

Solicitors Regulation Authority (SRA)

Financial Protection Review

Summary of proposed changes to the Qualifying Insurer's Agreement (QIA) (including the SRA Indemnity Insurance Rules and the Minimum Terms and Conditions of cover) for 2012

The table that follows is intended to provide a high level summary of the various changes which it is proposed be made to the final form of the 2011 QIA for 2012. Such proposals follow from the SRA's consultation on the implementation of the changes to indemnity insurance and compensation arrangements announced in April 2011.

QIA: main body	
Change	Reference in draft QIA for 2012
Qualifying Insurers will be obliged to underwrite the master policy on the proportionate basis under which they presently participate in the ARP.	<ul style="list-style-type: none"> • Definition of "ARP Master Policy"; • Revised definition of "ARP Policy"; and • Amendment to clause 2.2 and Schedule 1, paragraph 1.
<p>Schedule 1 to the QIA, which sets out the terms under which the ARP operates, will be revised to include the application of the profession's contribution of up to £30m to the ARP liabilities in the agreed layers.</p> <p>The operation of Schedule 1 will otherwise remain unchanged, save that:</p> <ul style="list-style-type: none"> • It will state that Qualifying Insurers' participation in the ARP is effected by their agreement to underwrite the master policy to the extent of each QI's relevant proportion; • The ARP Policies may not go beyond 30 September 2013 (save for ARP Run-Off Policies); and • References to the side-arrangement will be removed (see below). • Premium collected shall be applied to meet liabilities of the ARP before the profession's contribution. 	<ul style="list-style-type: none"> • Revised introductory paragraph to Schedule 1; • Definition of "ARP Liability"; • Definition of "ARP Master Policy Fee"; • Included paragraph 1.2 - 1.4 to provide for the ARP Manager to apply the ARP Master Policy Fee to meet the ARP Liability in the agreed layers; • Included paragraph 2.3.1 to allow the ARP Manager to collect and apply the ARP Master Policy Fee on behalf of Qualifying Insurers; • ARP Master Policy Fee to be applied only after exhaustion of any ARP premiums collected from firms (paragraph 5.1.1 and 1.3); and • Amendments to paragraphs 7.1 - 7.3 to deal with expiration of ARP Policies on 30 September 2013. • Amendments to paragraphs 5 and 6 in respect of use of premiums.
<p>Schedule 2 to the QIA, which contains the ARP Policy, will be amended to include:</p> <p>(i) the terms of the ARP Master Policy; and</p> <p>(ii) the ARP Policy issued under the ARP Master Policy.</p>	<ul style="list-style-type: none"> • Master policy terms included; • ARP Policy moved to Appendix 1 of Schedule 2; • ARP Policy amended to ensure it does not provide cover for the Extended Indemnity Period or Cessation Period (see 4.10 of the ARP Policy).
The requirement of Qualifying Insurers to enter into the side-arrangement will be removed along with the master policy set out in Schedule 6.	<ul style="list-style-type: none"> • Amended clause 2.2 of the QIA; • Deleted paragraphs 2.7, 2.8 and made other consequential amendments of Schedule 1, to remove ARP Manager's power to issue policies or make arrangements for uninsured firms; and

	<ul style="list-style-type: none"> Deleted Schedule 6 which contained the master policy under which the side-arrangement was underwritten. <p>(See also deletion of Rule 15 from SIIR, as summarised below).</p>
<p>The Qualifying Insurers will be required to disclose their credit rating (or lack thereof):</p> <p>(i) to the Law Society at the time of entering into the QIA, and at any time during the course of the relevant indemnity period where their credit rating changes; and</p> <p>(ii) to any firm to whom they provide a quotation in respect of a policy of qualifying insurance.</p> <p>The Qualifying Insurers must allow the SRA to publish such ratings information on its website.</p>	<ul style="list-style-type: none"> “Information sheet” at page i of the QIA (immediately following front cover): sets out various details of the insurer, and now includes a section for the input of credit rating and insurer financial strength rating. Clause 6.5: Insurer is obliged to advise the Law Society if any information on page i changes; Clause 10.2: the Law Society is authorised to publish any of the Insurer’s details as set out in the “information sheet” (i.e. including its credit rating information) on its website; and Clause 10.3: the Insurer undertakes to provide the Law Society and Firms (when quoting) with credit-rating information.
References to the Equality Act will be updated to reflect the enactment of new legislation.	<ul style="list-style-type: none"> Clauses 3.1(b) and 6.4 of main body of QIA for 2012.
SRA Indemnity Insurance Rules 2012 (SIIR)	
Removal of the requirement of Qualifying Insurers to enter into the side-arrangement.	<ul style="list-style-type: none"> Rule 15 (Arrangements in relation to uninsured firms) has been deleted, and subsequent Rules renumbered.
Requirement on firms that have not obtained a policy of qualifying insurance at the expiration of the Cessation Period to cease practise and to notify the SRA.	<ul style="list-style-type: none"> Rule 4.2 added - requirement to cease; 17.3 added - notification provision. <p>[See also explanatory commentary following Rule 4.4.]</p>
<p>Requirement on firms in the Cessation Period to only undertake work on existing instructions.</p> <p>New disciplinary offence if a firm is in policy default; fails to implement special measures; or undertakes new work in the Cessation Period.</p>	<ul style="list-style-type: none"> Rule 5.3. Rule 16.2.3 - disciplinary offence.
Ensure that a firm may not remain in the ARP beyond 30 September 2013 and that any certificate issued to a firm in the ARP ceases to have effect from this date.	<ul style="list-style-type: none"> Rule 6.2.
New power to collect contribution from firms for the purpose of allowing the SRA to raise and apply the profession’s contribution in any manner necessary (i.e., by way of levy or otherwise).	<ul style="list-style-type: none"> New Rule 13.
Introduction of new Glossary.	<ul style="list-style-type: none"> See Rule 3.1. Defined terms in Schedule 8 have been

Terms in italics to have the meaning given from time to time in the Glossary, the relevant provisions of which as at 1 October 2012 are to be set out in a Schedule.	updated to bring them in line with the Glossary.
SRA Minimum Terms and Conditions of Professional Indemnity Insurance (MTC)	
The MTCs will include cover under the Extended Indemnity Period and Cessation Period.	<ul style="list-style-type: none"> • Clauses 5.1; and • Clause 5.2.
There will be no carve-out of cover for liabilities incurred in respect of “new instructions” during the Cessation Period as previously contemplated. The relevant Qualifying Insurer will be required to provide cover for such liabilities although the reimbursement provisions will be amended to allow the Qualifying Insurer to seek reimbursement of any amounts paid to meet such liabilities from the firm and its Principals.	<ul style="list-style-type: none"> • Clause 5.3; and • Reimbursement: clause 7.2(b).
The MTCs will include an obligation on the Qualifying Insurer to provide run-off cover to any firm that closes during either during the indemnity period (including during the Extended Indemnity Period or Cessation Period) or after the Cessation Period where the firm has not obtained another policy of qualifying insurance. The run-off will commence from the end of the 12 month indemnity period (that is, before the start of the Extended Indemnity Period).	<ul style="list-style-type: none"> • Clauses 5.4; and • Clause 5.5.