DRN-5986477

Financial Ombudsman Service

The complaint

R has complained about the amount Aviva Insurance Limited has paid in settlement of its claim under its Motor Trade Insurance policy.

R is represented by Mr B.

What happened

A vehicle belonging to R was damaged by fire and R put a claim in under its policy. Aviva assessed the claim and decided the vehicle was a write-off. Initially it offered a settlement based on a valuation for the vehicle of £15,622. But when Mr B refused to accept this on behalf of R, Aviva reconsidered and offered to settle based on a valuation of £24,530. The first valuation was what Aviva considered to be the trade value of the vehicle less the cost of a new engine. The second valuation was the same trade value less around 50% of the cost of a new engine. This was because Aviva considered the engine had failed due to a mechanical failure, which was excluded under the relevant section of the policy – the Road Risks section.

Mr B still wasn't happy and complained to Aviva on behalf of R. And because Aviva refused to increase its valuation Mr B asked us to consider R's complaint. Mr B also said R was unhappy with the way Aviva had handled its claim.

Two of our investigators considered R's complaint. And in the most recent assessment the second investigator said Aviva should settle R's claim using a valuation of £33,330, without a deduction for the cost of a new engine. He said Aviva should also pay interest on the amount due above its final offer. He also suggested compensation to R of £100 for the inconvenience it experienced due to Aviva incorrectly valuing its vehicle.

Aviva asked for an ombudsman's decision. It's said that the deduction it made is for the engine, as this was damaged prior to the fire. It also queried the award of interest bearing in mind it made a without prejudice offer to pay what it thought was due in October 2024.

I issued a provisional decision on 19 November 2025 in which I set out what I'd provisionally decided and why as follows:

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I've reviewed the terms of R's policy and can see there is cover for vehicles it owns. The policy states that Aviva will pay for Damage caused to the Insured Vehicle by Fire or Theft. And it says the Basis of Claim Settlement is to pay, You. You being defined as the Policyholder named in The Schedule, which is R. The schedule, which I think forms part of the contract, states the Basis of Claim Settlement is Indemnity. Indemnity is not defined. The exception Aviva has relied on to deduct around 50% of the cost of a new engine is in the list of exceptions in the Road Risks section and states Aviva will not provide cover for mechanical, electrical or electronic failure, breakdown or breakage. But it goes on to say it will cover any subsequent Damage which results from a cause not otherwise excluded.

As I see it the policy wording means that Aviva needs to compensate R for the financial loss it has suffered as a result of the damage to its vehicle caused by fire. However, it does not need to pay for any damage caused by mechanical or electrical failure, due to the abovementioned exclusion.

As R's vehicle was damaged beyond economic repair, the starting point for working out what Aviva needs to pay is the replacement cost of the vehicle to R. Then from this amount a deduction needs to be made if any of the damage to it was caused by a mechanical or electrical failure. As R is a motor trader and buys vehicles at trade prices, this means Aviva only needs to pay what it would have cost R to replace the damaged vehicle at the point it was damaged with a vehicle of the same, make, model, specification and mileage. The specification would include any optional extras added to the vehicle, provided these would impact the replacement cost.

I consider the best way to establish the likely replacement cost to R is to use the guides used by the motor industry and insurance companies to value vehicles. And I can see that Aviva's valuation before any deductions of £33,330 is quite a bit above the trade value given by these guides for a vehicle with the original specification. So, even allowing for the fact that R's vehicle had optional extras, I am satisfied that Aviva's base valuation is reasonable. I appreciate the vehicle had borrowed wheels on it when it was damaged, but these were part of the make-up of the Insured Vehicle at the time it was damaged, so any valuation needs to reflect these.

Turning now to the deduction for what Aviva considers to be the damage to the vehicle caused by mechanical failure. I've read the forensic engineer's report provided by Aviva. This suggests to me that the engine on R's vehicle suffered a catastrophic failure just before the fire. I say this because Mr B has said he was driving along the motorway and heard a loud bang, which I suspect was the engine blowing. And the comments and photographs provided by the forensic engineer support this view. This means that before the fire damage there was already significant damage to R's vehicle caused by a mechanical failure. And I'm satisfied that the abovementioned exclusion means Aviva doesn't need to pay for this damage. And it seems from the engineer's report that the engine would have needed replacing if Mr B had managed to stop the vehicle and it hadn't caught fire. So, I think that there is a strong argument that the extent of the damage caused by the mechanical failure is the full cost of a new engine. So, I'm satisfied that Aviva's deduction of around 50% of this amount is more than reasonable.

This all means I do not consider Aviva needs to offer any more in respect of R's claim for its vehicle. And if R now wants to accept the offer Aviva has made of £24,030 it should contact Aviva and let it know.

Bearing in mind that I think Aviva could have argued a deduction of the full cost of a replacement engine was reasonable, I consider its initial offer of a lower settlement amount was understandable. So, while I accept Aviva could have made its higher offer sooner, I do not think compensation for the delay in it doing this is appropriate.

My provisional decision

For the reasons set out above, I've provisionally decided not to uphold R's complaint about Aviva Insurance Limited.

I gave both parties until 3 December 2025 to provide further comments and evidence in response to my provisional decision.

Aviva has not provided any further comments or evidence.

Mr B has provided further comments. He's said the service Aviva provided on his claim was very poor and he had to do all the chasing. And he has reiterated his point that Aviva based its settlement offers on a totally inadequate valuation of his vehicle. It seems from what he has said that he did not take Aviva up on its offer in October 2024 to pay R what it had offered, despite it being clear it could do so without prejudice to any further review, as he simply didn't think the offer was adequate.

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 am satisfied that the outcome I set out in my provisional decision is the right one. I'll explain why.

As I said in my provisional decision, Aviva needed to base its settlement of R's claim on the trade value of the damaged vehicle at the point it was damaged by an event insured under the policy. The policy doesn't cover damage caused by mechanical failure, but it does provide cover for damage caused by fire. At the point R's vehicle was damaged by fire mechanical damage had wrecked the engine. This means that it was already in a damaged state and had a much lower value at the point the fire started and damaged it. I appreciate the two events were close in proximity, but I'm satisfied from the forensic engineer's report Aviva has provided that the mechanical failure did happen before the fire started.

This means Aviva's claims settlement needs to be based on the value (replacement cost) of R's vehicle immediately before the fire. And, as the engine was wrecked beyond repair, this means it only needs to be based on the replacement cost of a like for like vehicle without a wrecked engine, less the cost of a replacement engine. I have no reason to doubt Aviva's engineer's estimate of £17,708 for a brand new engine. So, this amount needs to be deducted from the trade replacement cost of a like for like vehicle to get the correct replacement cost for R's vehicle immediately before it caught fire.

I've checked the trade guides and the adverts provided and I am satisfied that the trade cost of replacing R's vehicle like for like, including all the optional extras at the point it was damaged, was £33,330. And this is the amount Aviva used as its starting point before deducting the cost of the new engine. I appreciate Mr R thinks this starting point is too low, but this is not supported by the trade guides or the adverts provided, even allowing for the optional extras. In fact, one of the two trade guides that provide a value for the insured vehicle has the trade value of a standard vehicle at £26,500. The other has it at £28,245.

This means I am satisfied that Aviva's first offer of settlement of R's claim made in July 2024 (which was only about one and a half months after R made its claim) of £33,330 less £17,708, i.e. £15,622, less the policy excess was correct. I appreciate Mr B didn't think it was and rejected it. And this resulted in Aviva increasing its offer to £24,030, net of the excess. But this doesn't mean Aviva's initial offer was wrong.

So Mr B, on behalf of R, could have accepted Aviva's initial offer or he could have accepted its second offer. And, even if he didn't agree with either offer, he could have accepted an interim payment of the second amount Aviva offered in October 2024 and still asked us to consider his complaint. So, I see no reason why Aviva should pay interest on the amount due to R, when it could have had what was on offer in July 2024 or October 2024 if it had wanted to. If Mr B now wants to accept Aviva's offer he should let it know.

Therefore, because so far as I am concerned, Aviva offered the right amount in settlement of R's claim in July 2024, I do not consider it is appropriate for me to award anything for any delays or communication issues on the claim. In any event, any communication issues would have had more impact in terms of distress and inconvenience on Mr B. And I can only award compensation to R and not to Mr B.

My final decision

For the reasons set out in my provisional decision and above, I've decided not to uphold R's complaint about Aviva Insurance Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask R to accept or reject my decision before 3 January 2026.

Robert Short
Ombudsman