

The complaint

Mr C complains about the settlement that UK Insurance Limited (UKI) offered him for the total loss of his car following a claim made on his motor insurance policy.

What happened

Mr C's car was damaged in an accident, and he made a claim on his policy. UKI offered him £4,377 less a 20% deduction because the car had been a previous Category S write off, in settlement of his claim. But Mr C was unhappy with this as he'd paid £4,000 for the car five weeks earlier and had known of the total loss status.

Our Investigator recommended that the complaint should be upheld. He thought UKI had reasonably based its settlement for the car's market value on the motor valuation guides we use. But he thought its offer should have been based on the highest of the valuations provided, with the exception of an outlier value. And he thought its deduction for the previous total loss was unfair as it was too high considering the car's age and mileage. So he thought UKI should offer Mr C the amount he had recently paid for the car and add interest to the difference.

UKI provided further adverts showing similar cars to Mr C's own advertised for sale at similar prices. As UKI didn't agree, 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 C wants a fair settlement for the loss of his car. He said that he'd paid £4,000 for it just five weeks before the accident and so he was disappointed with UKI's offer. And he said he'd couldn't buy a replacement with UKI's offer.

Mr C'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 vehicle 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 motor 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.

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 valuation guides, unless they are able to provide us with evidence which supports a lower valuation.

Our Investigator thought UKI's 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 valuation guides we use for cars of the same make, model, age, mileage, condition and optional extras as Mr C's car at the date of its loss.

He discounted one outlying valuation, which I think was fair and reasonable as it was substantially more than Mr C had paid for the car. And UKI had provided an advert for a similar car for sale at a price in keeping with the lower valuations. And he thought UKI should then base its offer to Mr C on the highest of the remaining valuations, £4,520.

He then thought UKI should make a deduction for the car being a previous total loss. But he thought UKI's 20% deduction was unfair. UKI accepts that making a deduction because of a previous write-off isn't an exact science. And our approach is that a blanket 20% deduction isn't always fair as the effect can be less because the car's age and mileage. We expect an insurer to show what impact the previous total loss has had on the market value if it is making the deduction to show the deduction is fair.

UKI provided adverts for similar cars advertised at a range of 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 Mr C's.

UKI also provided adverts of similar cars showing that a total loss can reduce the price by 20%. But I can't see that this allowed for the effect of the car's age and mileage. So I'm not satisfied that a 20% deduction would be fair in Mr C's case. I think a fairer approach would be to consider what Mr C paid for the car shortly before the accident, knowing of the total loss status, as a fair market value taking into account the total loss.

UKI had paid Mr C a settlement of £3,502. But I think it should increase this to £4,000 and pay Mr C £498 more in settlement of his claim. And, as Mr C has been without his money for some time, I think it should reasonably add interest to this amount.

Putting things right

I require UK Insurance Limited to pay Mr C £498 more in settlement of his claim, adding interest to this amount at the rate of 8% simple per annum from the date of the initial payment to the date of settlement†.

†If UKI considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr C how much it's taken off. It should also give Mr C a tax deduction certificate if he ask 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. 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 Mr C to accept or

reject my decision before 17 February 2025.

Phillip Berechree
Ombudsman