AUTUMN 2023 BULLETIN

General guidance regarding valuation work

MFL INSURANCE GROUP

General Guidance re: Valuation Work - What Might PI Insurers Be Looking For?

Article written by Richard Gledhill ACII, Client Director

Summary

In this bulletin, we answer a common question we receive from Members regarding the type of work they can/should undertake.

Over recent months we have increasingly fielded enquiries from Valuers as to **whether they should undertake a particular valuation request**, whether that be due to the nature of the valuation or perhaps in view of the lender not being well-known.

Whilst we are happy to answer any questions Members have, we thought we would use our Autumn Bulletin to provide a general answer to this question.

The Answer

Our first point would be that unless Insurers have applied an exclusion relating to e.g. specific lenders, then provided they are aware that (agricultural, commercial or residential as appropriate) valuation work is undertaken, the current PI insurance policy in place should apply.

> **If you are in any doubt about your policy, we would be happy to review it for you, or you can check with your Insurance Broker.**

However, PI Insurers' attitude might change come the next renewal. Why?

To give you a flavour of the approach we see from PI Insurers generally (including your own) around their long-term Underwriting appetite; in short, they are not keen on insuring practices with exposures deemed to be higher risk valuations, including, e.g. unregulated lenders, peer-to-peer, BTL, bridging/short term/developers, secondary/tertiary etc., or in many cases where the valuations may be via intermediaries etc.

Whilst an Insurer will not generally dictate to a practice what that practice can/can't do, they'll instead consider your completed submission (proposal form, S&V questionnaire etc.) and decide whether they wish to insure your practice based on the work undertaken.

It is often the case that, for occasional, one-off, valuations in the afore-mentioned higher risk areas, they may ask additional questions to satisfy themselves of the exposures, and risk mitigation by the valuer, and if they're happy with the answers will offer renewal terms as they deem appropriate.

Where a Practice has a 'volume' of high-risk work, however, often such insurers effectively 'walk away' from the renewal, either by not offering terms at all or by charging very high premiums to continue offering cover.

Hence we tend to find that they will typically insure only when the total numbers (of higher risk valuations) are fairly incidental or form a small percentage of the overall valuation exposure of the practice, AND provided they are satisfied with the due diligence work undertaken by the Practice into the lender itself as part of the Practice's wider risk management methodology.

So, to summarise:-

1. Insurers will focus on those valuation areas, each of which is regarded as 'high-risk', so they'd be looking at total numbers/percentage of overall valuation work, volumes etc., re:-
- Buy to let
- Conversions or new build
- Properties for developers
- Bridging for finance/short-term loans

2. Where such valuation work is undertaken, Insurers will then ask, regarding each individual case:-
- Date of valuation
- Lender
- LTV %, or LTC/LTGDV % if the purpose was for development* (see comment below)
- Type of property valued
- Basis of valuation (90 day, 180 day etc.)
- Purpose of loan, proposed length
- Background checks on property (e.g. Land Registry checks for existing mortgages, confirmation of legal owner etc.)
- Has the loan been redeemed? (Insurers will remain wary of any outstanding loans)
- Confirmation you're not aware of any known insolvent borrowers, e.g. re: BTL, developers etc., any other checks on the borrower, conflicts of interest?

  * Regarding the loans, maybe some are repaid, perhaps the LTV is very low? Insurers are looking for 'comfort' here.

3. The Insurers will then also focus on the lenders, e.g.-
- Confirmation no valuations have been performed for peer-to-peer lenders
- Any secondary or non-high street lenders?
- Is the lender non-regulated?
- If there are, again, lender methodology, LTVs, loans repaid, no known insolvent borrowers
- What extra checks/due diligence do you undertake where the lender is secondary/non-high street, peer-to-peer etc.? (e.g. PI Insurers would be looking for evidence of due diligence into the lender including e.g. Companies House checks, cross-references against website etc.)
- Further, if it is the case that your appointment is not direct with the lender, what safeguards are in place in terms of restricting your own liability etc.?

So, whether the valuation itself might be in a 'high-risk' area, or the lender is perhaps not so well known within the sector we'd summarise by asking that you as a Practice, record that background detail mentioned above, satisfying yourselves regarding the lender's approach and with one eye on the management of the perceived risk to yourselves.

What About The Positives?

A quick note here too looking at the other side of the coin. The specialist valuation work often undertaken by CAAV members, such as those for AMC, does not present a problem.

We would reiterate here that, for those Practices insured on the CAAV members' facility, lending valuation work for agricultural land and property, for the well-established specialist lenders (whose names will be familiar to all), might tend to be regarded favourably by Insurers on this facility. Please ask us if you have any concerns here.

Finally, to follow in a further bulletin we shall take a look at the use of liability caps within a Practice's terms of engagement.

If you have any queries based on the content above please do contact us as below. Alternatively, if you would like us to make contact with you in connection with your renewal we're happy to do so.

Is your renewal due shortly?

To review your existing insurance and see how our facility could benefit you, please get in touch to schedule an introductory call.

Not ready for your renewal?

Simply **click here** and we'll schedule a follow-up with you.

Our experts are here to help

We design insurance programmes that help Practices protect themselves from risk.

Richard Gledhill ACII
rg@mflinsurance.com
0161 237 7725
07984 879124

Mark Ramsbottom
mr@mflinsurance.com
01943 816866
07803 199401

Andy McDermott Cert CII
am@mflinsurance.com
0161 237 7721
07903 385 548

Lewis Skinner
la@mflinsurance.com
0161 236 2583

Your Professional Activity Risks

- Our exclusive CAAV Members Professional Indemnity Insurance (PII)
- Trustee Liability Insurance

Your Business Risks

- Management Liability Insurance
- Cyber Insurance
- Office Insurance
- Motor Fleet Insurance
- Business Travel Insurance

Trusted by the following CAAV members, and many more