

The complaint

Mrs H has complained about the way AA Underwriting Insurance Company Limited (AAUICL) handled a claim she made under her car insurance policy.

What happened

In April 2025 Mrs H's car was hit by a third party vehicle (TPV) while parked and unattended.

The TP left a note on Mrs H's vehicle to provide their details.

Mrs H provided the details of the TP to her insurer, AAUICL, in April 2025. She said she wanted to first assess the repairs needed to her car before deciding whether to claim.

AAUICL sent Mrs H an email to confirm it had closed her claim as a notification only.

In May 2025, as requested, Mrs H provided images of her car. AAUICL said it would settle her claim as a total loss, that she would need to pay her excess, and if she were to retain her car, it would deduct a retention fee. It gave Mrs H two working days to tell it if she intended to keep her car. If it didn't hear from her, AAUICL said it would instruct an agent to collect her vehicle.

Mrs H complained to AAUICL. She was unhappy with the information she was asked to give about the third party and about the information AAUICL had given her about the claims process. Mrs H said AAUICL hadn't explained properly how or why a retention fee was deducted if Mrs H decided to keep her car. She said the notice AAUICL gave before taking action to recover her car was too short and caused alarm. Mrs H said she was unable to make an informed decision as to whether to accept the total loss settlement with the information AAUICL had given her.

Mrs H was unhappy that AAUICL said it would deduct an excess. She asked if it had contacted the TPI Insurer (TPI) as the TP had accepted liability. Mrs H offered to provide their details again.

On 9 May 2025 and 12 May 2025 AAUICL emailed Mrs H to say it had contacted the TPI. It registered Mrs H's complaint.

On 29 May 2025 Mrs H asked AAUICL for an update on its contact with the TPI.

On 18 June 2025 AAUICL said Mrs H could bring her complaint to us as it had been eight weeks since she had raised her complaint and it wasn't able to provide a final response letter.

On 14 July 2025 AAUICL replied to Mrs H's complaint and didn't uphold it. It said the total loss settlement had been calculated correctly and it had followed the correct process when Mrs H called to report the incident in April 2025.

Mrs H asked us to look at her complaint. She said AAUICL hadn't addressed all of her complaint.

On contact from this service, on 5 August 2025 AAUICL reviewed the complaint and said it had reached a different outcome to the one in its letter dated 14 July 2025. AAUICL said it had contacted the TPI but had failed to chase them and had not had a response or admission of liability. AAUICL said it was entitled to deduct a retention fee for the salvage of the car. But it accepted its communication could have been better and it had caused avoidable delays.

AAUICL offered to refund Mrs H's £300 excess, provide a full explanation of the salvage process, urgently pursue the TPI, and pay £500 compensation.

Mrs H rejected AAUICL's offer and asked us to investigate her complaint.

The Investigator asked AAUICL to evidence when it had contacted the TPI. In September 2025 AAUICL confirmed it first contacted the TPI on 6 August 2025. Copies of the email exchanges to us show the TPI accepted liability on the same day.

The Investigator recommended AAUICL increase the compensation award from £500 to £750. She thought AAUICL had caused avoidable delays, had failed to properly explain the process when deciding to settle Mrs H's claim as a total loss, and had provided incorrect information about when it had contacted the TPI. Had AAUICL handled the claim promptly and proactively, the Investigator thought more likely than not, the claim would have been settled much sooner and – as AAUICL accepted – it would not have asked Mrs H to pay the excess payment.

AAUICL didn't agree and asked for an ombudsman to decide. In summary it says it acknowledges that there were several months of uncertainty and service failings. But it says the compensation award of £500 is fair. AAUICL says the additional £250 compensation award is disproportionate for the impact and nature of its failings. It has provided examples of decisions we have made in similar cases along with case studies from our website.

I issued a provisional decision on 15 January 2026. I intended to uphold the complaint but I thought the compensation award by AAUICL was fair and reasonable.

AAUICL hasn't replied to my provisional decision. Mrs H disagrees with my provisional award of compensation. She says the award should be £1,000. In summary she says AAUICL were dishonest and only admitted it hadn't contacted the TPI when we asked it for evidence. She had to do the work to progress the claim. She says AAUICL's complaints handling process is a sham as it failed to properly investigate. Mrs H is unhappy with the amount of work she has had to put in to bringing her complaint.

So the case has been passed back to me to decide.

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, my final decision is on the same lines as my provisional decision. I understand how strongly Mrs H feels about the compensation award AAUICL has offered as she doesn't think it is enough. But I've set out below why I find the sum of £500 to be reasonable.

For ease, I've set out Mrs H's complaints under headings below.

AAUICL failed to properly explain why it deducted a retention fee if Mrs H kept her car

When an insurer settles a claim as a total loss, the damaged vehicle becomes the property of the insurer. Insurers have commercial arrangements with salvage agents when selling on the vehicle for salvage, once it is the insurer's property.

If a customer decides to keep their vehicle, it isn't unreasonable for an insurer to deduct the fee it would have otherwise received for salvage from the total loss settlement. If a customer were to receive both a full total loss settlement for their car, and keep the car, this would amount to betterment.

It is not for us to decide on the arrangements insurers have with salvage agents as these are commercially sensitive. We can look at whether the salvage option was properly explained as part of the claims process and whether the deduction amount is fair and within industry standards.

In this case, I find AAUICL could have provided a clearer explanation of the retention fee and why it would deduct it if Mrs H chose to keep her car. But I don't find the decision to make such a deduction – if Mrs H chose to keep her car - to be unfair.

AAUICL unfairly requested the excess payment

AAUICL, as with most – if not all insurers- applied an excess to Mrs H's claim. Sometimes, where a third party has accepted liability from the outset, an insurer can decide to waive the excess payment. Alternatively, an insurer can provide this as a refund once it has recovered all of the claim costs from the third party.

While there are no guarantees, it is clear that in this case, had AAUICL promptly contacted the TPI, liability would have been accepted straight away and AAUICL accepts it would have avoided asking Mrs H for the excess payment.

AAUICL failed to contact the TPI

In emails to Mrs H, AAUICL said the following:

9 May 2025;

"We have sent our allegations to the third party's insurance company, at this moment in time we have not received a response for an admission of liability from the third party's insurance company. We will look to recover all claim costs including but not limited to policy excess and total loss settlement from the third party's insurance company. Once the excess has been recovered this will be refunded to you."

On 12 May 2025 Mrs H provided AAUICL with an email from the TPI confirming it had received no contact from AAUICL. However, AAUICL replied to Mrs H on the same day and wrote;

"We are continuing to pursue the third party's insurance company"

AAUICL did not contact the TPI until 6 August 2025. Within two hours, the TPI accepted liability. This was three months after Mrs H proceeded with her claim which I find to be unreasonable.

AAUICL provided poor communication and caused avoidable delays

I agree with Mrs H that AAUICL's communication was poor. At times it provided generic responses to Mrs H. For example, it gave two working days' notice for Mrs H to accept the total loss settlement and confirm if she wanted to keep her car. If not, it would arrange for an agent to collect the vehicle. I can understand why Mrs H found the communication from AAUICL to be unclear and caused unnecessary alarm.

As I've said, I find AAUICL responded to Mrs H twice in May 2025 confirming it had contacted the TPI. But this wasn't true. On 29 May 2025 Mrs H asked AAUICL for an update on this particular issue but didn't receive a response.

It wasn't until 18 September 2025 that AAUICL confirmed to us that the first time it made contact with the TPI was on 6 August 2025. AAUICL says it has closed the claim as a non-fault claim.

The inaccuracy of AAUICL's replies meant Mrs H understandably had no confidence in the reliability of the information provided by it. Mrs H says this is a serious concern for her that her insurer was repeatedly dishonest. She says but for the fact that she contacted the TPI, and contacted us, AAUICL may never have contacted the TPI to settle the claim correctly. Mrs H did not know which insurer was telling her the truth.

It should not have been necessary for Mrs H to have to contact the TPI in order to progress her claim. I find the claim incurred avoidable delays due to the way AAUICL handled it. And I can understand Mrs H's serious concerns with the information AAUICL gave her about its actions under the claim, which were not true.

To resolve Mrs H's complaint, AAUICL offered to pay £500 compensation. Mrs H says a fairer compensation award is £1,000.

The Investigator has recommended £750 as a fair compensation award.

I've considered our approach to awarding compensation. The award AAUICL has offered sits within the range where significant distress and inconvenience has been caused - where the impact of the mistake has caused considerable distress, upset and worry – and/or significant inconvenience and disruption that needs a lot of extra effort to sort out. The impact may typically have lasted over many weeks or months.

Industry rules set out that an insurer should treat customers fairly when handling claims and deal with claims promptly. I find that AAUICL's poor handling meant avoidable delays and significant distress and inconvenience for what should have been a straightforward claim.

In response to my provisional decision, Mrs H says AAUICL's complaints handling process was poor as it failed to properly investigate her concerns by wrongly stating it had contacted the TPI.

The Financial Conduct Authority (FCA) sets out what complaints we can and cannot look at.

Complaints handling is not a regulated activity which this service can investigate and make a finding on. This means I cannot comment on the way AAUICL handled Mrs H's complaint.

I understand Mrs H believes the compensation award does not reflect the seriousness of the conduct of AAUICL. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead, this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

So I find that the award of £500 fairly reflects the significant level of distress and inconvenience caused by AAUICL and is in line with similar awards which we give.

Examples are available on our website.

<https://www.financial-ombudsman.org.uk/consumers/expect/compensation-for-distress-or-inconvenience>

My final decision

My final decision is that I uphold this complaint. I require AA Underwriting Insurance Company Limited to pay Mrs H £500 compensation for the distress and inconvenience caused.

AA Underwriting Insurance Company Limited must pay the compensation within 28 days of the date on which we tell it Mrs H accepts my final decision. If it pays later than this it must also pay interest on the compensation from the date of my final decision to the date of payment at a simple rate of 8% a year.

If AA Underwriting Insurance Company Limited considers that it's required by HM Revenue & Customs to withhold income tax from that interest, it should tell Mrs H how much it's taken off. It should also give Mrs H a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

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

Geraldine Newbold
Ombudsman