MFL INSURANCE GROUP

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Higher Risk Valuation Work and Insurers' Worries

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Professional Indemnity Insurance

Higher Risk Valuation Work and Insurers' Worries

In this issue, we come back to a subject causing increasing difficulty with Professional Indemnity Insurance (PII) – what the Insurers deem high-risk valuation work.

Over the last three years, we have highlighted the potential problems within the PII market that can be faced around secondary lenders. Insurers' focus is now very much on some of the lending within that space and occasionally beyond.

What is High Risk?

In the minds of many PI Insurers, this might include valuations for, inter alia; buy-to-let, speculative developing, bridging and other short-term loans, peer-to-peer and crowdfunding loans.

Respective Insurers may take a differing stance within each area, but commonly seen now are total exclusions, e.g., any peer-to-peer valuation work. Where such exclusions are applied, the policy itself is not compliant with RICS rules, and dispensation must be sought from RICS accordingly before that policy can be incepted.

What Information to Provide?

If your practice does have exposure in these areas, you must ensure you can demonstrate good, robust Quality Management procedures to your PI Insurers. They will expect to see, possibly for every such valuation instruction undertaken, information relating to the property details, valuation date, lender, loan type, LTV, basis of valuation, and whether the loan has been redeemed* etc; though your Broker should advise you on this accordingly.

**We are aware that some lenders may be reluctant to release this information citing data protection etc., though, without it, the Insurer may simply refuse to consider further.*

Why Do Insurers Regard It High Risk?

Let's consider peer-to-peer as an example of what PI Insurers regard as one of the most high-risk lender segments:-

- Insurers are aware of the various 'lenders' that have operated in the segment over the last decade; they have seen a repeated pattern of failure with many of these firms entering administration.
- The main reason for such failure is simple: the loan book has performed poorly, and significant losses have followed.
- A lack of synergy and alignment of risk appetite between the lending company and the lender-backed investors (the "funder" investing the capital). This alignment of appetite influences the type of loans in the loan book and their success.
- The platform might be remunerated based upon the amount of money lent and as it is not their balance sheet at stake, there may be no common interest with the lenders themselves. Could this lead to more 'risky' or 'lenient' risk selection?
- A lack of awareness from the lender. Are they sophisticated investors?
- Higher interest rates charged by peer-to-peer lenders – why does a customer choose this over a mainstream alternative? Maybe they cannot get credit from a mainstream lender? Why is this? Are they a higher lending risk?
- Some are known to use the fact they'll take action against perceived acts of valuer negligence, as part of their sales pitch to attract investors - this is not an approach which fills the PI Insurers with confidence, when also considering the above points.

What Other Aspects of Lender Valuation Work Might Insurers Consider?

Again, please do discuss with your Broker, but typically, Insurers will wish to look at lender profile, typical properties (e.g. agricultural, commercial, residential, developers etc.), valuation type (e.g. 1st charge mortgage the lowest risk), valuation factors (valuation size, loan size etc.).

Our Recommendations

For our part, we'd suggest you prepare for your PII renewal as early as possible and compile the information needed after an initial discussion with your Insurers/Brokers, highlight when you commenced this work or ceased to do it, and highlight your future plans in this area too.

If you wish to speak with us regarding the above, please do feel free to get in touch per our contact details below and we can discuss further.

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