DRN-5197462

The complaint

Ms W complains about the settlement that UK Insurance Limited (UKI) offered her for the total loss of her car following a claim made on her motor insurance policy.

What happened

Ms W's car was stolen and later recovered, and she made a claim on her policy. UKI initially offered her £3,017 in settlement of her claim. But it later reduced its valuation to £2,747, less the £100 policy excess. And it then reduced this valuation by 20% as it said the car had been a previous total loss. But Ms W was unhappy with this and with the level of service she received. She thought she couldn't replace her car for this amount. She thought UKI should honour its original offer.

Our Investigators recommended that the complaint should be upheld in part. They thought UKI had reasonably based its settlement for the car's market value on the motor valuation guides we use. They thought its starting offer was close to the highest of the valuations provided by the valuation guides and the deduction for the previous total loss was supported by evidence. So they thought this was fair and reasonable. But they thought UKI should pay Ms W £100 compensation for the loss of expectation caused by its incorrect first offer.

Ms W replied that the settlement wouldn't be enough to buy a replacement car in the current market. She provided multiple adverts showing similar cars to her own advertised at higher prices. She said her car had very desirable optional extras. She said this matter had caused her stress for over 11 months and £100 compensation wasn't sufficient. Ms W 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 Ms W wants a fair settlement for the loss of her car. She said she'd seen similar cars advertised for higher prices and so she was disappointed with UKI's offer. She said she couldn't afford to buy a replacement car with the settlement offered.

Ms W's policy provides for her car's market value in the case of its total loss. I can see that this is defined in the policy booklet:

"Market value 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."

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 valuation 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 Investigators thought UKI's settlement offer was fair and reasonable. So I've checked how they came to this conclusion. I can see that they looked in the valuation guides we use for cars of the same make, model, age, mileage, condition and optional extras as Ms W's car at the date of its loss.

Ms W 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 valuation 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 Ms W's.

Given the current challenges in the used car market the valuation guides have a wider range of values then 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 valuations in the guides, unless they are able to provide us with evidence which supports a lower valuation.

UKI had provided a valuation of £2,747, which was the average of the valuations provided by the guides. The optional extras didn't add value, which isn't unusual. And UKI and Ms W provided examples of cars of the same year and mileage for sale at less than this offer. This means that Ms W could have replaced her car in keeping with the policy's terms and conditions for UKI's valuation. And so I think UKI has justified offering a lower valuation than the highest found in the valuation guides.

UKI then reduced the settlement offer by 20% as it said the car had been a previous Category N total loss. UKI has provided us with confidential information to justify this decision. And, although I can't share this with Ms W, I can assure her that I've checked it carefully. And so I agree that UKI's offer was fair and reasonable as it was made in keeping with our approach and the policy's terms and conditions. I don't require it to increase this.

UKI initially offered Ms W a higher valuation. I think this valuation was premature as it wasn't supported by evidence and didn't take into account the car's previous total loss status. This caused a loss of expectation for Ms W. And I agree that UKI should pay Ms W £100 compensation for this trouble and upset. I think that's in keeping with our published guidance for the impact of a single error that was promptly corrected. And so I'm satisfied this compensation is fair and reasonable and I don't require UKI to increase this.

Ms W was unhappy that she didn't receive a refund of the "unused" months of premiums she had paid for her policy. But an insurance policy is an annual contract and in the case of a claim, the policy has been used and so no refund was due. Ms W was also unhappy that her car was sold and repaired. But I can't see that Ms W asked to retain the car's salvage. And so I can't say that UKI did anything wrong in disposing of it.

Putting things right

I require UK Insurance Limited to pay Ms W £100 compensation for the distress and inconvenience caused by its handling of her claim.

My final decision

For the reasons given above, my final decision is that I uphold this complaint in part. I require UK Insurance Limited to carry out the redress set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 30 January 2025.

Phillip Berechree
Ombudsman