

## The complaint

Mr M complains that UK Insurance Limited trading as Direct Line (UKI) hasn't offered a fair settlement for the total loss of his car after a claim was made on his motor insurance policy. Mr M is also unhappy with the level of service he received by UKI during the claims process.

## What happened

Mr M held car insurance through UKI. The policy booklet explained in the event of a claim UKI would pay the cost of replacing the car up to its market value. Market value is defined as *"the cost of replacing **your car** with another of the same make and model, and of a similar age and condition at the time of the accident or loss."*

In December 2023, following an incident, Mr M contacted UKI to make a claim on his car insurance policy. UKI provided Mr M with a hire car while it assessed the claim. The engineers report deemed the car beyond economic repair, and it provided Mr M with a pre-accident value (PAV) of £10,582 to settle the claim. This was determined by using an average of the values from the trade guides it had considered and a deduction of £70 for pre-existing damage that wasn't related to the incident.

Mr M was unhappy with the PAV. He said it didn't take into account the new engine he'd fitted in 2021 or fairly reflected the current market value for his car. Mr M was also unhappy the hire car he was given during the claim wasn't a like for like replacement. Mr M was also unhappy with the service he received during the claims process.

UKI reconsidered Mr M's claim. It said a new engine would increase the PAV by £1,800. But UKI said it would only pay up to the market value for Mr M's car, which it said was £11,321, the highest valuation of the trade guides it had used to determine the market value of Mr M's car. But it continued to deduct £70 for the pre-existing damage. It increased the PAV to £11,251. UKI also accepted the service it had provided to Mr M during the claims process was poor. So, it offered him £600 in compensation. Mr M didn't accept UKI's offer to put things right and brought his complaint to this Service for investigation.

Our Investigator upheld the complaint. They said UKI's offer didn't fairly reflect the increase in value a new engine would have on Mr M's car. So the Investigator said UKI should increase the PAV to £13,051 (the highest of the guide valuations as well as an additional £1,800, the amount UKI valued a new engine). But our Investigator said the £600 compensation for the trouble and upset caused was fair. Mr M agreed with the Investigator's findings but UKI disagreed. So it asked for an Ombudsman to consider the complaint.

## 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'd like to reassure the parties that although I've only summarised the background to this complaint, so not everything that has happened or been argued is set out above, I've read and considered everything that has been provided.

Mr M has referred another complaint to this Service about UKI's decision to treat his claim as a total loss. That issue will be addressed separately. This decision focuses on whether UKI acted fairly and reasonably when it offered the PAV to Mr M and the level of service he received throughout the claims process.

### Market value

This Service's role isn't to work out exactly what the value of an individual car is. We look at whether the insurer has applied the terms of a policy correctly and valued the car fairly. Under the terms of Mr M's policy, UKI had to pay him the market value of the car.

When deciding whether an insurer has offered fair market value for a car, we usually refer to the trade guides. Trade guides are based on extensive nationwide research of likely (but not actual) selling prices. They use advertised prices and auction prices to work out what likely selling prices would've been. And we expect insurers to use trade guides (where possible) when valuing a car for claims purposes. And because of the recent changes in the market, we are increasingly hearing of cars selling either for or close to their advertised price. So, we think it's fair for an insurer to pay the higher of the values returned by the guides.

I've checked the guides which are commonly used when considering motor valuation claims. I'm satisfied the values UKI returned from the trade guides are reflective of the value of Mr M's car at the point of loss. UKI has offered the highest of these guides, which I think is reasonable. But I think this value needs to be increased to reflect the fact that Mr M's car had a new engine fitted in 2021.

UKI increased the PAV by £1,800 when Mr M showed it he'd had a new engine installed. But it capped the amount it offered to the higher of the guide prices, minus the deduction of £70 for the pre-existing damage on Mr M's car. It says valuations provided by the guides are on the basis that the car is in a 'good' and 'roadworthy' condition immediately before the incident happened. It says Mr M's new engine made his car good and roadworthy which is why it offered to pay the higher of the guides.

I've thought carefully about UKI's comments and whilst I accept the guides do value a car being in a good and road worthy condition, they do so on the basis that the car is in its original condition. UKI seems to accept, albeit with depreciation of what Mr M paid, a new engine would increase the value of the car by £1,800. And that's because it seems more likely that a potential new buyer would be willing to pay more for a car like Mr M's with a new engine, than for an identical one without a new engine. And because we think it's fair for an insurer to pay the higher of the values returned by the guides (unless further evidence is presented showing why a lesser amount is fair) before any modifications or changes are made, I don't think the highest valuation fairly reflects the cars market value at the point of loss. I consider a new engine would increase the market value of Mr M's car above the highest valuation guide. And as UKI's engineers have deemed that figure to be £1,800, I think that should be added to the PAV UKI has offered.

### Customer service

Mr M says the hire car he was provided with during the claims process wasn't a like for like replacement. Mr M paid an additional premium for "Guaranteed Hire Car Plus", which says: *"We'll give you a hire car of a similar physical size to yours, if your car is damaged in an*

*accident, written off or stolen.” The policy defines a similar physical size as “a **hire car** up to a class F for cars with 5 seats...the **hire car company** will define the class of car.”*

UKI accepts it didn't provide the hire car provider with the correct details of the types of cars Mr M was entitled to. This caused some confusion to Mr M when he spoke with the hire car provider directly. But Mr M was given a hire car during the claims process. And I'm satisfied, on balance, it was one of a similar physical size to Mr M's car. So I think UKI acted in line with the policy terms when it provided Mr M with a hire car.

UKI also accepts the overall level of service it provided during the claims process was poor. And it meant Mr M had to contact UKI several times unnecessarily. I recognise UKI's lack of communication would have caused some additional trouble and upset to Mr M over and above what I would expect to see in a normal claims process. This in conjunction with the miscommunication on the hire car available to Mr M would have caused further frustration. But I'm satisfied the £600 compensation paid to Mr M fairly reflects the impact UKI's actions had on Mr M, and is in line with our approach. I therefore make no further award.

I note that during our investigation Mr M has raised further concerns about the way his claim was handled. And that UKI has now disposed of his vehicle unfairly. I've carefully considered Mr M's comments. And it's clear he remains dissatisfied with the handling of his claim. But I'm mindful that it's not the role of this Service to act as claims mediators.

When dealing with a complaint about an insurance claim that remains in dispute at the time of being referred to this Service, we generally limit the scope of our decision making to issues which a business has had the opportunity to answer first. This is in line with our rules. I understand Mr M has now raised this issue with UKI. Should Mr M's concerns remain unresolved, this would be the subject of a new complaint.

### **My final decision**

For the reasons set out above I uphold this complaint. UK Insurance Limited trading as Direct Line is directed to settle the complaint as follows:

- 1) Settle Mr M's motor insurance claim based on the valuation of £13,051 minus the policy excess. It should pay 8% simple interest\* on any part of the settlement which remains unpaid, calculated from the date it made the original payment to the date of settlement.

\*If UK Insurance Limited trading as Direct Line considers that it is required by HM Revenue & Customs to take off income tax from that interest, it should tell Mr M how much it has taken off. It should also give Mr M a certificate showing 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 M to accept or reject my decision before 21 November 2024.

Adam Travers  
**Ombudsman**