MFL
INSURANCE GROUP

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Behind The Mask – The Risk of Reliance

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Behind The Mask
The Risk of Reliance

Our previous bulletins have highlighted PI Insurers' concerns about surveying and valuation work. Continuing down this route, this time, we look at how you might provide your Practices' Lenders and Panel Manager's due diligence to insurers to support your next renewal.

Behind the Mask – The Risk of Reliance

As many of you may have experienced, the Surveyors sector is usually a casualty of uncertain periods in the UK economy, and as the current crises facing the country continue, it's expected that the PII market will likely continue to harden.

As we detailed in a previous bulletin, Higher Risk Valuation Work and Insurers' Worries, Insurers have already started to focus on what they consider high-risk instructions, which include buy-to-let, speculative development, bridging and other short-term loans, peer-to-peer and crowdfunding loans. These are likely to prove increasingly contentious from an insurance perspective as time goes on.

Asking the Right Questions

Whatever the area of lending valuation work, we recommend that you undertake all reasonable due diligence in respect of any Lenders you work with. Especially those that might be considered higher risk.

Whilst this bears repeating, we appreciate that this advice is likely to be a case of, 'preaching to the choir' given that most will already undertake good due diligence work in this regard. But, this places you in a stronger position with insurers when dealing with the renewal of your PII policy.

What can you look for and document in Lenders that gives a PI Insurer confidence that you are taking practical steps to mitigate the risk to yourselves?

Examples of questions/evidence that can prove helpful:

- Are they regulated by an industry body (i.e. PRA, FCA)
- Do they have a track record in the lending sector, and have they successfully navigated their way through previous crises?
  - e.g. Lenders who have been in the sector for a long time, or have been through crises (i.e. the housing, banking, and credit crunch) tend to have robust internal processes and methods of doing business.
- Are loans provided against the Lenders' balance sheet? Is Capital itself supplied by institutional investors?
- Do they have strong balance sheets? Might this mean a healthy Lender may be willing to sit on a repossessed asset if market conditions are not great?
- Do they have strong management teams with a wealth of experience?

Another aspect that needs to be considered in further detail is the undertaking of work for a Panel Manager.

One basket – too many eggs?

A Panel Manager can be a convenient one-stop shop for your Practice, as it provides you with one point of contact who deals with the various Lenders. However, their involvement shouldn't lighten the burden placed on you in establishing the risk these arrangements may pose to your Practice.

When considering a Panel Manager, it is still essential to understand the type of Lenders on the panel and the due diligence completed during their selection.

If the panel of Lenders primarily consist of those already viewed as high-risk, this won't necessarily reduce your risk as Insurers will continue to have concerns.

If anything, using a Panel Manager places you further away from the Lenders in the supply chain, which places greater emphasis on your due diligence, including establishing theirs.

Some Panel Managers might have robust procedures in place. Can you determine and highlight this with your PII submission?

Examples of good practice might include:

- Panel managers' own audit procedures and experience
- The systems of checks and balances they apply in terms of Lenders on the lines mentioned above
- The specific checks that might be in place with regards to each valuation you provide to them, e.g. valuation dates, comparables, valuation basis and methodology, calculations, assumptions etc.
- How these fit with your own procedures

The more information we have, the better you can be represented.

As with any direct appointment, you should continue to undertake all reasonable due diligence in respect of the Panel Managers and the various Lenders they represent to ensure that you understand and are comfortable with the potential risks they may pose.

We can then use this information to provide Insurers with some degree of comfort that you are managing the risk of your Practice.

Finally, we shall re-visit the broader topic of Lender valuations in subsequent bulletins, but we hope the above gives you some valuable pointers regarding the current direction of travel within the PII market.

If you would like to discuss the contents of this bulletin or any related issues, please do not hesitate to contact us.

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