

## **The complaint**

Miss C is complaining on behalf of J – a company that she is the sole trader of – that Covea Insurance plc is looking to deduct VAT from a settlement for a claim on her commercial vehicle insurance policy.

## **What happened**

In April 2024 Miss C's van was damaged in a hit and run incident, so she contacted Covea to claim for the damage against J's commercial vehicle insurance policy. Covea declared the van a total loss and said it would settle the claim by paying the van's market value less the excess. And it said it considered the van's market value to be £7,648. But it said this was exclusive of VAT.

Miss C didn't agree with Covea's valuation. She said she was not VAT registered and had to pay VAT to replace the van. So she didn't think it was fair for Covea to deduct VAT. Covea later said it would pay VAT if Miss C chose to dispose of the van. But it said it would exclude VAT if she wanted to keep it.

Miss C still didn't think Covea was being fair, so she referred her complaint to this Service.

Our Investigator upheld this complaint. He said J wasn't VAT registered so he didn't think Covea should have deducted VAT from the settlement even if Miss C chose to retain the van. So he said Covea should pay the claim inclusive of VAT regardless of whether Miss C chose to retain the van or not. He said Covea had offered to pay the settlement as an interim payment, which he thought was fair. But he said it should have said it would pay the VAT at that time. So he said Covea should pay 8% simple interest to the VAT amount it should have also originally included. Finally he said it should pay £100 in compensation.

Covea didn't agree with the Investigator and reiterated it had offered to pay VAT on the settlement if Miss C chose to salvage the van. And it asked for an ombudsman to consider this complaint.

## **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've decided to uphold this complaint for the same reasons as the Investigator and I'll explain why.

This service's role isn't to work out exactly what the value of an individual vehicle is. We look at whether the insurer has applied the terms of a policy correctly and valued the vehicle fairly. Under the terms of J's policy, Covea has to pay the market value of the van, less the excess.

The market value is defined as "*The cost of replacing your vehicle with one of the same make, model, specification, year, mileage and condition.*"

Covea has valued Miss C's car at £7,648. It's said this is what it believes the van was worth less VAT. Miss C didn't agree with this as she believed the van was worth around £10,000. She's set out that she's not VAT registered so doesn't believe it was fair for Covea to have deducted VAT.

In the first instance, I should set out that I think Covea's base value – i.e. not taking VAT into consideration – of the vehicle is fair. Covea has calculated this by using valuation guides. It's standard practice for the industry to use valuation guides to work out the estimated market value of a car. And it's not unreasonable that it does so. The valuation the guides give are based on the advertised prices of similar cars with similar age and mileage for sale at the time of loss.

Where valuation guides provide a wide range of values, we'd compare the insurer's valuation against the highest values given by the guides, unless there is something to suggest these given aren't a fair reflection of the amount similar cars sell for on the open market.

In this case, Covea has provided evidence in the form of adverts for similar vans to show Miss C could have replaced the van for the amount it had valued it at if J wasn't liable for VAT. However, as I said, under the terms of the policy, Covea is required to pay the cost to replace the van. Miss C and J have to pay VAT to replace the van. So it was unfair for Covea to deduct VAT from the van's market value. I note Covea has now agreed to pay VAT if Miss C retains the vehicle, but it said it won't pay VAT if Miss C decides to keep her van. But I don't understand Covea's rationale here, nor do I consider it to be fair.

As I said, the policy requires Covea to pay the market value inclusive of VAT. If Miss C chooses to keep the van, Covea is entitled to deduct the amount it would have received for the van's salvage. But there isn't anything in the policy that entitles Covea to deduct VAT in these circumstances, nor do I think it fair for it to do so. The loss being incurred is either the cost to repair the van or its value – i.e. the amount that would have to pay to replace the van. In both of these situations J would have to pay VAT. So it's fair and reasonable that Covea pays VAT.

It follows, therefore, that I think Covea should increase the claim settlement to ensure it's inclusive of VAT regardless of whether Miss C chooses to retain the van or not.

On 11 July 2024 Covea told Miss C it could pay the settlement to her and she could still receive the VAT later if this Service required it to pay this. It confirmed this in an email the next day. So it was Miss C's choice to not receive this money at that time. So I don't think I can reasonably require Covea to compensate Miss C or not having this money since then. However, Miss C is without the VAT settlement from that time. So I think Covea should pay 8% simple interest on this amount.

The Investigator also thought Covea should pay £100 in compensation for the distress and inconvenience from not receiving the settlement. Miss C hasn't raised any comments about whether that's unfair or not. So I think Covea should pay this too.

### **My final decision**

For the reasons I've set out above, it's my final decision that I uphold this complaint and require Covea Insurance plc to do the following to put things right:

1. Increase claim settlement to ensure it's inclusive of VAT regardless of whether Miss C chooses to retain the van or not;

2. Pay 8% simple interest on any VAT element of the settlement it pays to Miss C from the date Miss C first reported the claim until it settles the claim; and
3. Pay £100 in compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask J to accept or reject my decision before 14 August 2025.

Guy Mitchell

**Ombudsman**