DRN-3215254

The complaint

Mr D has complained about MCE Insurance Company Limited's (MCE) handling of a claim on his motorbike insurance policy.

What happened

Mr D's bike was stolen. He claimed on his policy. He was unhappy with MCE's service and the sum it valued his bike at and complained. MCE acknowledged that some of its service could have been better, so to compensate Mr D it reduced his excess by £150. It also increased its valuation of Mr D's bike from £2,362 to £2,569.

Mr D didn't think that went far enough and brought his complaint to us. I issued a provisional decision on 23 November 2021. For ease I've copied the relevant extracts below. I said:

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

In his correspondence with MCE, Mr D complained about a number of points. But in response to our investigator's assessment of his complaint Mr D has focused on the valuation aspect of it. So, as that appears to be the key matter outstanding, that is what I have concentrated on in this provisional decision.

Mr D's policy says that if his bike was stolen MCE would settle his claim by paying him its market value, less any excess and outstanding premium payments. And the policy defines market value as:

"The cost of replacing your motorcycle with one of a similar make, model, age, mileage and condition. We will use industry publications to obtain the market value of your vehicle immediately prior to the loss."

Finding the market value of a bike isn't an exact science. But we generally find a useful starting point is to use the industry trade guides for valuing second hand bikes. That's because those are based on likely selling prices rather than the prices bikes are advertised for. And we'll generally find the trade guides more informative than adverts, as those figures are usually inflated to allow room for negotiation.

In arriving at its final valuation MCE followed our usual guidance for valuing bikes. It looked at valuations from three trade guides, which were £2,229, £2,495 and £2,983. It then took an average of the three figures to arrive at a valuation of £2,569. And generally, I'd think that was a reasonable approach for MCE to take.

But Mr D's said that his bike isn't particularly common. And he's said he couldn't buy a replacement for the valuation MCE gave for his bike. He provided some ads of similar bikes for sale in support of that.

I've done my own research into the specific make and model of Mr D's bike. And while there are similar bikes for sale online the specific model of bike doesn't seem to be particularly *common. I could only find ads for seven bikes of the same make, model and year as Mr D's stolen bike. One of those was damaged so I've disregarded it. I've listed the others below. Mr D has also previously provided ads for two similar bikes (one of which I also found the details for online) and I've included those in the table below:*

Advertised price (£)	*Mileage*
3,490	*7,018*
3,290	*13,107*
3,000	*11,216*
2,999	*13,689*
2,995	*14,400*
1,995	*22,000*
1,995	*50,500*

Mr D's bike had covered around 8,500 miles when it was stolen. That's significant as mileage plays a key part in the price that second hand bikes sell for. And as can be seen in the table above, only two of the advertised prices are below MCE's valuation. Both bikes being advertised for £1,995. But both have much higher mileage, with the lowest having travelled just over 2½ times the distance that Mr D's bike had covered.

The other bikes are all advertised for considerably more than MCE's valuation even though most have covered substantially more miles than Mr D's bike had. Indeed the bike closest in mileage to Mr D's bike, albeit with around 1,500 fewer miles having been done, was being advertised at £921 more than MCE valued Mr D's bike at. And, if MCE's valuation had been fair I would have expected there to be at least some adverts closer to its valuation and for a bike of similar mileage. But I haven't been able to find one.

I'll repeat what I've said above that, generally, I wouldn't usually put too much weight on advertised prices as they might be inflated; just because a bike is advertised for a certain price doesn't mean it will reach that price, if in fact it sells at all. And I would usually also say that it's safe to rely on the trade guides' valuations. But there are occasions when not all the trade guides will provide a fair market valuation and I think this is one of those occasions.

That's because, looking at the ads I've referred to above, for bikes with higher mileage than Mr D's advertised at around £3,000, he would have had to secure a discount of some 15% in order to buy one at MCE's valuation. I think negotiating a discount of that amount would seem unlikely. Further, given that those bikes have higher mileage than Mr D's, had a bike exactly like his come on the market (with its lower mileage), I would have expected it to be advertised at more than £3,000 to reflect the lower mileage. So an even higher discount would need to be negotiated in order to buy a like-for-like bike at MCE's valuation.

Two of the three guides that MCE used valued Mr D's bike at £2,229 and £2,495. So in order to buy a bike advertised at £3,000 (for higher mileage than Mr D's bike), discounts of 25% and 17% respectively would need to be achieved. I doubt either is probable. So the evidence would indicate that two of the three guides MCE used have, on this occasion, given valuations far lower than seem likely to be achievable for a bike with similar mileage to Mr D's. And in those circumstances I think it's reasonable to discount the two trade guides producing the lower quotes and instead use the valuation from the remaining trade guide.

MCE said the other trade guide produced a value of £2,983. But we noted it used an incorrect date of loss when producing the valuation. And our investigator ran the valuation report again herself. That produced a valuation of £3,149, which, given what I've said above about the bikes I found valued at around £3,000, would seem to be more reflective of the market. So, I think a fair way for MCE to value Mr D's bike would be to use that valuation *alone. It follows that I think MCE should increase its settlement of Mr D’s claim by the difference in its valuation of £2,569 and the trade guide’s figure of £3,149, which is £580. And, as Mr D’s been without use of that money, MCE should add simple interest to that sum as set out below.*”

Developments

Mr D accepted my provisional decision MCE didn't. It said that it didn't think my research into the sale of the model of Mr D’s bike was enough to show the bike was uncommon. It asked me to explain how I'd arrived at that perspective and why I didn't think the trade guides were reflective of the market.

MCE said it doesn't use advertised prices to determine valuations as those only reflect what the seller feels they can sell the bike for and doesn't allow for negotiation or reflect the true sales price. It said it used the trade guides and referred to the sums I had quoted in my provisional decision. It said that as the highest of the three guides was somewhat more than the other two we could consider it to be an outlier which would be fair to exclude. And an average valuation based on the two lower guides would produce a figure of £2,362. But it felt it was fair to use all three guides and produce a higher average valuation, which is what it had done. So it didn't agree with my provisional decision.

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'm still going to uphold it.

I’ve considered MCE’s responses to my provisional decision but I'm not persuaded to change it.

MCE will note that I took some time to explain in my provisional decision that – generally – I would feel its approach to valuation, using the trade guides to find an average valuation while not being swayed by advertised prices, was reasonable. But, as finding the market value of a second hand bike isn't an exact science, it’s important to consider all the available evidence before deciding what a fair value is. So I don't think it’s reasonable to simply disregard some evidence, in this case adverts, without considering it simply because that’s not the usual approach.

Further, for a valuation to be fair then there has to be a reasonable prospect that a consumer could go out and buy a bike of the same make, model, age, specification and mileage for that valuation. But I don't think that was the case here when using MCE’s valuation.

I need to be clear that I didn't say Mr D’s bike was “*uncommon*”. What I said was that – after looking for adverts for an equivalent bike – the model “*doesn't seem to be particularly common*”. The distinction might be subtle but the two things are not the same.

It might also help if I explain that we see many complaints concerning the valuation of second hand vehicles. And while we generally don't give great weight to the prices vehicles are advertised for, we do consider those as they might indicate a problem with the trade guides. So, in every dispute of this nature, I will look to the market to check that there is a reasonable prospect that a consumer could buy an equivalent vehicle for the valuations produced by the trade guides. And usually it's possible to be able to find evidence reflective of the guides’ valuations.

But in this case, I found that two of the three trade guides produced valuations far lower than anything that was on offer on the market. And as such, it seems very unlikely that a consumer could buy a bike for those valuations. So I think those figures were most likely not reflective of the current state of the market. And in those circumstances I'm satisfied that it's fair and reasonable to only use the one trade guide that I'm persuaded is reflective of the market.

MCE said that as the highest of the trade guides was more than the other two it could be considered an outlier, which in other circumstances we would say it's fair to exclude. I'll explain that where one of the trade guides is out of step with the others we may decide it's fair to exclude it when producing an average valuation figure. But while that might be our general approach, as I've explained above, the fair thing to do is to produce a valuation that is reflective of the market at the date of loss, not to simply follow a rigid approach. And for the reasons given, I'm not persuaded that the other two guides are reflective of the market. So I'm satisfied that a fair valuation is that given by the third trade guide which does appear to reasonably reflect a fair market value. And that valuation is £3,149, which is an increase of £580 above MCE's valuation.

My final decision

For the reasons set out above I uphold this complaint. I require MCE Insurance Company Limited to pay Mr D a further £580 to settle the claim for his stolen bike. It should add simple interest to that sum at a rate of 8% a year from the date of Mr D's claim to the date it makes payment to him[1].

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 12 January 2022.

Joe Scott
Ombudsman

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[1] If MCE deducts income tax from that interest, it should tell Mr D how much it's taken off. It should also give him a certificate showing this if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.