

The complaint

Mr K has complained about the way RAC Insurance Limited (RAC) handled a claim he made on the 'key replace' section of his Breakdown Cover insurance policy

What happened

In August 2025, Mr K lost his key, so he made a claim on the 'key replace' section of his policy with RAC. RAC accepted the claim but said Mr K would need to pay £250 to replace the Keyless Vehicle Module (KVM) as this was a generic vehicle part – and that costs relating to failure of the vehicle's electronics are excluded from cover. Mr K disagreed with this, saying the KVM isn't faulty and hasn't failed, but is integral to the immobiliser system and necessary for reprogramming the new keys – and this is covered under the policy terms.

RAC didn't change their position, so Mr K complained. RAC responded in September 2025 but didn't uphold the complaint, so Mr K referred it to our Service. Mr K said he wants RAC to pay for the full cost of the key replacement and KVM – and to pay £500 compensation for distress and inconvenience caused by poor claim handling. Our Investigator upheld the complaint. He said RAC should cover the cost to replace the KVM under the policy. He thought £150 compensation was a fairer amount for the distress caused by refusing cover.

RAC disagreed, insisting that the KVM isn't covered. They maintained that the policy doesn't guarantee successful reprogramming of the electrics and that the KVM is excluded. The complaint couldn't be resolved so it has come to me to decide.

I note Mr K has also complained that RAC mis-sold him the policy. I haven't commented on this as RAC Insurance Limited didn't sell the policy to Mr K.

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.

As ours is an informal service, I'm not going to respond to every point or piece of evidence Mr K and RAC sent us. Instead, I've focused on what I consider to be key or central to the complaint. But I'd like to reassure both that I have considered everything submitted.

RAC has an obligation to handle claims promptly and fairly – and to not unreasonably decline a claim. I've thought about whether it was fair and reasonable for RAC to decline to cover Mr K's KVM as part of the claim he made. I don't think it was. I'll explain why.

Mr K's policy says if his keys are lost, RAC will arrange and pay for a locksmith to attend and provide him with a new key. And that the locksmith will try to reprogram the electronics, so Mr K's locks, alarm and immobiliser still work. The policy also says that RAC's locksmith may not be able to replace Mr K's key or reprogram the electrics, so they may need to arrange for his car to go to a main dealer or other specialist garage.

RAC accepted Mr K's claim for his lost key, so they need to provide him with a new one and need to do what they can to make sure that new key works with the electronics of the car. For Mr K's type of car, his new key won't work unless the KVM is replaced. This is something standard in Mr K's model of car – and I don't think the model is unusual. The locksmith knew they needed to replace the KVM to have the new key work with the car, and the policy allows this, so I don't think it's fair for RAC to refuse to replace this part.

There's an exclusion in the policy that says RAC won't pay for costs relating to failures of the vehicle's electronics, including where after-sale work (such as fitting an alarm system or changes to the central locking system) has been carried out on the vehicle. It says this could prevent RAC programming a new key. RAC say this exclusion applies.

From what I've seen, there's no suggestion there has been a failure of the electronics in Mr K's car. The KVM still works, but it needs to be replaced for the new key to work. The policy makes allowances for RAC paying for situations where setting up the new key is more complicated, and I think RAC should have recognised this is one of those times. And I don't think it's reasonable for RAC to rely on the exclusion to decline to replace the KVM.

Putting things right

For the reasons above, I don't think it was fair or reasonable to not pay to replace Mr K's KVM in the circumstances, and I'll be directing them to cover the cost of this.

RAC unfairly refusing to cover the KVM has meant, since late August 2025, Mr K only had one key available between him and his wife when he should have had two. I think the decline and subsequent unnecessary delays will have caused Mr K some distress and inconvenience. And I think the £150 compensation suggested by the Investigator is an appropriate amount to put things right in the circumstances.

My final decision

I uphold this complaint and direct RAC Insurance Limited to:

- Cover the key replacement claim up to the limit of indemnity – including the replacement of the KVM.
- Pay Mr K £150 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 16 February 2026.

Andrew Wakatsuki-Robinson
Ombudsman