

The complaint

Mr M complains Marshmallow Insurance Limited (Marshmallow) unfairly requested repayment of overpayments it made to him when it settled a claim on his motor insurance policy.

There are several parties and representatives of Marshmallow involved throughout the complaint but for the purposes of this complaint I'm only going to refer to Marshmallow.

What happened

Mr M made a claim on his motor insurance policy after his car was damaged in an incident. Marshmallow found the car uneconomical to repair so it made a total loss settlement offer. Mr M chose to keep the salvage of his car; therefore, a salvage value was due to be deducted from the total loss valuation amount.

Marshmallow's claim partner paid the total loss valuation settlement to Mr M without the deduction for salvage being made. Marshmallow's claim team also made a second settlement payment to him for the value of his car, less his policy excess and outstanding premium.

Marshmallow realised it had not deducted the cost of the retained salvage of the car before making the settlement payment, so it tried to obtain payment of it from Mr M. It also identified he had been paid twice in error. It accepted it had mishandled his claim. It apologised and awarded £425 compensation for the unnecessary confusion and distress caused. However, it said it still needed to recover the over payments made to him.

Because Mr M was not happy with Marshmallow, he brought the complaint to our service.

Our investigator didn't uphold the complaint. They looked into the case and said Marshmallow made errors handling Mr M's claim and had recognised the impact of its errors through the compensation paid of £425. They said these errors didn't mean Mr M was entitled to retain any extra payment and benefit twice from the policy. They said Marshmallow were entitled to recover the duplicated payment made, and repayment of the salvage costs because Mr M had retained the car.

As Mr M is unhappy with our investigator's view the complaint has been brought to me for a final decision to be made.

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.

When Mr M made his claim on his motor insurance policy, Marshmallow instructed its approved claims partner to manage his claim and it was deemed a total loss. Mr M said he wished to retain the salvage of the car. A total loss settlement of £3467.66 was made to him, of which he understood the salvage retention amount had been deducted.

In addition to its claims partner managing the claim, Marshmallow also processed the claim. On 2 May 2025 Marshmallow made another payment of £2488.98 to Mr M. This amount was the total loss settlement amount less a deduction of his policy excess and outstanding policy premium. This was a mistake by Marshmallow and meant Mr M was paid a second time for a single claim.

I saw Marshmallow contacted Mr M when it realised it had not made any deductions from his settlement payment for the salvage of the car he'd retained. It explained because it had made settlement for the full value of the car, it was now the owner of it. I saw it gave him the option to pay the salvage amount or for it to collect the car from him.

Mr M complained of the service received. He said he was not told the additional payment would later be reclaimed, nor was the process explained in a transparent manner. When Marshmallow looked into his complaint the duplication of settlement was found. It requested he repay the overpayment in addition to the retained salvage amount. It apologised and paid him a total of £425 compensation for the distress caused due to it providing incorrect information and incorrectly paying him twice.

I found communications from Marshmallow were unclear and misleading. However, because Mr M chose to keep the car, which I understand he still has in his possession, under the terms of the policy Marshmallow are entitled to reduce the total loss valuation settlement by the cost of the salvage of the car being retained. And I'm satisfied the second settlement payment of £2,488.98 was made in error, meaning Mr M has currently received more than the insured value of his car. This is contrary to the principles of insurance and therefore recovery of the overpayment is fair. I have seen evidence Marshmallow have offered flexible and manageable repayment terms to Mr M based on his circumstances. I think £425 compensation is fair and reasonable for the shortfall in service and errors made in this case.

I recognise Mr M was involved in a collision of which was not his fault and this was extremely stressful for him and his family. And then Marshmallow's administrative mistakes added to his stress. However, I think it is fair for Marshmallow to obtain recovery of the overpayments made to him in an agreed manageable term, and therefore I don't uphold his complaint.

My final decision

For the reasons I have given I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 19 May 2026.

Sally-Ann Harding
Ombudsman