

## The complaint

M has complained about American International Group UK Limited's (AIG) handling of its claim under its Motor Fleet Insurance Policy.

M is represented by a representative from its insurance broker, who I will refer to as Ms W.

## What happened

One of M's tractor units, which it leases, was damaged in an accident. It made a claim under its fleet policy and provided an estimate for its repair. AIG appointed a firm of motor engineers, who I'll refer to as N, to assess the damage to the unit. N provided a report to AIG. It estimated the cost of repairing the unit to be £25,200. And it said the market value of the unit at the time of the damage was £38,200 based on a valuation it obtained from CAP, which is an independent industry recognised guide used to value vehicles.

AIG decided it wasn't economic to repair the unit and decided to treat it as a total loss, i.e. a write-off. It said it had placed a value of £38,200 on the vehicle and would be offering this less the policy excess of £350. M wasn't happy with this and on 31 January 2022 Ms W let AIG know M would be challenging this offer. Ms W emailed AIG on 2 March 2022 with evidence that she thought supported a higher valuation. AIG responded on 16 March 2022 to say it wouldn't increase its offer. Ms W emailed AIG again on 29 March 2022 asking if they'd consider repairing the unit. After several chaser emails, AIG eventually responded on 6 April to say it would not alter its position and would treat the unit as a total loss. Ms W emailed AIG for the salvage value. Having initially been given an incorrect one, she was told this was £13,370.

On 29 April 2022 Ms W emailed AIG with further evidence to support a higher valuation and asked it to contact the lease company directly about the valuation. AIG told Ms W the engineer had spoken with the lease company. However, according to Ms W, the lease company had not heard from the engineer. In the end, Ms W raised a complaint with AIG about the matter with further evidence to support a higher valuation. And it wasn't until 16 September 2022 that AIG finally confirmed that it had increased its valuation to £57,995. It said this made the vehicle repairable. Then due to various issues around AIG locating the unit and getting it to the repairing garage, it did not arrive there until 25 October 2022.

M complained to AIG about its original valuation and the length of time it took to revise this and then get the unit in for repair. M asked them to cover the cost of leasing the unit for the period of the delay it thought had been caused by AIG. AIG acknowledged it was responsible for some of the delay and agreed to pay £600 in compensation. However, it would not agree to cover the lease costs.

M asked us to consider its complaint. One of our investigators did this. She said it should be upheld and eventually recommended AIG pay M £20 per day for the loss of use of the unit from 22 October 2022 to 22 January 2023. This was in addition to the £600 in compensation AIG had already offered.

AIG agreed to the investigator's recommendations, but Ms W, on behalf of M, did not. She

asked for an ombudsman's decision. She argued that if AIG hadn't failed to investigate the value of the unit properly in January 2022, repairs would have been authorised at this point and M would not have been without its vehicle for such a long period of time. She explained that she thought AIG should cover the cost to M of leasing the vehicle for the period after it should have been repaired up to the point it was repaired and back on the road.

I issued a provisional decision on 3 October 2023 in which I set out what I'd provisionally decided and why as follows:

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

*I agree with Ms W's view that AIG valued M's unit incorrectly in the first instance. Valuing this type of unit is not straightforward and I do not believe it is a matter of simply getting a guide value and going with that. For an accurate valuation, I believe discussions should have taken place between either the engineer or AIG and the lease company and adverts for similar vehicles for sale at the time should also have been considered. I appreciate AIG and/or N may have used this approach and felt it appropriate to rely on the CAP valuation. But the problem is that - in my opinion - N and AIG used the wrong value from CAP. This is because M's policy states the maximum amount AIG was obliged to pay for the 'Insured Vehicle' (the unit) was the 'Market Value'. This is defined in M's policy as 'the cost of replacing the Insured Vehicle with another of a similar make, model, specification, age, mileage and condition immediately prior to the date of the loss or damage.'*

*The CAP valuation AIG used said the retail value of the same unit at this time was £44,750, excluding VAT. So this was the cost of replacing it. Instead of using this figure AIG placed a value on the unit of £38,200, which it referred to as some sort of mid-book value. But this was not the cost of replacing the unit. This figure was somewhere in between the trade value, which is what a motor trader would have paid to buy the unit and then sell it, and the retail cost of replacing it. I think this means AIG used the incorrect market value to decide whether M's unit should be repaired or treated as a total loss. And it is clear that had they used the correct figure of £44,750 - bearing in mind the repair cost and the salvage value - AIG would or should have decided to repair it.*

*This means AIG could have authorised the repairs on 28 January 2022 instead of making its total loss offer at this point. And the vehicle would still have been with the repairer at this point and it would not have been moved to storage by AIG. Whereas AIG didn't actually authorise the repairs and get the vehicle back to the repairing garage until 25 October 2022. Therefore, in my opinion, AIG's incorrect valuation of M's unit meant M was without it for nine months longer than should have been the case.*

*If the unit had been repaired and back in use nine months sooner it's clear M could have carried out a lot more work than it could without the unit. And, while it would still have had to pay the monthly lease amount, plus fuel and maintenance and the cost of someone to drive it, I accept that at the very least it would have earned enough money from the vehicle to cover these costs. I say this because there would have been very little point in M leasing the unit if there was no benefit in doing so. Of course, because the unit was off the road for nine months longer than should have been the case, M didn't incur any fuel, maintenance costs or have to pay anyone to drive it. But it did still have to pay the monthly lease amount without receiving any income from the vehicle to cover this. So, I consider it fair and reasonable for AIG to reimburse what M paid to lease the unit for a period of nine months, as - due to AIG's original mistake it had to pay the lease without receiving any income from the vehicle for nine months longer than should have been the case.*

*The cost of leasing the unit to M, excluding VAT, was £1,560 per month, so I think it is fair and reasonable for AIG to pay M compensation of £14,040, which represents nine monthly lease payments. I'm not intending to award interest on this amount, as it is what I consider a fair and reasonable compensation payment as opposed to a payment for loss of income M should have received.*

*I think the £600 that AIG has already paid M in compensation is enough to compensate it for the general inconvenience it experienced as a result of AIG's error, but this amount should be in addition to AIG covering the cost of lease.*

*In summary, I've provisionally decided that the fair and reasonable outcome to this complaint is for AIG to pay M a further £14,040 in compensation to cover the additional nine months M's unit was off the road as a result of AIG's incorrect decision to treat it as a total loss.*

I gave both parties until 22 October 2023 to provide further comments and evidence.

Ms W came back to say that M agreed with my provisional decision.

AIG have made the following further comments:

- They are a commercial fleet insurer and M's policy meant it had to pay the cost of replacing the insured vehicle with another of a similar make, model specification, age, mileage and condition immediately prior to the date of the loss or damage. And its approach was to assess the vehicle valuation with consideration of the commercial market guidelines. And the CAP valuation for the date of loss had the following range:

Clean £34,400  
Average £33,400  
Below £31,700  
Retail £42,000

It's explained that below average and average were discarded and it took the mid-point of clean and retail (£38,200) and it thinks this provided a fair representation of the pre-accident vehicle (unit) value.

- It's said if it had set the vehicle valuation at £42,000 it would not have altered its decision to treat it as a total loss. This would have included the cost of repair, but also the nature of the vehicle and the structural damage.
- I've suggested the CAP retail valuation for the unit was £44,750 and it would like clarification of this figure. This is because it clarified with Ms W in March 2022 that £42,000 was its retail value and the figure of £44,750 is a valuation for January 2022, as opposed to the date of loss.
- It accepts it did not consider adverts initially or discuss the valuation with the lease company. But adverts were later considered. And it did engage with the lease company, whose valuation was much higher than CAP and the adverts AIG had seen.
- The value it reached in September 2022 of £57,995 followed the receipt of extraordinary information provided by Ms W. This was a Wholesale pricing matrix provided directly from the manufacturer of M's unit. It allowed a calculation of the depreciated value of the vehicle. It considers this evidence as highly unusual and

when it was referred to N, it said it had never seen or used a dealer matrix for valuing vehicles.

- The re-assessed value was not admitted and the decision to repair the vehicle was a pragmatic stance to deliver a satisfactory conclusion following the receipt of such extraordinary evidence.
- It considers its original approach to base its valuation on independent industry recognised guides was reasonable. And it has reiterated its point that if it had valued the vehicle at £42,000 it would still have classed it as a total loss.

### **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.

I've noted AIG's comments in response to my provisional decision, but they have not altered my view on what the fair and reasonable outcome to M's complaint is. I've explained why below and addressed AIG's comments.

My reference to a retail value of £44,750 was based on the only actual CAP valuation sheet available to me as part of the evidence provided. This did not show the date of loss. And while I noted that AIG had referred to a retail value of £42,000, I'd assumed £44,750 was the correct retail valuation. I appreciate it was provided in January 2022, but it could still be for a 1 December 2021 date of loss. It could have been higher because CAP updates its data daily, but without a full print out of the valuation N obtained, it is hard to be sure a retail value of £42,000 was based on the correct details and therefore correct. However, even if I were to accept the correct retail figure was £42,000 at the point AIG decided on what to do about M's vehicle, I still consider it was wrong to use a valuation of £38,200. This is because the policy wording states the market value should be the cost of replacing the insured vehicle. And M would have had to replace it in the retail market, which means AIG should have used the retail figure, not the mid-point between clean and retail.

And even if the retail value according to CAP when AIG first assessed M's claim was £42,000, I do not accept it would have been right for AIG to use this figure to assess whether the vehicle was a total loss. I still consider it should have carried out more research with the lease company and in the market generally and come to the conclusion the retail value was much higher than £42,000. I say this because, whilst I accept the pricing matrix was an unusual piece of evidence, AIG had access to the purchase price of the unit to M. And if it had engaged with the lease company it would have suggested, as it did later on, that the retail replacement cost was much higher than £42,000. Also, I think AIG could have done more research around other units for sale with the same mileage. So, I think in light of this, it remains my view that AIG should have decided M's unit was repairable at the outset.

I think it is also of note that even at a retail value of £42,000, based on the repair cost and salvage value, the unit was borderline for being a total loss, even allowing for the structural damage.

As explained on our website, valuing vehicles is not an exact science and it is especially difficult with commercial vehicles. And insurers need to take into account more than just industry guides and take care not to end up relying on these in isolation and using an incorrect valuation, which is what I think happened with M's vehicle.

As will be clear from what I've said, it remains my view that AIG was wrong to class M's

vehicle as a total loss initially and that this led directly to M being without the vehicle for nine months longer than should have been the case. Therefore, I see no reason to depart from the redress I suggested for the reasons set out above and in my provisional decision.

### **Putting things right**

The cost of leasing the unit to M, excluding VAT, was £1,560 per month, so I think it is fair and reasonable for AIG to pay M compensation of £14,040, which represents nine monthly lease payments. I'm not awarding interest on this amount, as it is what I consider a fair and reasonable compensation payment as opposed to a payment for loss of income M should have received.

I think the £600 that AIG has already paid M in compensation is enough to compensate it for the general inconvenience it experienced as a result of AIG's error.

In summary, I've decided that the fair and reasonable outcome to this complaint is for AIG to pay M a further £14,040 in compensation to cover the additional nine months M's unit was off the road, as a result of AIG's incorrect decision to treat it as a total loss.

### **My final decision**

My final decision is that I uphold M's complaint about American International Group UK Limited and order it to pay it a further £14,040 in compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask M to accept or reject my decision before 22 November 2023.

Robert Short  
**Ombudsman**