The complaint

Mr H complains about the settlement that Marshmallow Financial Services Ltd offered him for the total loss of his car following a claim made on his motor insurance policy. He's also unhappy with its level of service. He wants compensation for his emotional distress and financial hardship.

What happened

Mr H's car was damaged in an accident, and he made a claim on his policy. Marshmallow offered him £3,800, less the policy excess and outstanding premium, in settlement of his claim. But Mr H was unhappy with this and with the level of service he received. He thought he couldn't replace his car for this amount. He thought it would cost about £4,500, as shown by adverts, to replace his car. Marshmallow agreed there had been service failings, and it offered Mr H £375 compensation for this. But Mr H remained unhappy.

Our Investigator didn't think Marshmallow needed to do anything further. She thought Marshmallow had reasonably based its settlement for the car's market value on the motor valuation guides we use. She thought its offer was the highest of the valuations provided by the motor guides. She thought the policy's terms and conditions required the policy excess and premium to be paid in full. She thought the policy didn't provide a courtesy car or cover for loss of earnings. But she agreed there had been service failings. And she thought Marshmallow's offer of compensation for its service failings was fair and reasonable.

Mr H replied providing adverts showing similar cars to his own advertised at higher prices. He said this matter was causing him stress. Mr H 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 Mr H wants a fair settlement for the loss of his car. He said he'd seen similar cars advertised for about £4,500 and so he was disappointed with Marshmallow's offer. I was sorry to hear that the claim process has caused Mr H stress and upset.

Mr H'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 to replace a vehicle with one of similar age, same make and model, mileage and condition at the time of the accident or loss."

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

Mr H provided adverts for similar cars advertised at higher prices. And I have considered these and looked to see where the advertised cars are identical to Mr H's. But the examples he provided all have lower mileages than his car and often differ in age and condition. So I'm not persuaded that these examples justify an increase in the car's market value.

Given the current challenges in the used car market the motor 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 guides, unless they are able to provide us with evidence which supports a lower valuation.

Marshmallow had provided a valuation of £3,800, which was the highest of the valuations provided by the guides. And I can see that this supported by Marshmallow's own market research. And so I agree that Marshmallow'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.

Marshmallow made deductions from Mr H's settlement. It deducted £700 for the policy excess and £1,890.50 for the outstanding premiums. Our approach in cases like this is to consider whether the insurer's acted in line with the terms and conditions of the policy and fairly and reasonably.

The policy excess is always the first part of a claim to be paid. And I can see that Mr H agreed to pay a voluntary excess in addition to the compulsory excess when he took out his policy. This would generally lower his premium. And I think its fair and reasonable and in keeping with the policy's terms and conditions for Marshmallow to apply this deduction.

When Marshmallow agreed to pay a total loss settlement, the policy had, in effect, been used. And so the full premium was due. This is stated in the policy's terms and conditions on page 43, where an

"…insured vehicle is determined to be a total loss…all outstanding or overdue premiums must be paid immediately. We may, at our discretion, reduce the claims payment by the amount of outstanding or overdue premiums that you owe us."

Mr H didn't want to add a replacement car to his policy. So I think it was fair and reasonable for Marshmallow to deduct the outstanding premium from the settlement.

Marshmallow agreed that its level of service had been poor. It delayed paying Mr H an interim settlement, affecting his ability to work and causing him avoidable stress. Marshmallow didn't provide Mr H with updates as it should have done. And it didn't communicate effectively with him.

But Mr H wasn't entitled to a courtesy car under his policy. And his policy doesn't cover indirect losses, such as loss of earnings. I also think Marshmallow was reasonably timely in assessing his car's market value. I can see that Mr H also complained to us that

Marshmallow’s agent had accused him of being uncooperative. But he will first have to raise this concern with Marshmallow to give it a chance to respond before I can consider this.

Marshmallow paid Mr H £375 compensation for the trouble and upset caused by its handling of his claim. I think that’s in keeping with our published guidance where the impact of an error has been felt over a month. And so I’m satisfied that Marshmallow’s compensation was fair and reasonable, and I don’t require it to increase this.

My final decision

For the reasons given above, my final decision is that I don’t uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr H to accept or reject my decision before 21 July 2025.

Phillip Berechree
Ombudsman