

The complaint

Mr S complains about how Marshmallow Insurance Limited (“Marshmallow”) handled his car insurance claim and the settlement amount it paid.

What happened

In November 2023 Mr S contacted Marshmallow to make a claim because his car was stolen. Marshmallow dealt with the claim as a total loss, and said it would pay Mr S the car’s market value, less his excess. In December 2023 it said it valued his car at £22,469 which he challenged. Marshmallow reconsidered the valuation, but maintained its original valuation was fair and paid this to Mr S in January 2024.

Mr S complained about the settlement amount, delays in paying it, and the quality of communication from Marshmallow. Marshmallow didn’t uphold the complaint, saying it was satisfied its agents had helped with any questions Mr S had, it considered it had valued the car fairly, and the delay in paying the settlement was due to Mr S disputing the valuation.

Our investigator didn’t find Marshmallow’s response fair. He checked motor valuation guides and found one had a higher valuation than what Marshmallow paid. So he recommended Marshmallow pay Mr S an additional £938 plus interest to reflect this higher valuation. He also said Marshmallow should pay Mr S £100 compensation because it could have provided better service to Mr S by communicating more effectively or by paying the total loss settlement offer sooner.

Marshmallow agreed to pay the £100 compensation, but didn’t agree it had unfairly valued Mr S’s car. Because of this, the complaint has been referred to me to decide.

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.

Having done so, I’ve decided to uphold the complaint. I’ll explain why.

The policy terms required Marshmallow to pay Mr S the market value of his car. The terms define this as the cost to replace the car with one of a similar age and same make, model, mileage and condition at the time of the loss.

I should explain that my role isn’t to value Mr S’s car, but to assess whether Marshmallow followed a fair valuation process. So I’ve looked at how Marshmallow determined the market value of Mr S’s car, and considered if the way it did so was fair.

Marshmallow used motor valuation guides to value the car. This method is standard industry practice and isn’t unreasonable given the valuations from these guides are generally based on the prices of similar cars for sale.

Marshmallow obtained three guide valuations: £22,380, £22,250 and £22,777. It averaged these to arrive at its settlement offer of £22,469. I'm not persuaded Marshmallow has shown it arrived at a fair valuation though.

We generally say that to avoid the risk of detriment of a customer an insurer should use the highest figure provided by motor valuation guides unless it's shown it would be unfair to do so.

Our investigator obtained a fourth valuation of £23,407 from another guide which Marshmallow hadn't used. This valuation is higher than the valuations Marshmallow relied on to produce its average, and Marshmallow has said it should be discounted. Marshmallow said that valuations from motor valuation guides can change daily. But I don't think that's enough to show this valuation should be discounted as I'm aware of no reason why Marshmallow couldn't have obtained its own valuation from this guide around the time it obtained its other valuations or any other reason showing this valuation is wrong.

So I don't think Marshmallow has provided enough here to show why it wouldn't be fair to use the £23,407 valuation which is based on the highest amount from the motor valuation guides, and why the £22,469 valuation it calculated based on an average would be fairer to use instead. Because of this, to avoid the risk of detriment to Mr S, I think the £23,407 valuation should be used.

Turning now to the handling of the claim, we generally say that insurers should make an interim payment when a dispute over a vehicle valuation arises. And I haven't seen any compelling reasons from Marshmallow why it didn't do this. So I think this was unfair and caused Mr S distress and inconvenience which could have been avoided had it made an interim payment. I think £100 is a reasonable amount of compensation for this.

Putting things right

I require Marshmallow to do the following:

- Pay Mr S an additional £938 to bring the total loss settlement amount in line with the highest valuation of £23,407 and apply 8% simple interest per year to this payment calculated from the date the original total loss offer was made to the date of settlement.
- Pay a further £100 to Mr S for distress and inconvenience caused.

If Marshmallow considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr S how much it's taken off. It should also give Mr S a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

My final decision is I uphold this complaint. I require Marshmallow Insurance Limited to resolve the complaint in line with the steps I've set out in the 'Putting things right' section of this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 9 December 2024.

Daniel Tinkler

Ombudsman