

The complaint

Mrs D complains about that Zurich Insurance Plc withheld insurance funds following a claim on her motor insurance.

What happened

Mrs D had motor insurance with Zurich for a car she leased. In August 2023 she was involved in a road accident. She reported this to Zurich and made a claim on her insurance.

Zurich declared the car a total loss and agreed to settle the claim. It initially settled in April 2024 by paying Mrs D's leasing company £14,115. This represented the market value of her car, less VAT. This left a shortfall against the outstanding balance on the lease agreement. Zurich told Mrs D she was liable for this. Mrs D was unhappy with this. Zurich later agreed it shouldn't have deducted VAT from its settlement. It paid the outstanding balance to the leasing company in May 2024.

Zurich apologised for its service failings and for delays replying to her complaint. It offered her £150. Mrs D remained unhappy and complained to this service.

Our investigator didn't recommend that the complaint should be upheld. He thought Mrs D's complaint about her insurance funds had previously been addressed by both Zurich and this service. He thought Zurich's £150 offer to apologise for further delays with the claim was fair.

Mrs D didn't accept this. She doesn't think £150 reflects the "immense" stress and worry she suffered over several months. She said: "*Zurich failed to pay the correct insurance settlement amount, misappropriated my insurance funds, purposely misheld [sic] insurance funds from me/[her leasing company], lied to me and to other co's regarding the settlement amounts and had no knowledge of VAT, et etc.*"

The complaint was passed to me.

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.

In all, Mrs D had three complaints about her claim, two of which she referred to this service. As part of my review, I've looked back at her previous complaint to make sure all her concerns have been considered.

Zurich told us the main aspect of Mrs D's complaint – that it misappropriated/withheld insurance funds – relates to "*the VAT issue which has been considered.*" It said it addressed this in Mrs D's previous complaint to this service.

I've reviewed Mrs D's previous complaint and I agree that our investigator's assessment – sent to her on 14 August 2024 – covered these points. Our investigator said:

- *“At the time [of settlement], VAT would have been removed as [the leasing company] would have been able to claim the VAT back and the offer of settlement was made to them as the owners of the vehicle. Zurich has confirmed the process has recently changed and now settlements include VAT.”*
- *“The settlement payment was delayed due to [the leasing company] experiencing system issues which prevented them from providing a settlement figure. Zurich confirmed [Mrs D’s] broker was updated in December and January about this. Given the delay was caused by a thirds party [the leasing company], we wouldn’t be able to hold Zurich responsible for this.”*

Zurich told us its £500 offer for Mrs D’s first complaint was for the *“inconvenience and upset due to the overall handling of the claim and the complaint.”* Mrs D accepted this in September 2024. However, given she remains unhappy and believes this hasn’t been properly investigated, I’ve reviewed this.

Having done so, I find:

- Under the policy, Zurich had to either repair her car or make a cash settlement. The cash settlement is the car’s market value. Market value isn’t defined in the policy but generally we think this is the cost of replacing a vehicle with one of a similar make, model, year, mileage, and condition.
- Section 8 of the policy booklet explains that Zurich *“will make all claims payments... to the legal owner if your car is under any contract or hire purchase agreement.”* In this case, the legal owner of Mrs D’s car was the leasing company.
- Zurich’s first payment to the leasing company shows it valued the car at £16,938. That’s lower than valuations in the October 2023 independent assessor’s report (£17,030) and the November 2023 Audatex report (£17,374). The valuation guides also suggest Zurich’s valuation was too low.
- However, in this case I think it’s important to consider Zurich’s valuation against the outstanding balance on the lease agreement. Also, I wouldn’t expect Zurich to pay Mrs D the difference between this balance and the car’s market value because Mrs D wasn’t the car’s owner – the leasing company was – so she had no equity in the car. Put another way, Mrs D’s loss and Zurich’s payout is limited to the amount it cost to settle the lease agreement, with one exception (see below).
- That’s consistent with what Zurich told us: *“[Mrs D] holds no financial interest in the vehicle, and therefore under the policy, we would pay the lease company their settlement figures. £15,500 is the figure to settle with the lease company and is what we paid.”*
- Zurich’s records confirm it paid the leasing company £14,155 on 3 April 2024 and £1,385 on 15 May 2024. So I’m satisfied Zurich settled the £15,500 balance on Mrs D’s lease agreement.
- Zurich was required to settle the claim by paying the leasing company directly. We asked it about the delays before it settled the claim. It told us: *“Main delays were due to [the leasing company] having system issues, so they had been unable to provide a settlement.”*

- Zurich's records show it first contacted Mrs D's leasing company on or around 8 November 2023. Zurich's records show it continued to chase this throughout November/December 2023, and January/February 2024. An email from the leasing company on 12 December explained that a "*digital transition... means there are delays and we are at a halt with producing total loss quotes.*" The leasing company finally provided the settlement figure by email on 13 February 2024.
- I don't think it would be reasonable for me to hold Zurich liable for the leasing company's failure to provide Zurich with a settlement figure until February 2024. If Mrs D remains unhappy with this, she should raise this with the leasing company.
- That leaves a seven week delay before it made the first payment, and another six week gap before it made the second payment to settle the balance on the lease agreement.
- I'm satisfied that Zurich's records show the first payment was delayed because the leasing company wasn't replying to Zurich's correspondence. Again, I don't think it would be reasonable for me to hold Zurich liable for this.
- However, its decision to deduct VAT from the car's market value – and the six week delay before it made the second payment – is more problematic.
- I don't see why Zurich should have deducted VAT from its payment to the leasing company. It told us this was because the leasing company could claim back the VAT, but it hasn't provided evidence of this, that this was ever discussed with the leasing company, or that the leasing company agreed this.
- Our approach is that market value includes VAT. Mrs D's policy was a personal (not commercial) one, so VAT should be included in the settlement figure. I think Zurich's decision to deduct VAT and leave Mrs D to pay the shortfall was unfair.
- It's clear from reviewing Zurich's records and Mrs D's evidence to us that this caused her anxiety and distress, especially when her GAP insurer told her it wouldn't cover this.
- While I recognise that the claim went on for several months, I think the distress and inconvenience directly caused by Zurich's failure to settle the claim appropriately with the leasing company was limited to the period between the two payments. That is, from 3 April to 15 May 2024. It's right that Zurich should compensate her for this.
- For the avoidance of doubt, I don't think Zurich deliberately withheld payment from the leasing company or – in Mrs D's words – misappropriated funds. I just think it got the VAT issue wrong.

But, as I said above, I agree with Zurich that it had already covered this. It offered her £500 in August 2024 for various issues, including its failure to adequately settle the claim. It later offered her £150 for additional service failings. In total, it offered her £650 across the two complaints.

I've considered the level of award given by this service in similar circumstances. Having done so, I think Zurich's total offer is fair. It follows that I don't uphold the complaint.

As I mentioned above, there's one remaining issue with Zurich's settlement. In this type of case, we'd expect the insurer to pay an amount to cover a proportion of the deposit¹. While Mrs D had no equity in the leased car, she still has a potential loss – the unused part of her deposit. Typically, a consumer will pay several months' lease payments up front as a deposit. Generally, we'd say an insurer should pay the policyholder a pro-rated amount of this when it settles a claim for a lease agreement.

Mrs D wasn't able to provide her agreement, which she told us she took out in "*the summer of 2022*". Zurich said it didn't have a copy either. So we haven't been able to review Mrs D's deposit to see if she's entitled to a partial refund of this. If Mrs D is able to find this, I'd expect Zurich to review it in line with the approach above.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D to accept or reject my decision before 9 October 2025.

Simon Begley
Ombudsman

¹ Zurich's total liability – the lease agreement settlement plus any pro-rated refund for the deposit – is limited to the car's market value.