



STARTING A NEW PRACTICE

Guide to obtaining Master Policy cover



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Guidance Notes for Scottish Solicitors

This guide is intended to provide a summary of the process for obtaining professional indemnity insurance under the Master Policy. It is aimed at anyone considering starting a new legal practice in Scotland.

This guide focuses on the steps you need to take to secure professional indemnity insurance. For a comprehensive guide to all issues related to starting a new practice, see The Law Society of Scotland's own guidance: **Starting a practice guide**.

The Master Policy

When starting a new practice, you need to make arrangements to obtain cover under the Law Society of Scotland's compulsory Professional Indemnity Insurance, which is known as the Master Policy. For more information see the Law Society of Scotland's Rules and Guidance, in particular:

- **Rule B7.1 Master Policy.**
- **Advice and information B7.1: Information on the Master Policy.**

Lockton is the appointed broker and administrator for the Master Policy. For more information, we recommend that you take a look at our dedicated **Law Society of Scotland Master Policy** page, which includes an Interactive Guide to the Master Policy.

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Step 1

Make sure you have the correct information to hand.

We will ask you for the following details:

- The nature of the work you will undertake (in particular, if you will be carrying out criminal court work only).
- Your anticipated gross fee income in your first year of trading.
- Whether you will need cover in excess of the compulsory £2 million per claim provided by the Master Policy.
- Your anticipated start date.
- Your chosen business structure. You may choose to trade as a:
 - » Sole practitioner;
 - » Partnership;
 - » LLP; or
 - » Limited company

Step 2

Contact us.

After reading this guidance please email us at:

masterpolicyteam@uk.lockton.com

or call our team on

0131 345 5599.

We can provide initial advice regarding your new practice.

Step 3

Complete your proposal form and return it to us. The proposal form can be found on our website: see **Master Policy Proposal form**. Alternatively, our team can provide you with the form.

The appropriate time to return your proposal form to us is **no earlier than 60 days** prior to your practice start date. This is due to insurer requirements and underwriting restrictions.

Step 4

When we receive your completed proposal form we will prepare a report which will include your premium quotation and certain key information about the insurance cover.

The report will also include an acceptance form for you to complete and return to us by email. Upon receipt of your acceptance we will issue a letter confirming cover together with your invoice in respect of your insurance premium.

Payment of your premium can be made by BACS transfer, debit or credit card. We also offer the option to obtain finance via our Close Brothers premium finance facility. Please note that finance is only available when there is six months or more of the current insurance year remaining.

Step 5

Upon receipt of payment or approved finance application, we will issue your Master Policy Schedule of insurance. You will then need to forward a copy of the policy schedule to the Law Society of Scotland.

Once we have arranged your Master Policy cover we will provide you with a username and login details for our online client portal, where you will be able to access your policy documents and complete your proposal form online for each annual renewal.

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Section 1: The Practice

Here we need details of your new practice, including the name, any alternative Trading Styles you intend to use, and which business structure you have opted for.

Important

If you are setting up as an LLP or a limited company, you will need to make an application to the Law Society of Scotland for Incorporated Practice approval. Before we can confirm your Master Policy cover, we will need a copy of the email from the Law Society approving your Incorporated Practice Application. We will also require a copy of your Certificate of Incorporation from Companies House.



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Section 2: Principals and staff

Here you will need to provide details of the Principal who will be the main point of contact for correspondence relating to the Master Policy. We will also ask for a nominated risk management contact, and a claims contact. The same Principal can perform all three roles, or different Principals can take on each role.

We need details of the numbers of staff you will have when you begin trading, and the names of each Principal of the practice. Principals are defined in the Master Policy wording as:

- A sole practitioner,
- A partner in a partnership,
- A member of a limited liability partnership,
- A director or shareholder of a company and,
- Any individual being held out as, designated as or otherwise represented as a partner of a Practice Unit.

Common Principals

The proposal form will ask you to confirm whether any of the Principals are a Common Principal. This refers to anyone who is a Principal in more than one Scottish legal practice. A Common Principal must be declared on both practices' proposal forms and noted on both Master Policy schedules. A decision must be made as to which is the Common Principal's primary practice unit and which will be their secondary practice unit.

Corporate Principal

A Corporate Principal is a Principal that is a legal entity rather than a natural person, for example a partnership, limited liability partnership, or a company. There is no premium charged for a Corporate Principal provided it does not trade or carry out legal work on behalf of the practice, but it must still be declared on the proposal form.

The proposal form also asks for details of any Corporate Principal which does carry out client work on behalf of the practice. In these situations a premium charge may apply. If this applies to you please contact us for further information.

Section 3: Fee income and source of fees

In this section you will need to provide an estimate of your gross fee income for your first year of trading.

Section 4: Sanctioned countries

This section requires you to confirm that you will carry out sanctions checks in line with UK Government sanctions regimes and Law Society of Scotland guidance. You can find useful guidance here:

- **Law Society of Scotland; Financial Sanctions FAQs**
- **UK Financial Sanctions Guidance**

You will also be asked to confirm whether you will be acting for clients in certain countries. If you will, it is likely that the insurers will require additional information before approving your Master Policy premium quote.

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Section 5: Criminal court only practices

If your practice will carry out criminal court work only, you will be required to complete a separate declaration to this effect, referred to as a Criminal Court Undertaking. This entitles you to a discount on your Master Policy premium.

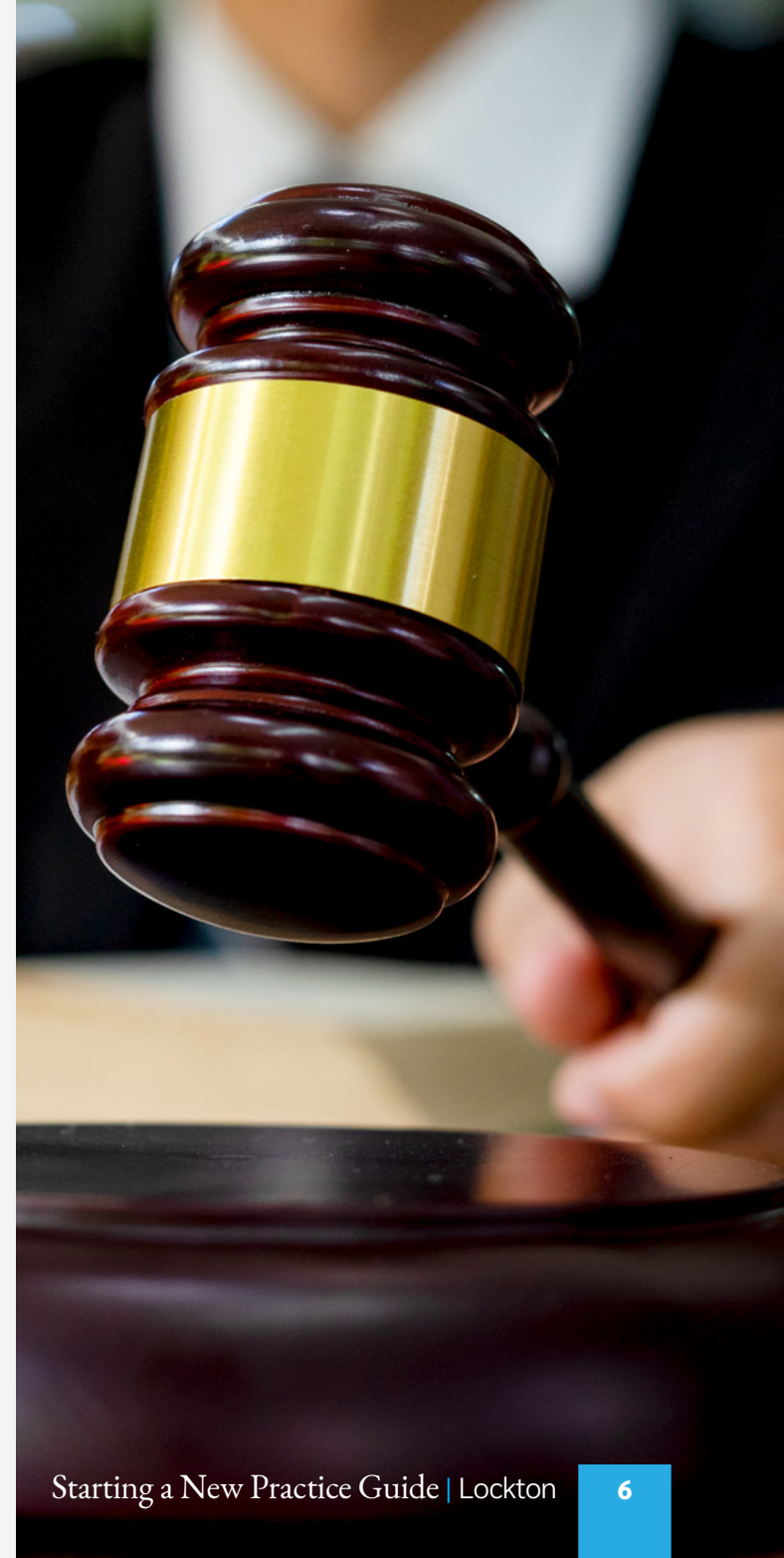
Please note that even one transaction that is not criminal court work will mean your practice is ineligible to receive the criminal court only discount. Please consider carefully whether you want to retain the option to carry out any other work during the current policy year.

If at any time after beginning trading you undertake work that is not criminal court work, you must contact us and rescind your Criminal Court Undertaking immediately. This will result in an additional premium becoming payable.

Section 6: Financial services

In this section you will need to confirm whether:

- You will be authorised by the Financial Conduct Authority (FCA) to conduct business regulated by it (which includes regulated mortgage activities).
- You will be licensed by the Law Society of Scotland to conduct incidental financial business (IFB). For an explanation of what is classed as IFB, see **Law Society of Scotland Rules and Guidance: C2: Incidental Financial Business Guidance**.



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Section 7: Limit of indemnity and Self-Insured Amount

Limit of Indemnity

The current compulsory limit of indemnity for the Master Policy is £2 million for any one claim. This limit is the same for every Scottish legal practice.

Self-Insured Amount.

There is a standard Self-Insured Amount (SIA) per Principal which is the term used for the excess on your policy. You can elect to take the standard SIA amount for any one claim. Alternatively you can increase it, which reduces your premium, or decrease it, which increases your premium per Principal.

Section 8: Other insurances

We can provide you with quotations for additional insurances that you may wish to put in place for your practice. For more information, see:

- **Excess layer insurance**
- **Office insurances**
- **Cyber Liability**
- **Management Liability**

We can also arrange Fidelity and Crime insurance policies. If you would like more information about additional insurances, please don't hesitate to contact us and a member of our team can assist.

Declaration

The final section of the proposal form is the declaration which you will require to sign. Please take time to read the notice concerning your duty to make a fair presentation of risk.



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Your first premium calculation is based on the number of Principals in your practice, and your anticipated fee income in your first year of practice.

The Master Policy insurance year runs from 1st November to 31st October. If you begin trading mid policy year, your premium will be calculated on a pro-rata basis subject to a minimum premium set by the insurers.

More information on how the Master Policy premiums are calculated can be found in our **Interactive Master Policy Guide**. You can also refer to the Master Policy Rates and Rating Factors, which are updated each year.

Please note, while we may be able to provide you with an estimate of your likely premium prior to the date you start trading, we can only provide a formal quotation on receipt of your completed proposal form.

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Start date

If your intended start date changes after you have submitted your proposal form, please let us know as soon as possible. We may still be able to arrange your cover without requiring a new proposal form.

If the start date is delayed considerably, you may have to resubmit your proposal form to ensure compliance with the insurer requirements.

As your insurance premium is calculated on a pro-rata basis, there would also need to be a re-calculation of your premium based on the revised start date.



Budgeting

It is important to remember that various factors may affect subsequent premiums. For example, your first premium may not be for a full insurance year, depending on the start date of your new practice. In addition, the premium calculations in subsequent years will be affected by changes in the nature of your practice, whether that be Principal numbers, gross fee income, or claims.

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 Factors Rules may change from year to year.



Cost of closing your practice

If you close your practice, the Master Policy must still provide cover in the event that a claim subsequently arises in respect of work carried out when your practice was still trading.

When your practice ceases, your Master Policy cover is placed into run-off. If your practice closes within the first four insurance years, there will be a run-off premium due. If you close your practice after having paid four consecutive Master Policy premiums, then (depending on your claims position) there may be a run-off premium to be paid.

If a run-off premium does apply, it will be a percentage of your last annual premium. You will find more detail on this in the Master Policy Rules and Ratings Factors.

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The key documents we need to secure your Master Policy cover are:

- Your completed and signed Master Policy Proposal Form.
- If your new practice will be an LLP or Limited Company, a copy of:
 - » The email from the Law Society of Scotland approving your Incorporated Practice Application.
 - » Your Certificate of Incorporation from Companies House.



Here to help

Please contact us at any stage if you would like more information; our team are here to help. You can contact us at masterpolicyteam@uk.lockton.com or on **0131 345 5599**.



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