

Annual Contributions
under the Professional Indemnity Scheme

Introduction

1. The Hong Kong Solicitors Professional Indemnity Scheme (“**PIS**”) is a statutory scheme which is managed and administered by the Hong Kong Solicitors Indemnity Fund Limited (the “**Company**”). Generally speaking, the PIS provides indemnity to solicitors of Hong Kong law firms in respect of civil liability incurred in connection with the practice of the law firms. All the terms and conditions of the PIS are set out in the Solicitors (Professional Indemnity Rules (Cap.159M) (the “**Rules**”).
2. The Professional Indemnity Fund is established and maintained by contributions made by Hong Kong law firms in accordance with the provisions of Schedule 1 to the Rules.

PIS Contribution

3. Every solicitor who is, or is held out to the public as, a solicitor in Practice (as defined in Rule 2 of the Rules) in Hong Kong is required to maintain indemnity under the PIS. Every principal of a Hong Kong law firm shall make or cause to be made payment of the contributions in each indemnity year in respect of the law firm.
4. Each indemnity year commences on 1 October each year and expires on 30 September in the following year, both days inclusive. The annual contribution payable by each Hong Kong law firm is due and payable to the Company on or before 30 September each year.

(A) PIS application documents

5. All Hong Kong law firms are required to submit the following documents to Managers of the PIS (currently Essar Insurance Services Limited) (the “**Managers**”) on or before 15 August each year (Rule 8 of the Rules):-
 - (a) The Gross Fee Income Report, in a prescribed form and signed by a practising certified public accountant, reporting the Hong Kong law firm’s gross fee income for the immediately preceding accounting year of not less than 12 months (the “**GFI**”).
 - (b) The Application for Indemnity form, containing the following information of the Hong Kong law firm:-
 - (i) its name and address.
 - (ii) the names of all the principals, assistant solicitors, consultants and foreign lawyers.
 - (iii) particulars of the GFI attributable to the law firm for the immediately preceding accounting year.
6. At the PIS renewal, for Hong Kong law firms:-
 - (a) which have never made a claim for indemnity under the PIS, the annual PIS contribution payable by them will be the basic contribution (please refer to section (B) below for its calculation).

- (b) which have made a claim for indemnity under the PIS but no payment was made to the relevant claimant by the Company on their behalf in any of the preceding 4 indemnity years, the annual PIS contribution payable by them will be the basic contribution.
- (c) which have made a claim for indemnity under the PIS; payment was made to the relevant claimant by the Company on their behalf in relation thereto and such PIS claim was concluded in any of the preceding 4 indemnity years, the annual PIS contribution payable by them will be the basis contribution plus the claims loading (please refer to section (C) below for its calculation).

(B) Basic contribution

7. The basic contribution payable by a Hong Kong law firm is calculated as follows (as set out in paragraph 2(1)(a)(i) of Schedule 1 to the Rules):-

(No. of principals as at 31 July that year x HK\$20,000) + (No. of assistant solicitors, consultants and foreign lawyers as at 31 July that year x HK\$13,000) + an amount with reference to the GFI as set out in the table below.

GFI of the firm (HK\$ Million)	Amount (HK\$)
over 0 but not exceeding 5	2.64% x GFI
over 5 but not exceeding 6	142,000
over 6 but not exceeding 7	161,000
over 7 but not exceeding 8	181,000
over 8 but not exceeding 9	197,000
over 9 but not exceeding 10	212,000
over 10 but not exceeding 11	228,000
over 11 but not exceeding 12	241,000
over 12 but not exceeding 13	253,000
over 13 but not exceeding 14	265,000
over 14 but not exceeding 15	274,000
over 15 but not exceeding 16	281,000
over 16 but not exceeding 17	286,000
over 17 but not exceeding 18	290,000
over 18 but not exceeding 19	295,000
over 19 but not exceeding 20	299,000
over 20 but not exceeding 21	302,000
over 21 but not exceeding 22	306,000
over 22 but not exceeding 23	309,000
over 23 but not exceeding 24	313,000
over 24 but not exceeding 25	316,000
over 25 but not exceeding 50	1.27% x GFI (capped at HK\$543,000)
over 50 but not exceeding 75	1.09% x GFI (capped at HK\$673,000)
over 75 but not exceeding 100	0.90% x GFI (capped at HK\$732,000)
over 100	0.73% x GFI

8. For any new Hong Kong law firm commencing practice during an indemnity year, its basic contribution for that indemnity year is determined on a pro-rata basis from its practice commencement date to 30 September of the following year with reference to the average contribution paid by other Hong Kong law firms of composition similar to the new firm for the subject indemnity year.
9. The minimum amount of basic contribution for all Hong Kong law firms for an indemnity year is HK\$20,000.

(C) Claims loading

10. To calculate claims loading payable by a Hong Kong law firm, Managers will start off with the following formula:-

Total amount paid out by the Company on behalf of the Hong Kong law firm for the preceding 4 indemnity years (the total amount paid to the relevant claimant and defence costs paid)

X 100%

Total annual contributions paid by the Hong Kong law firm for the preceding 4 indemnity years

11. With the percentage calculated from the above formula, Managers will refer to the loading factor as provided in paragraph 2(6)(d) of Schedule 1 to the Rules:-

Percentage	Loading Factor
0-50	0.06
51-100	0.13
101-200	0.33
201-300	0.53
301-400	0.78
401-500	0.98
501-600	1.18
601-700	1.43
701-800	1.63
801-900	1.88
901-1000	2
1001 or over	2.5

12. The claims loading payable for an indemnity year (in dollar terms) will be the relevant Hong Kong law firm's basic contribution for that indemnity year times the loading factor (i.e. claims loading = basic contribution x loading factor).

Failure to make payment

13. If a Hong Kong law firm fails to pay its PIS contribution on or before 30 September each year, the current practising certificates issued to each and every solicitor of the relevant Hong Kong law firm will automatically be suspended, and he/she will be disqualified to act as a solicitor under section 7 of the Legal Practitioners Ordinance (Cap.159) until the outstanding PIS contribution is paid.

Conclusion

14. It is very important for all Hong Kong law firms to ensure that the PIS renewal application documents (especially the GFI Report) are ready and submitted by 15 August, and pay the PIS contribution by 30 September each year.
15. As an update, the Company and the Managers are working on a renewal e-platform. The intention is to provide members with a more user-friendly renewal process whereby PIS application documents (as well as quarterly returns) can be submitted online.