



## **SPECIAL GENERAL MEETING**

### **PROFIT SHARE AGREEMENT FOR THE MASTER POLICY FOR INSURANCE YEARS 2014/2015, 2015/2016 AND 2016/2017**

#### Introduction

The Master Policy is a single compulsory collective Professional Indemnity Insurance Scheme for all private practices of Scottish solicitors. The Insurance Committee instruct Lockton (the Insurance Brokers) to negotiate with the insurance market on the price and terms of the global premium for each insurance year. The Master Policy will be entering its 42<sup>nd</sup> insurance year in 2019/2020 with a global premium of £16m.

#### Principal Information on the Profit Share Agreement for Insurance years 2014/2015, 2015/2016 and 2016/2017

There will be a profit share or dividend arising from three recent insurance years of 2014/2015, 2015/2016 and 2016/2017. The Society's Council on the recommendation of the Insurance Committee has agreed how this profit share should be used on behalf of all practices. The principal factors agreed for the profit share for the first insurance year 2014/2015 are –

- The profit share agreement under the Master Policy 2014/2015 is likely to be triggered for this insurance year. The trigger for this profit share agreement is where the loss ratio in the insurance year is lower than 75%. The loss ratio is calculated as a percentage of total claims paid and reserves made divided by the global premium and expressed as a percentage.
- The amount of the profit share will be dependent upon the calculated loss ratio as at 31 October 2019. The agreed formula for the calculation of the profit share is set out in the Master Policy 2014/2015.
- It is anticipated that the profit share could be just in excess of £2m when it is first calculated on 31 October 2019.
- The first collection of the profit share will be due by the end of January 2020 from all the insurers in insurance year 2019/2020. The first distribution will be due by spring 2020. There will then be a recalculation in November 2020 and annually thereafter until 2024. These reconciliations from 2020 to 2024 are required to measure both the financial security of the insurers and any movement in the profit share.



- These reconciliations are essential as the typical tail of any completed insurance year is 10 years. For example, Master Policy insurance year 2014/2015 is unlikely to close until 2024 at the earliest. There will be claims which have been reserved at a set figure for Master Policy 2014/2015 which could vary both up and down over the course of the next five years to November 2024.
- The principles used in the calculation of the profit share for 2014/2015 will be replicated in 2015/2016 and 2016/2017.
- The Insurance Committee and the Council have agreed that any profit share/dividend under Master Policy insurance years 2014/2015, 2015/2016 and 2016/2017 are to be used for the benefit of all insurance practices. Such benefits will be used in future insurance years following the completion of the current three year insurance deal which runs to 31 October 2020. The Insurance Committee and Council agreed that this principle was the most fair and equitable. This principle is also based on previous experience under the Master Policy, where the loss ratio was less than 100% in the previous two decades.

The Master Policy operates on a collegiate basis for the benefit of all insured practices. A profit share/dividend benefit will maintain the collegiate nature of the Master Policy. This profit share/dividend will stand the Master Policy in good stead for future years especially in relation to the current very difficult market conditions. A collegiate use of this profit share/dividend will also smooth the transition of the future distribution of the global premium amongst practices to a more fee-based system.