retail values (trade values were significantly lower in all cases). This also addresses one of Mr W's concerns in his complaint, that Direct Line were using trade values, not retail values:

(A) £14,746
(B) £14,450
(C) £14,279
(D) £14,307

Checking the valuations directly, they are at (or very close to) the equivalent valuations we obtained as part of our investigation of Mr W's complaint. They are based on Mr W's vehicle, including the mileage at the time of the accident. So, I've concluded the valuations were accurate, using appropriate input data.

Direct Line used the average of the four valuations (£14,446) as the basis for their settlement (after deducting the policy excess of £350). However, as a Service, we'd expect an insurer to provide evidence to support a valuation lower than the highest of the valuation guide figures. In this case, Direct Line haven't done this – I note their engineer indicates he couldn't finds any equivalent vehicles advertised for sale.

So, I've concluded Direct Line haven't acted fairly in basing their settlement on an average of the four valuation guides. Based on our approach as a Service, I think a fair valuation would be based on the highest of the four valuation guide figures (£14,746).

While coming to this conclusion, I've also considered the points made by Mr W in bringing his complaint and in disagreeing with our investigator's view.

When bringing his complaint, Mr W says he saw several vehicles advertised for sale similar to his own, in the range £16,500 to £17,000. While I'm not doubting what he's said, he hasn't provided the evidence to support his point. He's provided copies of advertisements more recently, of a range of vehicles (of differing specifications, mileages). However, they aren't at the date of the accident and are offer prices, which won't necessarily be reflective of actual sale values. As the industry valuation guides on based on sale values nationally and updated for trends in the market, I find them more persuasive evidence.

Mr W also sets out the purchase price of his own vehicle and applies a depreciation factor from a website, to arrive at what he considers to be its value. But I'm not persuaded that's more compelling evidence than that form the recognised industry valuation guides, for example what the purchase price was in comparison with general prices of comparable vehicles.

Taking all these points into account, I've concluded Direct Line didn't act fairly in making a settlement based on the average of the four industry valuation guides (£14,446). A fairer valuation would be the highest of the four valuations (£14,746).
To put things right, Direct Line should pay Mr W the different between the two figures (£300). They should also pay interest on the difference, at a rate of 8% simple, from the date they paid the original settlement to the date they pay the revised settlement.

My final decision

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For the reasons set out above, my final decision is to uphold Mr W's complaint. I require U K Insurance Limited trading as Direct Line to:

- Pay Mr W the different between the two valuation figures (£300).
- Pay interest on the difference, at a rate of 8% simple, from the date they paid the original settlement to the date they pay the revised settlement.

If U K Insurance Limited trading as Direct Line consider they're required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr W how much they've taken off. They should also give Mr W 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 W to accept or reject my decision before 14 November 2024.

Paul King
Ombudsman