

complaint

Mr S has complained about the settlement sum AXA Insurance UK Plc paid him after he made a claim under his motorcycle insurance policy.

background

Mr S's motorbike was damaged after an incident. He made a claim to his insurer, AXA. AXA's engineer decided the costs to repair Mr S's bike were more than it was worth. So it paid Mr S the market value of his bike under the terms of his policy.

Mr S thought the settlement sum was too low. He had modified his bike which had cost him over £8,000. He said he specifically bought this policy so that the modifications would be taken into account if he had to make a claim.

AXA said its market value of £9,168 minus the excess of £600 was fair. This was based on the trade guides (£5,078) and included half of the original costs of the modifications (£4,090). It said if Mr S wanted to retain the bike, AXA would take a further salvage fee of £3,208. This was 35% of the total market value.

Mr S remained unhappy, so he brought his complaint to us.

The adjudicator who investigated the complaint recommended it should be upheld in part. He thought AXA hadn't paid a fair value based on the trade guides. He thought AXA should increase it from £5,078 to £5,995. He thought AXA's modification valuation was fair and in line with the policy. So he suggested AXA pay a final settlement sum of £10,085 (minus the excess of £600). This was £5,995 + £4,090.

AXA said it would increase the market value and pay interest on the difference to Mr S. The adjudicator asked AXA to explain its salvage fee rate as it was higher than we thought was reasonable. AXA said it hadn't calculated its salvage fee correctly. It should only be 20% of the market value.

Mr S is happy with the increase in the base value for his bike. But he still feels the valuation for the modifications to his bike at 50% is too low.

So the matter has been passed to me to decide.

my findings

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 intend to uphold it in part.

We don't decide an exact valuation for a vehicle. But we look at what the policy says, and if the insurer has made a settlement which is fair and in line with the policy.

Mr S's broker told him that any modifications disclosed to them would be covered under his policy on a like for like basis. So Mr S feels AXA should pay him more than 50% of what he paid for the modifications. But as Mr S's bike wasn't economical to repair, the most AXA will pay under the policy is the market value of his bike at the time of loss. The market value is defined under Mr S's policy as being the cost of replacing his bike, with one of the same make, model, specification, mileage, age and condition.

We look at the motor trade guides to see what a fair value is. The trade guides are based on actual selling prices of second-hand cars and bikes nationally. So we think they're a reliable indicator of what a fair market value is. They take into account the specific features of a bike including mileage, condition and overall specification.

Having looked at Glass's and CAP, the valuations ranged from £5,890 and £6,100. So I think AXA's base value guide of £5,078 was too low. So AXA should increase the base value to £5,995 which is the average between the two trade guides.

I appreciate that Mr S has paid over £8,000 for modifications to his bike – and some of these were only recently added. Mr S's policy says the most AXA will pay is the market value of the bike with fitted accessories and spare parts. If it were economical to repair Mr S's bike, AXA would pay the costs to replace or repair the bike on a like for like basis. But as Mr S's bike was declared a total loss; the costs to repair the bike were more than it was worth.

It's very difficult to decide the value of modifications added to a bike as it makes that bike unique to its owner. And once fitted, any modified parts bought new will be worth less than the price they were bought for. So I think AXA's offer to pay 50% of the costs of the modifications is fair in addition to the market value of the bike.

Mr S is interested in retaining his bike – but he's unhappy with the salvage fee AXA will deduct if he does so. AXA told Mr S its salvage fee was £3,208, which was 35% of its settlement sum of £9,168. AXA has now confirmed its salvage fee was incorrect and should only be 20% of the settlement sum. I think AXA should have taken more care when quoting its salvage fee. The difference it would have charged Mr S was £1,191.80 and may have influenced his decision.

So if Mr S decides to retain his bike, AXA can deduct no more than 20% of the market value of £10,085. As AXA paid Mr S the lower interim payment of £5,359.20 on 1 April, it should now pay interest on the difference it pays him from this date.

my final decision

For the reasons I've given above, my final decision is that I uphold this complaint in part. I require AXA Insurance UK Plc to do the following:

- Pay Mr S the difference between £10,085 as a fair market value (minus the excess of £600) and £5,359.20 it's already paid him on 1 April 2016.
- Pay Mr S interest on this amount at the simple rate of 8% per year from 1 April 2016 to the date it makes the payment.
- If Mr S wants to retain his bike, AXA should deduct a salvage fee of no more than 20% from the market value of £10,085.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 4 August 2016.

Geraldine Newbold
ombudsman

HM Revenue & Customs requires AXA Insurance UK Plc to take off tax from this interest. AXA Insurance Plc must give Mr S a certificate showing how much tax it's taken off if he asks for one.