

## The complaint

Mrs F complains at how First Central Underwriting Limited settled a claim she made on her motor insurance policy.

## What happened

Mrs F held a motor insurance policy with First Central. After her car was damaged by fire, she made a claim to First Central for the damage caused.

First Central accepted the claim and deemed Mrs F's car unrepairable and wrote it off.

Mrs F's car was leased from a finance company I'll call G. So to settle the claim First Central paid G what it considered to be the car's trade value. It said this was £17,140. It then said it would deduct 20% from that amount for VAT. It said because the owner of the car was G, a VAT registered company, it wouldn't have paid VAT on the vehicle, so didn't think it needed to when settling the claim. It also deducted the policy excess. Having done so, it paid G £13,462.

This left Mrs F with a shortfall on the lease of over £2,000. She didn't think this was fair and complained. She also complained that settling the claim took too long.

First Central didn't change its stance, so Mrs F brought her complaint here.

Our Investigator recommended her complaint be upheld. They thought it was reasonable for First Central to not pay VAT but said that the settlement figure from G clearly didn't include VAT. Therefore, because the car's market value of £17,140 exceeded the settlement figure of £15,791, they thought First Central should have settled the finance agreement in full. They also thought Mrs F should be given a pro-rata refund of the deposit she paid in line with our approach to these types of cases.

They didn't think the claim settlement had been delayed, but thought not having it settled fairly caused distress and inconvenience. They recommended First Central pay her £250 compensation.

Mrs C accepted this assessment. First Central didn't. It maintained what it settled the claim at was all that it needed to pay.

## 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 it.

Mrs F's policy with First Central says the most it will pay for any claim is the market value of her car. It defines market value as *"The cost of replacing **your car** with one of a similar make, model, age, mileage and condition based on market prices at the time of the accident or loss..."*

Under the section which details what will happen when a claim is paid. The policy says that *"If **your car** is considered to be a **total loss** or stolen and is under a lease or contract hire agreement, the **insurer** will pay the owner of the car (i.e. the lease or contract hire company) either the **market value** of the vehicle, or the amount required to settle the agreement, whichever is less."*

Looking at these terms, under a strict application First Central only need to pay what it would cost G to replace the car, because it was the owner of the vehicle. Which because it's a VAT registered company will be exclusive of VAT.

But this isn't as clear as it could be. There's nothing which clearly states that if the vehicle is owned by a company and leased to the policyholder then VAT won't be included in the settlement of the claim. So I think a reasonable interpretation is that the market value would include VAT as it would on a private policy. This is a private policy, not a commercial one, so I'm not persuaded most policyholders would have any knowledge of VAT and how this applies to First Central's calculation of market value.

I wouldn't expect First Central to pay VAT on the settlement though. If it did, G would essentially be getting VAT twice, once from Mrs F, since she's paid the VAT through her finance agreement, and once from First Central. But here, that's not what it was asked to do. The final settlement of the lease G provided to Mrs F clearly excludes VAT.

Essentially what's happened here is that First Central has calculated the value of Mrs F's car, then deducted VAT from it. Whereas I think most people probably wouldn't expect any VAT to be taken of at all.

The finance company, G, should not be charging VAT on it's settlement figure given to First Central – and here, it didn't.

So, whilst on a strict application of the terms, First central has settled the claim in line with them. But I don't think it produces a fair outcome because it's not clear how that terms operates in reality.

Therefore because Mrs F's car, prior to the deduction of VAT was deemed to be worth more than the settlement figure, which was exclusive of VAT, First Central, in settling this claim, should settle that agreement in full. If Mrs F has since paid the outstanding amount, First Central should instead reimburse her for that payment – including any charges, plus interest.

Turning to the deposit paid, this is actually an advanced payment. Our Service thinks it's fair to return a proportion of this if the vehicle is deemed a total loss. That's because the larger this advanced payment, the less the other monthly payments are. This in turn lessens the insurer's liability, meaning it has to pay less to settle the lease.

So, because the market value of the car (inclusive of VAT), is more than the settlement figure, like our investigator, I agree a proportion of that advanced payment should be refunded to Mrs F.

First central should work this out by: Taking the advanced payment and deducting one month's standard lease payment from it. This will leave the additional amount paid. It should then divide this additional amount by the number of monthly payments, to see how this payment has affected the overall payments – i.e. to see how it would be spread over the agreement were it not paid upfront in the advanced payment. It should then take this figure and multiply it by the number of months left on the agreement at the time of the loss. This represents the unused part of that additional payment which should be returned to Mrs F. Interest should be added to this amount.

Like our Investigator, I also don't find there were substantial delays so don't require First Central to do anything more in that regard.

But I agree that having an outstanding amount to pay on a finance agreement, when you thought you'd be getting some payment yourself would be both distressing and inconvenient in terms of having to further deal with G. I'm satisfied £250 compensation is fair compensation to account for this.

### **Putting things right**

First Central should effectively settle the claim by paying the full settlement of the lease. If this is outstanding with G, then First Central should pay G. If Mrs F has already paid G to settle the agreement, then First Central should instead pay her, plus interest\*.

Any interest, fees or charges relating to the outstanding amount and its delayed settlement should also be covered by First Central.

First Central should also pay Mrs F a proportion of her advanced payment to be calculated as set out above. Interest should be added to this payment too\*\*.

Lastly, First Central should pay Mrs F £250 compensation.

\*Interest should be calculated at a rate of 8% simple per annum. Interest should be calculated from the date Mrs F paid any amount to G, to the date First Central pays her.

\*\* Interest should be calculated at a rate of 8% simple per annum. Interest should be calculated from the date First Central settled the claim initially with G, to the date it pays her this payment.

### **My final decision**

For the reasons set out above, my final decision is that I uphold this complaint. To put things right First Central Underwriting Limited needs to take the actions set out above in the "Putting things right" section.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs F to accept or reject my decision before 24 July 2025.

Joe Thornley  
**Ombudsman**