

The complaint

Mr L complains that Tesco Underwriting Limited (“Tesco”) underestimated the value of optional extra’s when settling a claim for the theft of his car, under his motor insurance policy.

What happened

Mr L’s car was stolen. He contacted Tesco to make a claim, which it accepted. It offered to settle his claim for £13,350. Mr L says his car had a number of optional extras that weren’t reflected in this valuation and complained.

In its final complaint response Tesco says its engineer had reviewed the industry trade guides to determine a fair valuation for Mr L’s car. This included consideration of the optional extras that were fitted to the car when it was made. Tesco maintained that its offer of £13,350 was fair, less Mr Ls policy excess for £900.

Mr L didn’t think Tesco had treated him fairly and he referred the matter to our service. Our investigator upheld his complaint. She says the highest of the trade guide valuations gave £14,032 as the market value of Mr L’s car at the time of his loss. This included consideration of the optional extras that he’d confirmed. Our investigator wasn’t persuaded that Tesco had provided evidence showing a lower valuation was fair. She says the business should pay Mr L the higher valuation plus 8% simple interest on the outstanding balance.

Mr L accepted our investigator’s findings. Tesco didn’t. It maintains that its approach to valuing Mr L’s car was fair.

As an agreement wasn’t reached the complaint has been passed 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’m upholding Mr L’s complaint. Let me explain.

Mr L’s policy provides the market value in the event of a total loss due to accident damage. It defines market value as the cost of replacing the car for one of a similar make, model, and specification. It says it will also consider age, mileage, and condition. And that it will usually ask an engineer for advice and refer to the motor trade guides and other relevant sources. The policy says that it will assess the value at the time immediately prior to the loss occurring.

We don’t provide valuations for vehicles. But rather in these circumstances we look to see that the insurer’s offer is reasonable. In assessing whether a reasonable offer has been made, we obtain valuations from the motor trade guides.

These guides are used for valuing second-hand vehicles. We find these guides persuasive because their valuations are based on nationwide research and likely sales figures. The guides also consider regional variations. We also take all other available evidence into account, for example, engineer's reports.

Tesco says it obtained valuations from three of the trade guides. However, one of the guides didn't provide a figure. The values it obtained were for £12,300 and £11,595. It used the highest of these and added £1,050 to account for the optional extras. It then paid Mr L £13,350 in settlement of his claim.

Our investigator obtained valuations from four of the trade guides. Including the one that Tesco were unable to obtain a figure from. I've checked to see that she used the correct make, model, mileage, condition etc, which she did. I also checked that she used the correct loss date which was 17 September 2024. Again, this was correct. The highest of these valuations was for £14,032. I can see that the optional extras Mr L mentioned were included in these valuations.

The approach our service takes to these disputes is that where an insurer offers less than the highest trade guide valuation, we expect it to evidence why this is fair. Tesco says it wasn't able to find a market example from the time of the loss. But it still maintains that its settlement offer was fair, based on the two trade guides it used. I acknowledge its view. But it hasn't shown that a lower valuation, than the highest of the trade guides, is fair. We take this approach as it means the policyholder is likely to receive a fair settlement. Meaning the payment offered will allow them to buy a comparable replacement vehicle.

Mr L has provided three adverts showing similar cars for sale. However, all of these have covered fewer miles than his car, which I think is reasonably reflected in the higher offer prices. In addition, one of the examples is of a higher specification and so isn't reasonably comparable.

Having considered this evidence carefully, I think the fairest approach is for Tesco to base its settlement offer on the highest of the trade guide valuations. This is because I'm not persuaded by the evidence I've seen that it's fair for it to pay a lower amount. This means Tesco should settle Mr L's claim for £14,032. It should also pay him 8% simple interest on the unpaid amount. It should calculate this from the date it paid the original settlement up to the date the increased amount is provided.

My final decision

My final decision is that I uphold this complaint. Tesco Underwriting Limited should:

- settle Mr L's claim based on a valuation of £14,032 for his car; and
- pay Mr L 8% simple interest* on the unpaid portion of the settlement, from the date it paid the original amount until this is paid in full.

**If Tesco considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr L how much it's taken off. It should also give him a tax deduction certificate 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 L to accept or reject my decision before 20 May 2025.

Mike Waldron
Ombudsman