

PROFESSIONAL values

MFL Professional's insurance bulletin
for CAAV Member Practices Autumn 2019

Secondary Lenders

An Issue for Professional Indemnity Insurance?

Insurance for your reputation



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Secondary Lenders: An Issue for Professional Indemnity Insurance?

For our Autumn newsletter, we re-visit a scenario last looked at in 2016, i.e. that of 'secondary lenders' appearing more frequently as they seek to get involved within the agricultural sector.

A number of CAAV members have, in recent years received approaches from such lenders.

- Should your practice undertake valuation work for secondary lenders?
- What is the potential impact on your Professional Indemnity Insurance (PII) if you do so?

These are particularly pertinent questions given that we seem to once again be experiencing a hardening insurance market.

Generally, PI Insurers are wary of the risk presented by those surveying practices acting on behalf of what they term 'secondary' lenders. (Unfortunately, Insurers do not define precisely what they mean by this term, but in practice it tends to be those lesser &/or unknown names.)

PI Insurers' own experience has shown that secondary lending valuation work (albeit usually in the residential and commercial property sectors) represents a higher risk activity with smaller margins for error and a greater risk of litigation.

You may recall a previous warning for example, of lenders stepping into distressed situations with costly secured bridging finance based on the borrower's ultimate expectation of a cheaper consolidating loan to follow - where that then may not have materialised, the farm would be foreclosed.

Insurer experience, from 2008/9 onwards, was such that most established PI Insurers ceased to offer cover for those practices undertaking above a certain level of work for these lenders. New or lesser known Insurers have occasionally come into the market to offer a solution though none of these Insurers has continued within the sector beyond an initial short period.

Conversely and specifically with regards to the CAAV members' PI facility, one of the attractions for Insurers invited to participate is the involvement of more mainstream or specialist lenders such as AMC on the agricultural side and of course the common loan to value ratios of 50-60% offering some margin of protection.

As PII Brokers we would not wish to appear to be lecturing CAAV members as to how or with whom you transact business. We simply offer this note as guidance as to the potential insurance related pitfalls which might not have otherwise been considered. Should you as a practice wish to pursue this avenue, your existing PII cover will continue to operate, but do be prepared for additional questions from your Insurer at renewal and bear in mind the possibility of the imposition of additional terms or even an insurer declining to offer renewal terms (all this depending upon the extent of any exposure here).

We do hope this bulletin is of some assistance, and would invite members to seek quotations from the PII facility which does of course look to reward what we believe to be the greater professionalism of CAAV member practices in terms of the cover and pricing offered.

If you would like to discuss the issues raised in this article or if you have any questions about the Services we provide please contact:

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