

The complaint

Mr T is unhappy with how RAC Insurance Limited dealt with his motor insurance claim.

What happened

Mr T held a motor insurance policy with RAC.

In September 2023, Mr T was involved in a collision and made a claim to RAC. RAC offered Mr T a settlement for his car, but Mr T thought this was too low.

RAC later realised that Mr T's car had been written off a year earlier, so it asked Mr T for evidence that the car had been repaired. If not, RAC said it would reduce its settlement offer.

Mr T complained to RAC. He was unhappy that it had asked for this evidence so late into his claim. He said he did have the car repaired but he didn't have evidence of this. RAC and Mr T spoke to the garage that Mr T says carried out the repair, but they weren't willing to confirm anything in writing and didn't have any records to provide.

Mr T tried to accept RAC's original offer. But, when he didn't receive this, he chased RAC to be told that he still needed to provide proof of the repair work. Then, in early October, RAC settled Mr T's claim. It didn't think the car had been repaired. And it thought the car would have been worth £6,000 in 2022 after it had been written off, so this is what it paid to Mr T.

RAC also responded to Mr T's complaint. It didn't think it had done anything wrong by asking for the repair evidence, and it didn't think there had been a delay.

Mr T was unhappy with this, so he referred the matter to the Financial Ombudsman.

During our investigation, RAC received the engineer's report from the previous insurer in 2022. Our investigator compared this report against photos of Mr T's car from 2023 and concluded that the car had not been repaired. She considered the car's market value and the deductions that RAC had made, and she thought £6,000 was fair to settle the claim. However, she thought RAC had led Mr T to believe that it would pay him the original settlement offer, which was incorrect. She recommended RAC pay Mr T £50 for this.

RAC accepted this but was disappointed at having to pay £50 for a three-day period. Mr T didn't agree with our investigator's view. He said he did have the car repaired but the garage has been sold, so he can't get evidence now.

Because Mr T didn't agree, the complaint has been passed to me to make a final 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 upholding the complaint, to the extent that I'm telling RAC to pay Mr T £50 of compensation. I know this will be disappointing for Mr T and I'm sorry about that. I've

explained why below. I've focused my comments on the points and evidence I consider material to my decision.

RAC needed to settle Mr T's claim in line with his policy terms. Because Mr T's car was a total loss, RAC had to pay Mr T the car's market value. The policy defines market value as:

"The cost of replacing your car at the time of the loss or damage taking into account its make, model, specification, age, mileage and condition."

RAC paid Mr T £6,000. So, I've considered the way RAC got to this figure, including the deductions it applied.

I should explain that it isn't the role of this Service to come to an exact valuation of a consumer's car. We consider whether the insurer has acted reasonably in looking to offer a fair market value. In assessing what constitutes a fair value, we review relevant motor trade guides. We find these guides to be persuasive because their valuations are based on nationwide research and likely sales figures. I've reviewed the valuations that our investigator obtained. These provided values of £13,190, £13,450, £13,924, and £14,111.

We're aware that, for several reasons, second-hand cars are more often selling at, or close to, their advertised price. So, we usually think the best way to ensure a policyholder receives a fair settlement is for the insurer to use the highest of the valuations provided by the trade guides. This is unless the insurer can provide persuasive evidence to show otherwise.

RAC has provided evidence to support the deductions it has made. But, for the purposes of this complaint, I think it's reasonable for me to use the highest valuation of £14,111 as the starting point to consider RAC's deductions against. I must stress that this is just a starting point. It's reasonable for an insurer to take other factors into account when reaching a valuation. So, I've considered the deductions that RAC has made.

Pre-existing damage

A car's condition will affect its market value, and this includes any pre-existing damage. We generally think it's fair for an insurer to factor this into its valuation. We think the fairest way is for the insurer to calculate the cost of repairing any pre-existing damage, and to deduct 50% of this from the market value.

Mr T's car was written off in 2022, so I think it was fair for RAC to assume that the damage was serious. But RAC didn't know the extent of the damage or the extent of any repairs. So, it calculated what it thought the car was worth at that time. RAC thought this was £6,000. But the engineer's report from the insurer in 2022 has now shown that, to repair Mr T's car would have cost £10,990.

Mr T says he had his car repaired. But he hasn't provided any evidence of this. The repairing garage hasn't provided any evidence, either. I've reviewed the photos of the damage in 2022 and compared them to the photos of the damage in 2023. I think it was reasonable for RAC to say that the car had not been repaired, because the damage in 2022 is still visible in the photos from 2023.

So, in line with our approach, I think it would be reasonable for RAC to deduct 50% of the repair costs from the incident in 2022. Based on the previous insurer's engineer's report, I calculate 50% of the repair costs to be £5,495.

Previous write-off

Because Mr T's car had been written off in 2022, RAC thought it would be fair to make a deduction for this. It thought 20% was fair. We generally agree that a car that's been written off before will have a lower market value, so we usually think it's acceptable for an insurer to make a deduction for this. But we expect the insurer to demonstrate that its deduction is fair.

RAC has shown that cars like Mr T's, that have been written off before, were being advertised for around 20% less than those that had not been written off before. So, I think it was fair for RAC to apply a 20% deduction to reflect this.

Keeping the salvage

When a car is written off, and the insurer settles the claim, the car will usually become the insurer's property. Mr T's policy supports this:

"If we settle your claim by replacing your car or paying you ... your car will become our property."

But, if a policyholder chooses to keep the car, we usually think it's fair for the insurer to make a deduction for this. This is to account for the money that the insurer would've received from selling the salvage.

I've reviewed the engineer's report that RAC obtained in September 2023. The engineer said that they expected the salvage to sell for around £3,100. I don't consider this to be an unreasonable amount relative to the car's market value. So, because Mr T chose to keep the salvage, I think it was fair for RAC to deduct the salvage amount from its settlement.

Overall settlement amount

I think RAC should have started with £14,111 when calculating the market value of Mr T's car. Then, I think it would have been reasonable for it to make deductions of £5,495 for the pre-existing damage, 20% for the previous write-off, and £3,100 because Mr T kept the salvage.

By my calculation, this brings the final settlement amount to less than £6,000. So, I think RAC has done enough to settle Mr T's claim. I haven't included Mr T's excess in my calculations, as he always would have had to pay this.

I appreciate Mr T says that RAC didn't offer him some of the figures I've mentioned above. But I have to consider what I think is a fair amount for RAC to pay to settle the claim, taking into account all the available evidence. Having done so, I think RAC has paid enough. So, I'm not ordering it to pay more for the claim.

Service

I've considered the service RAC provided to Mr T. I've thought about what Mr T has said, and I've reviewed RAC's claim notes to understand what happened and when.

Mr T says that RAC asked him to provide the repair evidence too late into his claim. RAC says it asked for this when it first learned that Mr T's car had been written off before. I can see RAC's engineer noted that the car had been written off before, in his report dated 19 September 2023. RAC asked Mr T for the repair evidence three days later. I don't think this was an unreasonable length of time. I appreciate the claim had been going on for around three weeks at this point. But I can't see that RAC knew the car had been written off before then. I don't think asking for the repair evidence was unfair, either, as it was likely to affect the amount that RAC needed to pay.

Further, I don't think RAC took an unreasonable amount of time to deal with the claim. It paid Mr T the settlement amount of £6,000 after just over a month. I'm satisfied RAC was taking reasonable steps to progress the claim and I haven't seen evidence of avoidable delays. I can also see RAC spent a long time trying to help Mr T contact the garage that he said repaired his car. Overall, I'm persuaded that RAC dealt with the claim promptly.

With that said, I think RAC did cause Mr T some avoidable distress and confusion. RAC's claim notes indicate that Mr T called on 25 September 2023 and wanted to accept RAC's earlier settlement offer. It looks like the agent led Mr T to believe that RAC would pay this. Mr T chased RAC a few days later and another agent could see that certain payment processes had been started, and then cancelled. Mr T then learned that he'd been given incorrect information, and he still had to provide the repair evidence. I think it's fair to say that RAC would have been aware that the evidence was still required when Mr T called.

I appreciate RAC says Mr T was only under this false impression for three days. But, at that point, Mr T was still without a settlement payment for his car. I think RAC led Mr T to believe he was going to receive more money than he was, and without having to provide anything further, which was untrue. I imagine it was disappointing and frustrating for Mr T to learn otherwise. Our investigator thought £50 was a reasonable amount for RAC to pay to put this issue right, and I agree. It's also in line with what I would have awarded. So, I think it's a fair and reasonable amount for RAC to pay.

I know this wasn't the outcome Mr T was hoping for, and I'm sorry to give him unwelcome news. But I'm satisfied RAC has paid enough to settle the claim. I also think £50 is a fair amount to recognise the impact of RAC's misleading information.

Putting things right

To resolve this complaint, RAC must pay Mr T £50 compensation for distress and inconvenience if it hasn't already done so.

My final decision

For the reasons I've given, I uphold Mr T's complaint and direct RAC Insurance Limited to put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 1 October 2024.

Chris Woolaway
Ombudsman