

Call for radical change for Valuers' PII

Risk and reward is now totally out of kilter for valuers.

Allied Surveyors plc formerly one the UK's largest independent valuation companies ceased trading because the company could not obtain Professional Indemnity Insurance (PII) for all the work it had carried out. Robert Bryant-Pearson, managing director of Allied Surveyors Diligence Ltd, who led the Management Buy Out now calls for a radical shake up to the way lenders rely on valuers' PII.

Allied Surveyors Diligence Ltd has acquired the business of Allied Surveyors plc so that business continuity and retrospective PII cover can be made available to most former clients of Allied Surveyors plc. However, retrospective PII cover was denied to Allied for deemed 'high risk' lenders.

Between 2000 and 2010, insurers of Allied Surveyors plc only actually had to pay damages on a 36 cases of negligence claims but the company was deemed to have a high exposure to claims from sub prime lenders and it was this risk that meant, despite engaging some of the best know insurance brokerage companies, no insurer could be found to cover the Allied Surveyors plc risk.

As a result of this, a management buy out was speedily arranged so that the 'High Street' lender clients with the insurable risk who want to support the successor company could be covered by a deed of undertaking from the successor business - Allied Surveyors Diligence Ltd.

It was suggested to us that we should simply allow the business to fail and then create a phoenix from scratch. I am pleased to say that none of the former directors of Allied Surveyors plc wanted to do this. All agreed that whilst the cessation of AS plc was inevitable, the successor business should obtain the same PII cover that AS plc could have obtained in order to protect private clients and as many of the clients who have loyally supported us as possible. This is a huge commitment as we are paying £750,000 for our new PII cover without being sure of how much business we shall secure.

The demise of AS plc has sent a shockwave through the mortgage industry. If a company of this size is denied PII cover then other valuations firms facing PII renewals in the coming months will face a similar business-threatening problem.

In fact, the problem is worse than that. In the days between organising and announcing the MBO and 31st January when the PII policy ended, we received some great messages of support from larger lenders but others seized the moment to serve "protective notifications" of potential losses on the resale of repossessed property on AS plc's beleaguered former insurers.

Dealing with over 1500 of these 'confetti letters' is a huge cost for insurers and, it has to be said, vindicates the cautiousness of those insurers who have quit the surveyor/valuer market. Thus this serves to make insurers even more wary of providing PII cover to valuers.

The FSA seem at last to recognise the worsening problems being caused to the economy, householders and businesses by reckless practices during the last decade. The issue of greatest concern to PII underwriters is where sub prime lenders required brokers to obtain valuation reports on their behalf. The vast majority of valuers' claims notifications emanate from valuations carried for sub prime lenders where valuers received instruction from broker/packagegers. Typically, of course, applicants who were seeking high LTV loans or had impaired credit histories sought the help of brokers so perhaps it not surprising that it is on those mortgages where lenders have suffered losses and are flailing out at anyone to try to reduce their losses. However, we have been told that insurers have clear evidence that some packagegers put pressure on valuers to return 'optimistic' valuations and certainly we experienced a decline in the number of instructions decline from certain packagegers when they realised that we would not comply with demands for higher valuation figures to meet their borrowers' aspirations. Insurers now query a system where 'the gamekeepers were required to collect their pay from the poachers'.

The main problem for insurers and valuers is that valuers' PII is not fit for purpose if it there as long stop loss insurance for high risk mortgage underwriting.

Quite simply, a different insurance product is needed. Similar to Mortgage Insurance Guarantee, the Australians have Mortgage Lenders Insurance which costs the borrower 3% of the purchase price over 95% LTV. On a £200,000 property this equates to a £6,000 premium. A £150 valuation fee should not be expected to afford the same level of protection. Risk and reward is now totally out of kilter for valuers.

PII works on a 'claims made' basis thus valuers have to purchase PII each year for all the work they have previously undertaken. The huge number of notifications against valuers from sub prime lenders in the last two years has meant that the PII premiums have more than triples in some cases and the uninsured excesses have risen hugely. We have seen some firms have excesses as high as £75,000. Losing a negligence claim in circumstances like threatens the business viability.

Robert Bryant Pearson

Managing Director

Allied Surveyors Diligence Ltd