

The complaint

Mr G complains that Motors Insurance Company Limited (MIC) unfairly settled a claim he made on his Guaranteed Asset Protection (GAP) insurance policy.

What happened

Mr G acquired a car (the car) in June 2022 for around £54,451.00 (the purchase price). Around the same time, he took out a GAP insurance policy with MIC.

In July 2024, the car was stolen and this resulted in a total loss settlement from his motor insurer (who I'll refer to as Z). Mr G notified MIC of the loss and following this, Z settled the motor insurance claim based on the £40,000 motor insurance policy limit.

MIC, after communicating with Z, paid Mr G a settlement of £7,181.00 in October 2024. This was based on the difference between the purchase price and an insured value of £47,520.00, and £250 that covered part of Mr G's motor insurance policy excess.

Mr G complained to MIC. He said the insured value MIC should use is £40,000.

MIC issued a complaint response in November 2024. It said Z confirmed the car's pre-accident value (PAV) was £47,520.00, and it had correctly used this figure (instead of the £40,000 motor insurance policy limit) to calculate the settlement.

Mr G referred his complaint to the Financial Ombudsman Service. He said MIC didn't handle or settle the claim in line with the policy terms. He said it wasn't entitled to contact Z and he was around £7,520 out of pocket because MIC settled the claim unfairly.

The Investigator didn't uphold the complaint. They said MIC acted fairly in contacting Z to confirm the vehicle value, and in settling the claim based on the value Z provided.

Mr G didn't agree. He didn't think the information provided by Z should be taken into account. He said the insured value was confirmed by Z to be £40,000. He also said MIC wasn't entitled to contact Z under the terms. He wanted MIC to pay a settlement based on the difference between £40,000 and the purchase price.

Because the complaint couldn't be resolved, it's 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.

I should first set out that the Financial Ombudsman Service is a dispute resolution service, not the regulator of the insurance industry. So it's not our role to enforce the terms of a contract or make a finding of breach of contract – only a court can do this. Our role is to look at whether a business has acted fairly in the circumstances of the complaint and decide what it needs to do where it hasn't.

Under this complaint, I've considered the actions of MIC in how it settled Mr G's claim.

Contacting Z

The terms of Mr G's policy say:

"MAKING A CLAIM

If you accept a motor insurance settlement from the motor insurance policy before contacting the administrator, we have the right to contact the motor insurer in your name to assess the settlement offer and, where necessary, try to agree a settlement that is in line with the retail figures in Glass's guide at the time your vehicle was declared a total loss."

I agree with Mr G the above says MIC can contact Z to discuss Z's settlement offer, where Mr G accepts Z's settlement before contacting MIC. But I don't agree this can fairly be interpreted to mean MIC can't contact Z in any other circumstances, or to discuss things such as the insured value.

Given that the GAP insurance is linked directly to the existing motor insurance policy, I don't think it's unreasonable for MIC to contact Z in the circumstances. So overall, I don't think MIC acted unfairly in contacting Z for information about the car's insured value.

Insured value and settlement

The terms of Mr G's policy say (following the total loss of the car), MIC will pay the difference between the insured value and the purchase price of the car.

Insured value is defined as:

"The value of your vehicle...as assessed by... your motor insurer..."

I think it's important to note that the definition of insured value refers to the value of the vehicle, not the value of the motor insurance claim or settlement (or any policy limit). I've kept this in mind.

The terms of the policy also say that in order to be eligible for cover, the vehicle must be:

"Insured by a motor insurance policy which provides comprehensive motor insurance to the full market value of your vehicle, not...an agreed value..."

So I don't agree with Mr G that the policy doesn't exclude motor insurance policies that have capped limits. I've also kept this in mind.

Mr G's motor insurance policy defines the market value as:

"The cost of replacing the car...at the time of loss as assessed by us. We use guides which refer to vehicle values..."

And in his motor insurance statement of fact, it's declared Mr G is aware that:

"the maximum amount payable under the policy in respect of loss or damage to the vehicle insured is £40,000."

With the above in mind, I think it's fair for MIC to rely on the market value of the car, as confirmed by Z, in determining the insured value. This is as opposed to Mr G's motor insurance policy limit. I think it's clear from the eligibility terms, MIC doesn't intend to cover any difference as a result of motor insurance policy limits, below the value of the car.

Mr G referred to Z's letter in October 2024, where it said:

"The engineer has placed a pre-accident value of £40,000 on your vehicle".

But I've seen the communication from Z to MIC in October 2024, where Z explained this referred to Mr G's motor insurance policy limit. Z said the engineer advised the PAV was £47,520 based on the motor valuation guide.

So overall, I'm satisfied MIC acted fairly in deciding Mr G's motor insurance policy limit of £40,000, didn't amount to the insured value, as defined under the terms.

Mr G provided evidence of a sale he'd agreed, immediately before the car was stolen. This shows a sale for £43,849 was agreed. But Z's valuation of £47,520 was based on a guide that relies on nationwide research of likely selling prices, using advertised prices and auction prices. This is in keeping with industry practice and I consider it to be persuasive in the circumstances.

But for his motor insurance policy limit of £40,000, I think Z would likely have settled Mr G's motor insurance policy claim for £47,520 (less any motor insurance policy excess). So, I think it was fair for MIC to use £47,520 as the insured value, in calculating Mr G's GAP insurance settlement.

For the reasons outlined above, I won't direct MIC to do anything else.

My final decision

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 G to accept or reject my decision before 4 June 2025.

Monjur Alam
Ombudsman