

The complaint

Mr H complains about the settlement that Advantage Insurance Company Limited offered him for the total loss of his car following a claim made on his motor insurance policy.

What happened

Mr H's car was damaged in a storm, and he made a claim on his policy. Advantage said the car was uneconomical to repair and it offered him £4,271, less the policy excess, in settlement of his claim. But Mr H was unhappy with this and with the level of service he received.

Mr H thought he couldn't replace his car for this amount. He thought it would cost between £5,000 and £7,500, as shown by adverts, to replace his car. Advantage agreed that there had been service failings and it paid Mr H £100 compensation for this, which he said he refused.

After the complaint came to us, Advantage increased its settlement offer to £4,582. But Mr H was unhappy with this, that Advantage wouldn't provide a salvage value, and that it included damage to the car's windscreen when deciding that it was a total loss.

Our Investigator thought that Advantage's offer was fair and reasonable. He thought Advantage had reasonably based its settlement for the car's market value on the motor trade guides we use. He thought its revised offer was the highest of the valuations provided by the motor trade guides. So he thought this and Advantage's payment of compensation for its service failings was fair and reasonable. And he thought it should add interest to the difference in settlements.

But he thought Advantage was entitled to ask to inspect the car in order to provide a salvage amount. He thought that if Mr H considered this to be too high then he could raise a further complaint. He didn't see enough evidence to show that it was agreed Mr H could make a windscreen claim under the glass cover of his policy and remove this from his claim. He thought this didn't affect Advantage's decision to write the car off.

Mr H replied that the total loss decision was unfair. He said the settlement offer should take into account the car's rarity and the work he had done on it. He was unwilling to release the car as he needed it for family care. He said he had improved the car in the intervening ten months making a current salvage estimate unfair. Mr H asked for an Ombudsman's review, so 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 H wants a fair settlement for the loss of his car. He said that he'd seen similar cars advertised for about £5,000 to £7,500 and so he was disappointed with Advantage's offer.

Advantage said Mr H's car was beyond economical repair. I can see that it decided this based on an engineer's report that assessed the repair costs for the damage caused to the car's sunroof and windscreen. The assessment was based on photographs, as far as I can see. And I don't think this was unusual or unfair.

The repair costs were then compared to the car's market value. It's not unusual for insurers to decide a vehicle's uneconomical to repair once the repair costs reach around 60-70% of its pre-accident market value. And I can see that this was the case here, even with the increased settlement offer Advantage has now agreed to pay.

Mr H said the windscreen repair shouldn't be included as he had made a separate glass claim for this which Advantage had approved. And I can see that he's provided evidence of his costs for this. But I haven't seen that Advantage agreed to treat this as a separate claim and remove the costs from the previous claim. I think this would be unusual. And, in any event, I'm satisfied that deducting these costs from the claim wouldn't affect Advantage's decision to declare the car beyond economical repair.

Looking at the settlement offer, Mr H'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 in the United Kingdom at the time the loss or damage occurred with one of the same make, model, age and condition. This may not necessarily be the value you declared when the insurance was taken out. Your insurer may use publications such as Glass's Guide to assess the market value and will make any necessary allowances for the mileage and condition of your car and the circumstances in which you bought it."

The Investigator has explained this service's approach to car valuations. We don't provide valuations for cars but look to 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 Advantage's previous settlement offer wasn't fair and reasonable. So I've checked how he came to this conclusion. I can see that he looked in the motor trade guides we use for cars of the same make, model, age, mileage, and condition as Mr H's car at the date of its loss.

Mr H thought the trade guides unfairly valued his car as it was rare and old. But I can see that three guides provided valuations for the car, and so I can't see a reason to not follow our approach. Mr H also said he'd done a lot of work on the car. But we regard this as maintenance that keeps the car roadworthy. And so I wouldn't expect Advantage to take this into account.

Mr H 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 H'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.

Advantage had provided a valuation of £4,271, which it said was the average of the valuations provided by the guides. But I can't say that this was fair and reasonable as Advantage didn't provide evidence to justify offering less than the highest of the trade guides. This was £4,582 and I think that this is a fair and reasonable valuation made in keeping with our approach and the policy's terms and conditions. So I require Advantage to increase its offer to this amount.

Mr H didn't accept an interim settlement. But he has been without his money for some time. And so I think Advantage should reasonably add interest to the difference between its interim offer and this amount from the date the interim offer was made to the date of final settlement.

Advantage agreed that its level of service had been poor at times, and it paid Mr H £100 compensation for this. I think that was fair and reasonable compensation for the impact of it not replying to some emails and returning calls as it's in keeping with our published guidance.

Mr H wanted to retain the car's salvage. The policy's terms and conditions state on page 21 of the policy booklet:

"If your car can't be repaired or your insurer deems your car to be unsafe or the cost of repair to be uneconomical, your car will be declared a total loss (sometimes called a write-off). If your car is a total loss, your insurer may put it in storage until your claim is settled. As soon as a total loss settlement is agreed and paid by your insurer, your insurer is entitled to take possession and ownership of your car and any salvage shall become your insurers property."

Our approach is that when a car is "written off" and deemed a total loss under a motor insurance policy, as Mr H's car was, the insurer, in this case Advantage, becomes the owner of the salvage only after the consumer accepts payment of the car's full market value.

While Advantage chooses not to "actively offer" the consumer the salvage, our stance is that if the consumer asks to keep the salvage, we would expect the insurer to allow this. The car is, after all, the consumer's property and they should have the right to keep it if they wish to do so. However, in that event, the insurer is entitled to deduct from its settlement offer what it would have been able to sell the salvage for.

To do this, Advantage said Mr H would have to accept its payment of the car's full market value and have the car assessed by its salvage agent. And I think that's fair and reasonable as Advantage would want to provide an accurate salvage value.

I can understand that Mr H is concerned about the time this would take and he doesn't want to be without transport for family reasons. Mr H also said he'd improved the car and was concerned that a current assessment would be unfair. But I would expect Advantage to take this into account. And, if Mr H is unhappy with the salvage amount, then he can always raise a further complaint to Advantage.

Putting things right

I require Advantage Insurance Company Limited to increase the valuation of Mr H's car to £4,582. It should add interest at the rate of 8% simple per annum to the difference between this amount and its interim settlement offer from the date of the interim settlement offer to the date of final payment.

If Advantage considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr H how much it's taken off. It should also give Mr H 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 Advantage 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 H to accept or reject my decision before 30 October 2024.

Phillip Berechree
Ombudsman