

The complaint

Mrs R complains that the offer Tesco Underwriting Limited ('Tesco') made to settle her motor insurance claim is too low.

What happened

Mrs R had a fully comprehensive motor insurance policy with Tesco.

In June 2023, Mrs R was driving through heavy water and her car became damaged. She made a claim on her motor insurance policy to Tesco and it was decided that her car was a total loss.

Tesco initially offered to settle the claim on the basis that Mrs R's car was worth £5,250 on the day it was damaged. When Mrs R did not accept that valuation, Tesco increased its offer to £6,251. Mrs R still thought Tesco's offer did not reflect the true value of her car on the day it was damaged and so she made a complaint.

In response to the complaint, Tesco said that when it was deciding the value of the car, it consulted three valuation guides. It offered to pay the top price from those valuation guides and it thought its settlement offer was fair. Mrs R did not agree and so she complained to the Financial Ombudsman Service.

Our investigator considered the complaint. As part of his investigation, he consulted four valuation guides (as opposed to three), which returned the following valuations: Guide 1 - £6,090; Guide 2 - £6,095; Guide 3 - £6,803; and Guide 4 - £6,857. Our investigator said he thought a fairer valuation of Mrs R's car would be an average of those four guides.

Mrs R accepted our investigator's view, but Tesco did not. It said the values it obtained when it consulted the guides did not match those supplied by our investigator. As Tesco did not agree with our investigator's view, the matter was passed to me for an ombudsman's decision.

I issued a provisional decision because I thought the complaint should be upheld but to a different extent to our investigator. I said:

"The terms and conditions that apply to Mrs R's policy say that where her vehicle is accidentally damaged beyond economic repair, Tesco will pay up to the market value of her car. I understand the market value means the cost of replacing the car with one of the same or similar make, model and specification after taking account of the age, mileage and condition.

It is not my role to value Mrs R's car. Instead, I am concerned with whether, in all the circumstances, Tesco fairly valued Mrs R's car.

Assessing the value of a car isn't an exact science. Like most insurers, this service often finds motor trade valuation guides persuasive. That's because their valuations are based on nationwide research, and they show likely selling prices at the month of loss.

In this case, our investigator consulted four valuation guides. I can see that in doing so, he entered the correct registration details and the valuations show the correct make and model of Mrs R's car. In addition to that, I can see the correct mileage and date of loss were entered on each guide.

Tesco disputed the valuations obtained by our investigator. I haven't been provided with full copies of the valuations Tesco obtained, so I am not able to comment further on the apparent discrepancy. In any event, I have seen full copies of the valuations obtained by our investigator and for the above reasons, I am satisfied that they are reliable.

In addition to that, our investigator consulted four valuation guides, rather than the three that were consulted by Tesco. I am provisionally satisfied that the valuations he obtained were thorough and fair.

Our investigator said that he thought a fair valuation in this case would be for Tesco to average all of the valuation guides. However, my provisional view is that this would not be fair. I say this because there is a fairly significant price variation between Guides 1 and 2 on the one hand and Guides 3 and 4 on the other. Tesco's offer of £6,251 sits at the lower end of the values produced by the guides. As it stands, the evidence before me doesn't suggest that Mrs R would be able to replace her car with a similar vehicle for the amount Tesco offered.

For me to be satisfied that Tesco's offer represents a fair valuation, I'd expect to have been provided with some other evidence to support the lower valuation point. As an example, this evidence could include adverts from around the date of loss. I'd also need to be persuaded that this evidence is relevant and persuasive before accepting that a lower valuation should be used. Tesco hasn't provided any such evidence.

On the contrary, Mrs R has provided me with a number of adverts from around the date of loss. Of those adverts, I can only see one car advertised at a price remotely close to the offer Tesco made. This car is advertised for sale at £6,295 and has 72,600 miles on the clock. However, this car does not appear to be the same model as Mrs R's and appears to me to be of a lower specification.

Without any other evidence to suggest that the higher valuations are unfair, and to avoid any detriment to Mrs R, I am provisionally satisfied that the highest valuation of £6,857 as shown by Guide 4 should be the starting point here.

I am mindful that Guide 3 shows a number of cars for sale at around the date of loss. I note the car of the same model and closest (although slightly less) mileage to Mrs R's was for sale for £6,995. On balance and after taking all the evidence in the round, I am provisionally satisfied that the valuation of £6,857 as shown in Guide 4 is a fairer valuation of Mrs R's vehicle.

Mrs R also told us that she hadn't been able to buy a similar car to the one that was damaged. She said that having access to only one car in her household had caused her some inconvenience, particularly when she had to travel to work. I think the undervaluation of Mrs R's car would have contributed to that inconvenience. With that in mind, my provisional view is that Tesco should pay a further £150 to compensate Mrs R in that regard."

I asked the parties to provide me with any further information or evidence they wanted me to consider before I issued a final decision. Mrs R indicated she agreed with my decision. Tesco did not. It sent a list of vehicles it said were available for sale at around the time of Mrs R's accident. It said it would have been possible for Mrs R to have replaced her car with a similar model if she accepted Tesco's initial valuation.

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 see no reason to depart from my provisional findings.

I note that full copies of the valuation guides initially obtained by Tesco were not submitted in its response to my provisional decision.

In looking at the information Tesco did provide; I can see the highest priced car was £8,490 and the lowest priced car was £4,250. This wide range of asking prices seems to sit with the wide range produced by the valuation guides obtained by our investigator as I have set out above. Taking account of the adverts Mrs R sent to us and the further information supplied by Tesco, it seems to me most likely that the valuation as shown in Guide 4 is roughly in the mid-range of all the adverts I've seen.

It follows that I remain satisfied that the valuation as shown in Guide 4 is fair and I require Tesco to put things right for Mrs R on that basis.

Putting things right

I require Tesco to:

- Settle Mrs R's claim based on a valuation of her vehicle of £6,857.
- Pay simple interest* on the difference between any interim payment and the final settlement. The rate of interest is 8% a year and is to be paid up until the date Mrs R receives the final settlement.
- Pay £150 to Mrs R to compensate her for the inconvenience I have identified above.

*If Tesco considers that it is required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mrs R how much it has taken off. It should also give her a tax deduction certificate if requested, so Mrs R can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

I uphold this complaint and require Tesco Underwriting Limited to put things right as I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R to accept or reject my decision before 9 April 2024.

Nicola Bowes
Ombudsman