

Starting a New Practice
Guidance for Scottish Solicitors

2016/2017



Starting a New Practice

Guidance Notes for Scottish Solicitors

Introduction

Before you commence trading as a New Practice, you require to satisfy a number of regulatory requirements. One of these requirements is that you have your Professional Indemnity Insurance policy *in place* (Professional Practice Rules D1 and B7).

Lockton is the broker for the Law Society of Scotland's compulsory Professional Indemnity Master Policy. If you are not already familiar with the operation of the Master Policy, our [Master Policy Guide](#) provides a clear and straight-forward introduction, which we recommend that you read.

You should also read the [Law Society Guidance on Starting a New Practice](#)

Summary of Key Steps prior to Commencing Practice

STEP 1

Determine your Outline Business Plan

In particular, we will want to know

- the nature of the work you will be undertaking
- anticipated fees
- how much cover you will need
- your anticipated start date
- what type of legal entity your firm will be (Sole Practitioner, Partnership; LLP; Limited Company)

STEP 2

Contact Us for advice

If you haven't already spoken to us, after reading this guidance, please email or telephone us for detailed advice based on your particular circumstances.

We can also assist you with other Business Insurances that you are likely to need.

STEP 3

Complete your Proposal Form & Return it to Us

You must not return your completed proposal form more than 60 days prior to the stated commencement date.

Please ensure that you do not post-date the proposal form.

STEPS 4 & 5

We will issue you with a Quotation for your Master Policy insurance cover within 5 Working Days from receipt

We will issue your Schedule of Insurance within 2 Working Days from receipt of Payment.



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How is your premium calculated?

This is explained in more detail in our Master Policy Guide. In essence, your premium is based on fee income and number of Principals (Partners), and any claims in a 5 year period. Certain work types may also carry a different 'weighting'.



The Master Policy Insurance Year runs from 1st November to 31st October. In your first year of trading, your premium will be pro-rata'd, depending on your Commencement Date.

As a new practice, unless you are a 'Successor Practice' (taking on the claims experience of a previous practice) you will start with no claims loading or discount. If you are a Successor Practice, there may be a positive impact on premium (if that practice had an excellent claims record), a neutral impact, or a negative impact (if that practice had a poor claims record).

There is a Minimum Chargeable Premium of £1,700 (excluding Insurance Premium Tax and Lockton fee). This is only available to a Sole Practitioner undertaking only Criminal Court work earning below a certain fee income threshold.

The normal minimum premium is £3,500 (excluding Insurance Premium Tax and Lockton fee), available only where a practice is below a certain fee income threshold.

The normal basic premium charge per Principal (Partner) is currently £5,400.

Please note – while we may be able to provide you with a rough indication of likely premium over the telephone, we can only provide an accurate premium quotation on submission of your completed proposal form.



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Completing your Proposal Form

Section 1 of the Proposal form simply requires you to provide details regarding the name of the new Practice, starting date, and any associated trading styles, companies, predecessor practices

MASTER POLICY PROPOSAL FORM
INSURANCE YEAR 2016/17

1. Practice *Insert your proposed practice name (incl LLP/Ltd as appropriate)* *for Lockton use* /39

a. Date of commencement of the Practice dd mm yyyy

b. Is the Practice conducted under any other business names/trading names or styles? YES NO
If YES, please list the names/styles.

c. Are any trustee or nominee companies operated in connection with the Practice? YES NO
If YES, please list the names.

Section 1g should be completed if you are taking on part of an existing solicitor firm business (and will be liable for claims arising from work undertaken by that practice prior to your new firm's commencement date).

g. Provide a complete list of all Predecessor Practices.

In this context, Predecessor Practice refers to any sole practitioner, partnership incorporated Practice, or limited liability partnership to the extent that the Practice has assumed responsibility (whether in whole or in part) for maintaining professional indemnity insurance under the Master Policy Certificate of the Practice in respect of the Predecessor Practice's Business.

You should speak to us at an early stage if you need advice regarding the financial implications of taking on the liabilities of a Predecessor Practice.

Section 2 of the Proposal form asks for contact details for the new firm. Sub-sections (d) (e) and (f) ask for a nominated contact for the Master Policy; on matters of Risk Management; and on Claims matters. Some or all of these roles can be fulfilled by the same person – in which case, simply make reference to that in the appropriate boxes.



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Section 3 asks you to list the names of all Principals (Partners) in the Practice as at the start date. If you have any Common Principals (people who are Principals in more than one Practice) please note that a decision must be made as to which is their Primary Practice (this firm will have its premium calculated on the basis of that Partner counting as a fulltime member of staff). Any other Practice where the person is a Principal will have their premium calculated on the basis of them being a part-time member of staff, therefore 0.5 of a Principal will be charged.

Please note: This is a one-time only election which cannot be changed while the person remains a Principal of the Primary Practice.

Section 4 (Criminal Court Practices) can only be ticked 'Yes' if you are certain that you will not be undertaking any work other than that defined as Criminal Court work. You will also have to complete the separate declaration appended to the Proposal Form – and send a copy to Lockton and another copy to the Registrar of the Law Society of Scotland.

Please note: If you at any time during the year undertake work that falls outwith the definition of Criminal Court Practice, you must contact us and rescind your Criminal Court undertaking immediately.

Section 6 You can elect to vary your Self-Insured Amount (commonly referred to as a 'policy excess'). The Self-Insured Amount applicable to your practice is a multiple of the number of Principals in your practice (subject to a maximum cap).

The standard Self-Insured Amount is £4,500 x [number of Principals]. This can be reduced or increased – with a premium increase or reduction accordingly.

You should read carefully the information about situations where a doubled or trebled Self-Insured Amount may apply, as that may have a bearing on your decision.

Appendices A & B - Fees Information & Source of Fees

The proposal form asks for fees information in two separate Appendices – which must be completed and included with your proposal form submission.



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Sections 4 and 5 of Appendix A will not normally have to be completed for a new Practice.

1. State Anticipated Gross Fee Income for 12 months up to the Practice's next financial year end. £ Please insert anticipated 12 months income

2. Insert date of financial year end. dd mm

3. Is the percentage of Past Gross Fee Income (as declared in Appendix A.4 below) attributable to your largest client greater than 50%?
(Note: Do not count SLAB as a client for these purposes.) YES NO

4. Past Gross Fee Income for 12 months immediately preceding the period referred to in Appendix A.1

Allocate by the following Principal Work Types (if nil insert '0'):		£ of Total below	% of Total (to 2 decimal places)
(11)	PROPERTY/CONVEYANCING (5a)	£	%
(12)	COURT (5b)	£	%
(13)	COMMERCIAL	£	%
(14)	CORPORATE (5c)	£	%
(15)	FINANCIAL SERVICES	£	%
(16)	TRUST AND EXECUTRY	£	%
(17)	TAX ADVICE	£	%
(18)	INSURANCE	£	%
(19)	GENERAL	£	%
TOTAL PAST GROSS FEE INCOME		= £	= 100.00%

You do not need to complete this section unless you have previous income to take into account from a Predecessor Practice

5. Where applicable, please allocate the Past Gross Fee Income figures as declared in Appendix A.4 above for each of the following Principal Work Types.

(a) PROPERTY/CONVEYANCING		(b) COURT		(c) CORPORATE	
Commercial	%			Company/Business	%
Domestic (including domestic securities)	%				
Security Work (not domestic)	%				
Hotels and Licensed Premises	%	Personal Injury Work for Defenders/Insurers	%	Other Corporate	%
Commercial Leasing (heritable property)	%	Non Personal Injury Work for Defenders/Insurers	%		100.00%
Estate Agency	%	Matrimonial	%		
Other Property/Conveyancing	%	Other Court	%		
	100.00%		100.00%		

You do not need to complete these tables unless you have previous income to take into account from a Predecessor Practice

In Appendix B we will require information to be provided in respect of the 'Forthcoming Financial Year'. The columns for 'Last Financial year' should simply be marked "N/A".

Before submitting your proposal form, if you scan and [email](#) a copy, we can check it for you



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Important Information to consider before Starting your Practice

- Commencement Date Changes post submission of Proposal Form

If your intended Commencement Date changes, if advised in advance, we can accommodate this. If you are intending to push back your start date considerably, you may have to resubmit your proposal form to ensure compliance with the Insurer's requirements. As your insurance premium is calculated on a pro-rata basis, there would also be a re-calculation of your premium based on the revised commencement date.

- Budgeting for future years' premiums

It is important to remember that your first premium may well not be for a full Insurance Year, and you should not assume that your future premiums will be around the same amount.

Every year, we negotiate with Insurers to achieve the best deal for the profession as a whole. Both the 'Global Premium' (the sum of the total premium payable by all firms) and the Rates & Rating Factor Rules, may change from year to year.

Equally, the nature of your Practice may change over the course of the year. Your premium next year will be based on your Actual Total Past Gross Fee Income for a full Financial Year (or, if you do not have a full Financial Year's trading, a pro-rata'd multiple of your fee earnings to date).

If you have claims made against your practice with sums paid or reserved against them, these will also impact on your premium.

We can provide you with a very rough indicative premium for the following full year, based on various assumptions. Contact us for more information.

- Cost of closing your Practice

If you close your practice, the Master Policy must still provide cover for your Practice, in the event that a claim subsequently arises.

If your practice closes within the first four Insurance Years (1st November to 31st October) there will be a run-off charge. If you close your practice after this time, there may still be a run-off charge payable, depending on the Master Policy Rules in place at the time, and your claims record.

In 2016/2017 the run-off charge is normally between 25% and 50% of the last annual premium.

Our mission

To be the worldwide value and service leader in insurance brokerage, risk management, employee benefits and retirement services.

Our goal

To be the best place to do business and to work.



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